SL Agritech Corporation

Financial Statements
May 31, 2016 and 2015
and Years Ended May 31, 2016 and 2015

and

Independent Auditors' Report

SGV

Building a better working world

A member firm of Ernst & Young Global Limited

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SL Agritech Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of SL Agritech Corporation, which comprise the statements of financial position as at May 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years ended May 31, 2016, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

SGVFS019739

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SL Agritech Corporation as at May 31, 2016 and 2015, and its financial performance and its cash flows for each of the three years ended May 31, 2016, 2015 and 2014 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 32 to the financial statements, is presented for purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of SL Agritech Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

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August 2, 2016

SL AGRITECH CORPORATION
STATEMENTS OF FINANCIAL POSITION

	May 31	
	2016	2015
ASSETS		
Current Assets		
Cash (Notes 7 and 28)	**₱346,006,634**	₱291,206,938
Receivables (Notes 8 and 28)	**2,046,115,560**	1,485,294,377
Inventories (Note 9)	**2,598,422,936**	1,703,827,173
Biological assets (Note 13)	**12,950,147**	–
Prepayments and other current assets (Note 10)	**31,373,708**	19,414,690
Total Current Assets	**5,034,868,985**	3,499,743,178
Noncurrent Assets		
Property and equipment (Note 11)	**643,201,577**	520,490,627
Development costs (Note 12)	**1,307,518,047**	920,143,664
Security deposits (Note 28)	**9,983,636**	7,089,348
Total Noncurrent Assets	**1,960,703,260**	1,447,723,639
	₱6,995,572,245	₱4,947,466,817
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 14 and 28)	**₱182,180,736**	₱158,027,140
Trust receipts payable (Notes 9, 15 and 28)	**669,126,206**	791,601,644
Short-term notes payable (Notes 9, 11, 16 and 28)	**4,178,962,718**	2,493,526,576
Total Current Liabilities	**5,030,269,660**	3,443,155,360
Noncurrent Liability		
Pension liability (Note 26)	**10,674,781**	13,216,506
Deferred tax liability (Note 24)	**1,362,609**	–
Total Liabilities	**5,042,307,050**	3,456,371,866
Equity		
Capital stock (Note 17)	**810,000,001**	710,000,000
Retained earnings (Note 17)	**1,143,604,399**	784,613,576
Remeasurement losses on pension liability (Note 26)	**(339,205)**	(3,518,625)
	1,953,265,195	1,491,094,951
	₱6,995,572,245	₱4,947,466,817

See accompanying Notes to Financial Statements.

SL AGRITECH CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended May 31		
	2016	2015	2014
NET SALES (Note 18)	**₱2,552,208,495**	₱2,046,803,293	₱1,336,169,185
COST OF SALES (Notes 9 and 19)	**1,528,159,216**	1,271,894,364	727,661,367
GROSS PROFIT	**1,024,049,279**	774,908,929	608,507,818
FAIR VALUE GAIN ON AGRICULTURAL PRODUCE (Note 9)	**69,712,034**	19,276,194	55,543,519
OPERATING EXPENSES (Note 20)	**(457,250,254)**	(405,000,670)	(344,279,343)
FINANCE COST (Note 23)	**(182,580,810)**	(136,159,926)	(117,428,611)
FINANCE INCOME (Note 7)	**541,911**	268,444	187,215
FOREIGN EXCHANGE GAINS (LOSSES) – Net	**4,627,046**	1,174,541	(1,038,026)
INCOME BEFORE TAX	**459,099,206**	254,467,512	201,492,572
PROVISION FOR TAX (Note 24)	**108,383**	53,689	552,733
NET INCOME	**458,990,823**	254,413,823	200,939,839
OTHER COMPREHENSIVE INCOME			
Other comprehensive income (losses) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on pension liability (Note 26)	**3,179,420**	203,086	(846,011)
TOTAL COMPREHENSIVE INCOME	**₱462,170,243**	₱254,616,909	₱200,093,828
BASIC/DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (Note 25)	**₱0.57**	₱0.31	₱0.25

See accompanying Notes to Financial Statements.

SL AGRITECH CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	For the Year Ended May 31, 2016			
	Capital Stock (Note 17)	**Retained Earnings**	**Remeasurement Loss on Pension Liability** (Note 26)	**Total**
Balances at June 1, 2015	**₱710,000,000**	**₱784,613,576**	**(₱3,518,625)**	**₱1,491,094,951**
Net income	**–**	**458,990,823**	**–**	**458,990,823**
Other comprehensive income	**–**	**–**	**3,179,420**	**3,179,420**
Total comprehensive income	**–**	**458,990,823**	**3,179,420**	**462,170,243**
Issuance of stocks dividends	**100,000,000**	**(100,000,000)**	**–**	**–**
Issuance of shares of stock	**1**	**–**	**–**	**1**
Balances at the end of the year	**₱810,000,001**	**₱1,143,604,399**	**(₱339,205)**	**₱1,953,265,195**

	For the Year Ended May 31, 2015			
	Capital Stock (Note 17)	Retained Earnings	Remeasurement Loss on Pension Liability (Note 26)	Total
Balances at June 1, 2014	₱710,000,000	₱530,199,753	(₱3,721,711)	₱1,236,478,042
Net income	–	254,413,823	–	254,413,823
Other comprehensive income	–	–	203,086	203,086
Total comprehensive income	–	254,413,823	203,086	254,616,909
Balances at the end of the year	₱710,000,000	₱784,613,576	(₱3,518,625)	₱1,491,094,951

See accompanying Notes to Financial Statements.

SL AGRITECH CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended May 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱459,099,206**	₱254,467,512	₱201,492,572
Adjustments for:			
Pension expense (Note 26)	**2,000,304**	1,980,811	1,652,973
Finance cost (Note 23)	**182,580,810**	136,159,926	117,428,611
Depreciation and amortization (Notes 11, 12 and 22)	**137,958,502**	106,258,319	109,924,026
Finance income (Note 7)	**(541,911)**	(268,444)	(187,215)
Unrealized foreign exchange losses (gains) - net	**(4,627,046)**	(1,174,541)	1,038,026
Fair value gain on agricultural produce (Note 9)	**(69,712,034)**	(19,276,194)	(55,543,519)
Operating income before working capital changes	**706,757,831**	478,147,389	375,805,474
Decrease (increase) in:			
Receivables	**(556,194,137)**	(467,002,236)	(162,004,628)
Inventories	**(824,883,729)**	(382,714,275)	(451,851,278)
Biological assets	**(12,950,147)**	–	6,549,764
Prepayments and other current assets	**(11,959,018)**	(4,019,739)	(2,396,742)
Increase (decrease) in:			
Accounts and other payables	**29,774,436**	42,759,826	(5,977,251)
Cash used in operations	**(669,454,764)**	(332,829,035)	(239,874,661)
Interest paid	**(188,201,651)**	(130,539,085)	(117,428,611)
Interest received	**541,911**	268,444	187,215
Taxes paid	**(108,383)**	(53,689)	(552,733)
Net cash flows used in operating activities	**(857,222,887)**	(463,153,365)	(357,668,790)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment (Note 11)	**(238,625,925)**	(163,133,128)	(41,298,450)
Increase in:			
Capitalized development costs (Note 12)	**(409,417,910)**	(160,626,005)	(221,148,334)
Security deposits	**(2,894,288)**	(5,591,060)	(365,073)
Net cash flows used in investing activities	**(650,938,123)**	(329,350,193)	(262,811,857)
CASH FLOWS FROM FINANCING ACTIVITIES			
Notes payable			
Availments	**6,167,606,457**	3,151,987,441	2,679,767,805
Payments	**(4,482,170,315)**	(2,718,502,586)	(2,182,995,205)
Trust receipts payable			
Availments	**1,542,612,031**	1,823,548,118	521,154,931
Payments	**(1,665,087,468)**	(1,280,630,835)	(569,857,402)
Proceeds from issuance of shares of stocks	**1**	–	–
Net cash flows provided by financing activities	**1,562,960,706**	976,402,138	448,070,129
NET INCREASE (DECREASE) IN CASH	**54,799,696**	183,898,580	(172,410,518)
CASH AT BEGINNING OF YEAR	**291,206,938**	107,308,358	279,718,876
CASH AT END OF YEAR (Note 7)	**₱346,006,634**	₱291,206,938	₱107,308,358

See accompanying Notes to Financial Statements.

1. **Corporate Information**

SL Agritech Corporation (the Company) was incorporated in the Philippines on September 11, 2000 to cultivate and grow primarily rice seeds, palay, corn and other agricultural grains. The Company also produces hybrid rice seeds and buys and sells rice grains. The Company conducts research and development for the production of aromatic super hybrid rice also.

The Company, as authorized by the Securities and Exchange Commission, has issued ₱1,000,000,000 worth of short-term commercial papers (STCPs) on January 22, 2016. The STCPs are listed at the Philippine Dealing & Exchange Corp. (see Note 16).

The Company's registered office address is Sterling Place Building, 2302 Chino Roces Avenue Extension, Makati City.

The accompanying financial statements of the Company were authorized for issue by the BOD on August 2, 2016.

2. **Basis of Preparation**

The financial statements of the Company have been prepared under the historical cost basis except for agricultural produce which have been measured at fair value less estimated point-of-sale cost at point of harvest. The financial statements are presented in Philippine Peso (₱), which is the Company's functional currency. Amounts are rounded to the nearest Peso unless otherwise indicated.

Statement of Compliance
The Company's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

3. **Changes in Accounting Policies**

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended PFRS, which became effective on January 1, 2015 and did not have a significant impact on the Company's financial statements.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
- *Annual Improvements to PFRSs (2010-2012 cycle)*
  The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:
  - PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  - PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  - PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

- PAS 16, *Property, Plant and Equipment,* and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
- PAS 24, *Related Party Disclosures - Key Management Personnel*

- *Annual Improvements to PFRSs (2011-2013 cycle)*
  The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:
  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  - PFRS 13, *Fair Value Measurement - Portfolio Exception*
  - PAS 40, *Investment Property*

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2015 and these will be adopted on their effectivity dates in accordance with the transition provisions. These amendments and improvements to PFRS and new standard are not expected to have any significant impact on the Company's financial statements.

Effective in FY2017

- PAS 1, *Presentation of Financial Statements - Disclosure Initiatives*
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41, measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.
- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
- PFRS 10, 12 and PAS 28, *Investment Entities - Applying the Consolidation Exception*
- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- *Annual Improvements to PFRSs* (2012-2014 cycle)
  The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016.
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

- PAS 19, *Employee Benefits - regional market issue regarding discount rate*
- PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*

Effective in FY2019

- PFRS 9, *Financial Instruments* - Classification and Measurement (2010 version)
  PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an impact on the Company's classification and measurement of financial assets but will not have an impact on the classification and measurement of financial liabilities.
- PFRS 9, *Financial Instruments* - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
- PFRS 9, *Financial Instruments* (2014 or final version)
  In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will not have an impact on the classification and measurement of financial liabilities.

The following new standard issued by the International Accounting Standards Board (IASB) has not yet been adopted by Financial Reporting Standards Council (FRSC), Board of Accountancy (BOA) and Professional Regulation Commission (PRC)

- IFRS 15, *Revenue from Contracts with Customers*
  This standard was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. The effectivity of IFRS 15 was deferred until the issuance of the final revenue standards by the International Accounting Standards Board (IASB). Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and

recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual period beginning on or after 1 January 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date, once adopted locally.

- IFRS 16, *Leases*
  This standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under PAS 17. Lessees recognize a liability to pay rentals with a corresponding asset, and recognize interest expense and depreciation separately. The new standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less). Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as today's lessor accounting, using PAS 17's dual classification approach. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. The Company is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date, once adopted locally.

4. Summary of Significant Accounting Policies

Revenue and Income Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, returns, rebates and other sales taxes. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue agreements since the Company is the primary obligor in all of its revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from sale of products
Revenue is generally recognized upon delivery when the risks and rewards of ownership have passed to the buyer. Revenue is measured at the fair value of the consideration received or receivable, net of any trade discounts and volume rebates.

Finance income
Interest income is recognized as it accrues taking into account the effective yield of the assets.

Cost of Sales
Cost of sales includes the purchase price of the products sold, as well as costs that are directly attributable in bringing the products to their present location and condition. These costs include the costs of direct material, labor and overhead costs. Cost of sales is recognized as expense when the related goods are sold and delivered.

Operating Expenses
Operating expenses constitute costs of administering the business. These are recognized as expenses as incurred.

Current versus Non-current Classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed within the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled within the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Cash

Cash includes cash on hand and in banks and are stated at face amount in the statement of financial position.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition

All financial assets are initially recognized at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments, available for sale (AFS) financial assets, and loans and receivables. The Company classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

As of May 31, 2016 and 2015, the financial assets of the Company are of the nature of loans and receivables, while its financial liabilities are of the nature of other financial liabilities.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. This accounting policy applies primarily to the Company's "cash", "receivables" and "security deposits".

Other financial liabilities at amortized cost
All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated assets or liabilities are recognized in profit or loss.

This accounting policy applies primarily to the Company's "accounts and other payables", "trust receipts payable" and "short-term notes payable".

<u>Impairment of Financial Assets</u>
The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of comprehensive income. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

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

Offsetting of Financial Instruments
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. The company assesses that it has currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Inventories
Milled rice
Milled rice are valued at the lower of cost or net realizable value (NRV). NRV is the selling price in the ordinary course of business, less marketing and distribution cost. Cost is based on predetermined production cost using the standard costing method.

Agricultural produce
Agricultural produce (i.e., hybrid rice seeds) are carried at fair value less estimated point-of-sale costs at point of harvest. Agricultural produce are the harvested product from the Company's biological assets. A harvest occurs when a product is either detached from the bearer biological asset or when the biological asset's life processes cease.

The agricultural produce are initially measured at its fair value less estimated point-of-sale costs at point of harvest. The fair value is determined by reference to current market transaction price. The fair value resulting from initial measurement is subsequently used as cost if the product is subsequently sold. Other costs such as drying and chemical treatment are included but only to the extent that these are incurred in bringing the agricultural produce to its present location and condition. Point-of-sale costs exclude transport and other costs necessary to get the agricultural produce to a market.

Agricultural and supplies inventories
Agricultural and supplies inventories are valued at the lower of cost or NRV. Costs are determined using the moving average method.

Dried palay
Dried palay are valued at the lower of cost or NRV. Cost is determined using the moving average method. Cost includes purchase price and other cost attributable in bringing the dried palay to its present condition and location such as cost for labor and freight in.

Biological Assets
The biological assets of the Company are divided into germplasms and parental line growing crops.

Biological assets are measured on initial recognition and at each financial reporting date at costs less depreciation and impairment losses, if any.

As there are neither observable market prices for these biological assets nor alternative estimates of fair values that are determined to be clearly reliable exist that give a fair expression of the fair values, germplasm crops and parental line growing crops are valued at cost which comprises its purchase price and any cost attributable in bringing the biological asset to its location and condition intended by the management.

If it becomes possible subsequently to measure the fair value of a biological asset reliably, the Company measures it at its fair value, less estimated cost to sell at point of harvest.

Property and Equipment
Land is stated at cost less impairment in value. Property and equipment, other than land, is stated at cost less accumulated depreciation and accumulated impairment in value. Such cost includes initial transaction cost. When a major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Depreciation are computed on a straight-line basis over the estimated useful lives (EUL) of the individual property and equipment as follows:

	Years
Machinery and equipment	5
Buildings and warehouse	5
Office equipment	5
Transportation equipment	5
Tools and equipment	5
Furniture and fixtures	2

Expenses for repair of property and equipment, such as ongoing maintenance, are charged to operations. The cost of acquisition or construction is capitalized if the expenses related to the asset will result in future economic benefits.

The assets' residual values, useful lives and depreciation method are reviewed at each financial reporting date and adjusted if appropriate. Impairment reviews take place when events or changes in circumstances indicate that the carrying values may not be recoverable. Impairment losses are recognized in the statement of comprehensive income.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the original cost of the asset) is included in the statement of comprehensive income in the year the asset is derecognized. This is not applicable to items that still have a useful life but are currently classified as idle, depreciation continues for those items.

Assets under construction are stated at cost. These include costs of construction of property and equipment and other direct costs. Assets under construction are not depreciated until such time as the relevant assets are completed and put into operational use.

Research and Development Cost
Research costs are expensed as incurred.

Development expenditures refer to hybrid seeds development cost. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

The Company capitalizes hybrid seed development costs generally once management deems a hybrid seed is probable of being commercially viable. This generally occurs in tandem with management’s determination that a seed will provide high-yield crops and crops that are tolerant to adverse tropical conditions.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

Development costs are amortized on a straight-line basis over the EUL of seventeen (17) to twenty (20) years. Amortization of “development cost” is recorded in statement of comprehensive income under “cost of sales” account upon sale of related inventories. During the period of development, the hybrid seeds development cost is tested for impairment annually.

Impairment of Nonfinancial Assets
This accounting policy applies primarily to the Company’s property and equipment, biological assets and development costs.

The Company assesses at each financial reporting date whether there is an indication that and an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that is largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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.

Impairment losses are recognized in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

<u>Foreign Currency Transactions</u>
Transactions denominated in foreign currencies are recorded in Philippine Peso based on the exchange rate at the transaction date. Foreign currency-denominated monetary assets and liabilities are translated to Philippine Peso at closing exchange rates prevailing at the financial reporting dates. Foreign exchange differentials between the transaction rate and the rate at settlement date or financial reporting date of foreign currency-denominated monetary assets or liabilities are credited to or charged against current operations.

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

Deferred tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, at financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred tax asset is recognized when it is probable that taxable income will be available to allow all or part of the deferred tax asset to be utilized.

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

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

Deferred tax relating to items recognized in OCI or directly in equity is recognized in the statement of comprehensive income and statement of changes in equity and not in profit or loss.

Unrecognized deferred tax assets are reassessed at each financial reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The Company does not recognize deferred tax on temporary differences which are expected to reverse for periods where Income Tax Holiday (ITH) is in effect (Notes 24 and 27).

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

<u>Provisions</u>
Provisions are recognized only when the Company has present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate.

<u>Pension Cost</u>
Defined benefit plan
The defined benefit liability is the aggregate of the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined benefit costs on the Company's defined benefit retirement plan are actuarially computed using the projected unit credit (PUC) valuation method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to the services rendered in the current period.

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on the risk-free interest rates of government issued bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Earnings per Share (EPS)

Basic EPS is calculated by dividing net income attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year.

Equity

Capital stock is measured at par value for all shares issued. When the Company issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC). Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC.

Retained earnings represent accumulated earnings of the Company less dividends declared.

Other Comprehensive Income (OCI)

OCI are items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRS. The Company's OCI pertains to remeasurement gains and losses arising from defined benefit pension plan which cannot be recycled to profit or loss.

Operating Segment

The Company's operating businesses are organized and managed separately according to the type of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6 to the Company's financial statements.

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

Events after the Reporting Date
Post year-end events that provide additional information about the Company's position at the financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to the financial statements, when material.

5. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates will be reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgment
In the process of applying the Company's accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Classification of lease
Generally, lease of land is classified as operating lease since land has an indefinite economic life, unless title was expected to pass to the lessee by the end of the lease term. The Company classifies its lease on land as finance lease if, at inception, the present value of the minimum lease payments is more than or equal to 90% of the fair value of the leased asset.

Lease commitments - Company as lessee
The Company has determined, based on an evaluation of the terms and conditions of the arrangement, such as the lease term does not constitute a major part of the economic life of the commercial property and the fair value of the asset, that it does not retain all the significant risk and rewards of ownership of the property and accounts for the contract as an operating lease.

The Company entered into various farm management agreements which cover the lease of agricultural lands for the production of hybrid rice palay/seeds in Laguna and Davao Oriental. The Company has determined, based on an evaluation of the terms and conditions of the arrangements that the risks and rewards related to those properties are retained by the lessor. As such, these lease agreements are accounted for as operating leases.

Biological assets
Biological assets are living plant such as germplasms and parental line growing crops. PAS 41, *Agriculture,* requires that biological assets shall be recognized at its fair value less point of sale costs, except when there is inability to measure fair value reliably. The Company has determined that biological assets must be valued at cost less any impairment in value. The

Company uses the cost method of valuation because germplasms and parental line growing crops have no active market and no active market for similar biological assets is available in the Philippines.

Development costs
Development costs are capitalized only when the asset can demonstrate that it will generate probable future economic benefits to the Company. This generally occurs in tandem with management's determination that a seed is viable and it will provide high-yield crops and crops that are tolerant to adverse tropical conditions. Costs incurred during the research phase are expensed outright.

The related balances follow (see Note 12):

	2016	2015
Development costs - cost	**₱1,490,562,205**	₱1,081,144,295
Accumulated amortization	**183,044,158**	161,000,631
Amortization for the year	**22,043,527**	10,625,802

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

Impairment of loans and receivables
The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

The related balances follow (see Note 8):

	2016	2015
Receivables - net	**₱2,046,115,560**	₱1,485,294,377
Allowance for impairment losses	**16,000,0000**	16,000,000

Inventories carried at the lower of cost or NRV
Inventories carried at the lower of cost or NRV include dried palay, agricultural and supplies inventories and milled rice. The Company computes NRV using estimated selling price in the ordinary course of business less cost to sell at point of harvest. This requires the Company to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense. Inventories carried at cost amounted to ₱1,544,954,000 and ₱1,062,989,884 as of May 31, 2016 and 2015, respectively (see Note 9). No allowance for inventory obsolescence was recognized as of May 31, 2016 and 2015.

Fair value of agricultural produce
The Company determined the fair values of agricultural produce based on the total actual selling prices at year-end, less cost to sell at point of harvest. The cost to sell at point of harvest include commissions to brokers and dealers and exclude transport and other costs necessary to get the agricultural produce to the market. The fair values of these produce are reviewed and updated if expectations differ from previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates brought about by the changes in factors mentioned above. As of May 31, 2016 and 2015, fair value of agricultural produce amounted to ₱1,053,468,936 and ₱640,837,289, respectively (see Note 9).

Estimating useful lives of property and equipment
The Company estimates the useful lives of property and equipment, based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these property and equipment. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and decrease the related asset accounts.

The related balances follow (see Note 11):

	2016	2015
Property and equipment - cost	**₱1,267,938,150**	₱1,034,633,313
Accumulated depreciation	**624,736,573**	514,142,686
Depreciation expense	**115,914,975**	95,632,517

Impairment of nonfinancial assets
The Company assesses impairment on property and equipment and development costs whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

If such indications are present, and where the carrying amount of the asset exceeds its recoverable amount, the assets are considered impaired and are written down to recoverable amount.

As of May 31, 2016 and 2015, the Company has determined that there are no indications that its property and equipment and development costs may be impaired. The related balances follow:

	2016	2015
Property and equipment (Note 11)	**₱643,201,577**	₱520,490,627
Development costs (Note 12)	**1,307,518,047**	920,143,664

Pension obligation
The determination of pension obligation is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. 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 obligation.

As of May 31, 2016 and 2015, the Company's pension liability amounted to ₱10,674,781 and ₱13,216,506, respectively (see Note 26).

Deferred tax assets
The Company did not recognize any deferred tax asset (DTA) on temporary tax differences as the Company believes that it is not probable that future taxable income will be available in the period of reversal due to the ITH incentive benefits of the Company (see Notes 24 and 27).

6. **Segment Reporting**

For management purposes, the Company's operating segments are organized and managed separately according to the type of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets as follows:

- *Seeds Division* - cultivates, harvest and sell hybrid rice seeds to farmers
- *Rice Division* - purchases dried palay, mills and sells finished good rice grains to consumers

Management monitors the operating results of its operating segments separately for the purpose of making decision about resource allocation and performance assessment. Group financing (including finance income and finance cost) and income tax are managed on a group basis and are not allocated to operating segments. The Company evaluates performance based on earnings before income tax (EBIT). The Company does not report its results based on geographical segments because the Company has minimal operations outside the Philippines.

The amounts of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the statement of financial position which is in accordance with PFRS.

Financial information about the operating segments is summarized as follows:

2016

	Seeds Division	Rice Division	Total
Net sales (Note 18)	**₱1,653,276,163**	**₱898,932,332**	**₱2,552,208,495**
Cost of sales (Note 19)	**(994,095,861)**	**(534,063,355)**	**(1,528,159,216)**
Gross profit	**659,180,302**	**364,868,977**	**1,024,049,279**
Operating expenses	**(268,629,403)**	**(146,061,294)**	**(414,690,697)**
EBIT	**390,550,899**	**218,807,683**	**609,358,582**
Depreciation and amortization expenses (Note 22)	**21,659,076**	**17,721,061**	**39,380,137**
(EBITDA)	**412,209,975**	**236,528,744**	**648,738,719**
Other operating expenses			**(₱42,559,557)**
Fair value gain on agricultural produce (Note 9)			**69,712,034**
Finance income (Note 7)			**541,911**
Finance cost (Note 23)			**(182,580,810)**
Depreciation and amortization expense (Note 22)			**(39,380,137)**
Foreign exchange gains - net			**4,627,046**
Income before tax			**459,099,206**
Provision for tax			**108,383**
Net income			**₱458,990,823**

2015

	Seeds Division	Rice Division	Total
Net sales (Note 18)	₱1,217,706,791	₱829,096,502	₱2,046,803,293
Cost of sales (Note 19)	(688,685,637)	(583,208,727)	(1,271,894,364)
Gross profit	529,021,154	245,887,775	774,908,929
Operating expenses	(223,183,301)	(140,555,249)	(363,738,550)
EBIT	305,837,853	105,332,526	411,170,379
Depreciation and amortization expenses (Note 22)	22,582,469	18,476,565	41,059,034
(EBITDA)	₱328,420,322	₱123,809,091	452,229,413
Other operating expenses			(₱41,262,120)
Fair value gain on agricultural produce (Note 9)			19,276,194
Finance income (Note 7)			268,444
Finance cost (Note 23)			(136,159,926)
Depreciation and amortization expense (Note 22)			(41,059,034)
Foreign exchange gains - net			1,174,541
Income before tax			254,467,512
Provision for tax			53,689
Net income			₱254,413,823

2014

	Seeds Division	Rice Division	Total
Net sales (Note 18)	₱716,515,535	₱619,653,650	₱1,336,169,185
Cost of sales (Note 19)	(359,045,822)	(368,615,545)	(727,661,367)
Gross profit	357,469,713	251,038,105	608,507,818
Operating expenses	(126,899,547)	(159,133,120)	(286,032,667)
EBIT	230,570,166	91,904,985	322,475,151
Depreciation and amortization expenses (Note 22)	25,186,431	39,472,410	64,658,841
EBITDA	₱255,756,597	₱131,377,395	387,133,992
Other operating expenses			(₱58,246,676)
Fair value gain on agricultural produce (Note 9)			55,543,519
Finance income (Note 7)			187,215
Finance cost (Note 23)			(117,428,611)
Depreciation and amortization expense (Note 22)			(64,658,841)
Foreign exchange losses - net			(1,038,026)
Income before final tax			201,492,572
Provision for final tax			552,733
Net income			₱200,939,839

Other information on the operating segments, to the extent possible, follows:

2016

	Seeds Division	**Rice Division**	**Others**	**Total**
Receivables (Note 8)	**₱1,658,949,561**	**₱319,131,910**	**₱68,034,089**	**₱2,046,115,560**
Inventories (Note 9)	**1,053,468,936**	**1,474,515,354**	**70,438,646**	**2,598,422,936**
Segment Assets	**₱2,712,418,497**	**₱1,793,647,264**	**₱138,472,735**	**₱4,644,538,496**

2015

	Seeds Division	Rice Division	Others	Total
Receivables (Note 8)	₱1,230,707,439	₱205,136,060	₱49,450,878	₱1,485,294,377
Inventories (Note 9)	640,837,289	999,138,615	63,851,269	1,703,827,173
Segment Assets	₱1,871,544,728	₱1,204,274,675	₱113,302,147	₱3,189,121,550

Intersegment Revenues

There are no intersegment revenues.

Segment Results

Significant results pertain to the net income (loss) of each of the operating segments adjusted by the subsequent take up of significant transactions of operating segments with fiscal year end. The chief decision maker uses the ‘EBIT’ and ‘EBITDA’ in measuring the performance of each of the Company’s operating segment. The Company defines each of the operating segment’s ‘EBIT’ as the net income attributable to equity holders of the Company added by the provision for income tax. ‘EBITDA’ is computed by adding back to the EBIT the depreciation and amortization expenses charged to operating expenses during the period.

Segment Receivables and Inventories

Segment assets receivables and inventories are the resources owned by each of the operating segments.

Segment Liabilities
The amounts of segment liabilities are not distinguished between the divisions as both fairly share in the liabilities and both divisions are closely related.

Capital Expenditures
The components of capital expenditures reported to the chief decision maker are the acquisitions of property and equipment during the period.

Geographical Segments
The Company operates in the Philippines, Bangladesh, Myanmar, Vietnam, Indonesia, Pakistan, Oman, Malaysia, United Arab Emirates and United States of America.

The following table shows the distribution of the Company's revenues to external customers by geographical market, regardless of where the goods were produced:

	2016	2015	2014
Domestic	**₱2,476,013,957**	₱1,953,907,217	₱1,201,795,427
Foreign	**76,194,538**	92,896,076	134,373,758
	₱2,552,208,495	₱2,046,803,293	₱1,336,169,185

The Company's major customer is the Municipal Agriculture Office (MAO) which contributes revenues of ₱672,310,477, ₱293,086,082 and ₱156,764,967 in 2016, 2015 and 2014, respectively.

7. Cash

This account consists of:

	2016	2015
Cash on hand	**₱4,683,831**	₱2,516,938
Cash in banks	**341,322,803**	288,690,000
	₱346,006,634	₱291,206,938

Cash in banks earns interest at the prevailing bank deposit rates. Interest income earned from savings amounted to ₱541,911 and ₱268,444 in 2016 and 2015, respectively.

8. Receivables

This account consists of:

	2016	2015
Trade	**₱1,994,081,471**	₱1,447,843,500
Non-trade	**60,015,796**	46,021,348
Receivables from employees	**8,018,293**	7,429,529
	2,062,115,560	1,501,294,377
Less allowance for impairment losses	**16,000,000**	16,000,000
	₱2,046,115,560	₱1,485,294,377

Receivables are noninterest-bearing and are generally collectible over a short-term period.

Trade receivables arise from sale of seeds and rice to customers. Seeds and rice receivables are usually on a six (6)-months', and sixty (60) to ninety (90) days' credit term, respectively. Also, trade receivables include advances to contract growers that arise when contract growers receive cash advances. The advances are short-term and within the crop year of no more than six (6) months. The advances are liquidated against proceeds from sale of dried palay to the Company.

Receivables from employees are collected through salary deductions.

Non-trade receivables consist primarily of advances to suppliers.

Changes in allowance for impairment losses follow:

	2016	2015
Balance at the beginning of the year	**₱16,000,000**	₱9,000,000
Provision during the year (Note 20)	**–**	7,000,000
	₱16,000,000	₱16,000,000

	2016	2015
Collectively impaired	**₱13,649,900**	₱13,649,900
Individually impaired	**2,350,100**	2,350,100
	₱16,000,000	₱16,000,000

The table below shows the analysis of the Company's receivables as of May 31, 2016 and 2015.

<u>2016</u>

	Total	**Neither past due nor impaired**	**Past due but not impaired**			**Impaired**
			<120 days	**121-365 days**	**1- 2 years**	
Trade receivables	**₱1,994,081,471**	**₱1,976,020,283**	**₱–**	**₱–**	**₱2,061,188**	**₱16,000,000**
Receivables from employees	**8,018,293**	**8,018,293**	**–**	**–**	**–**	**–**
Non-trade receivables	**60,015,796**	**60,015,796**	**–**	**–**	**–**	**–**
	₱2,062,115,560	**₱2,044,054,372**	**₱–**	**₱–**	**₱2,061,188**	**₱16,000,000**

<u>2015</u>

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			<120 days	121-365 days	1- 2 years	
Trade receivables	₱1,447,843,500	₱1,429,492,685	₱1,660,100	₱690,715	₱–	₱16,000,000
Receivables from employees	7,429,529	7,429,529	–	–	–	–
Non-trade receivables	46,021,348	46,021,348	–	–	–	–
	₱1,501,294,377	1,482,943,562	₱1,660,100	₱690,715	₱–	₱16,000,000

9. **Inventories**

This account consists of:

	2016	2015
At cost:		
Dried palay	**₱1,436,617,950**	₱968,098,590
Agricultural and supplies inventories	**70,438,646**	63,851,269
Milled rice	**37,897,404**	31,040,025
	1,544,954,000	1,062,989,884
Hybrid rice seed - at fair value less estimated point-of-sale cost at point of harvest	**1,053,468,936**	640,837,289
	₱2,598,422,936	₱1,703,827,173

The Company is accountable to the banks for the trustee merchandise or its sales proceeds under the terms of agreements covering liabilities under trust receipts which amounted to ₱669,126,206 and ₱791,601,644 as of May 31, 2016 and 2015, respectively (Note 15).

The cost of inventories recognized as cost of sales in the statements of comprehensive income amounted to ₱1,516,741,491, ₱1,271,894,364, and ₱727,661,367 in 2016, 2015 and 2014, respectively (see Note 19).

The movement in hybrid rice seed carried at fair value less estimated point-of-sale cost at point of harvest follows:

	2016	2015
At cost - beginning	**₱462,646,767**	₱485,223,370
Additions	**1,325,597,749**	666,109,034
Sales (Note 19)	**(982,678,136)**	(688,685,637)
At cost - end	**805,566,380**	462,646,767
Fair value gains net of point-of-sale cost at point of harvest	**247,902,556**	178,190,522
	₱1,053,468,936	₱640,837,289

The fair value gain on agricultural produce recognized in the statements of comprehensive income amounted to ₱69,712,034, ₱19,276,194 and ₱55,543,519 in 2016, 2015 and 2014, respectively.

The Company has about 154,874 bags and 142,363 bags of hybrid seeds in 2016 and 2015, respectively.

Cost of inventories that are pledged by the Company as security to short-term notes payable amounted to ₱500,000,000 and ₱289,093,987 in 2016 and 2015, respectively.

10. Prepayments and other current assets

This account consists of:

	2016	2015
Prepayments for:		
Land lease	**₱14,284,905**	₱13,454,019
Insurance	**9,112,207**	3,438,220
Others	**642,160**	2,522,451
	24,039,272	19,414,690
Deposit	**7,334,436**	–
	₱31,373,708	₱19,414,690

The Company has entered into contracts of operating leases of agricultural lands located in Lupon, Davao Oriental for the production of hybrid seeds ranging from six (6) months to three (3) years. Under these agreements, the lessor pays for real property taxes and shall not dispose of, sell, encumber, transfer, mortgage or alienate the agricultural land or do such acts that dispose or disallow the Company's use of land during the term of the lease contracts. Farm land lease expense charged to cost of sales related to the lease of agricultural lands amounted to ₱54,350,374, ₱41,152,693 and ₱25,840,157 in 2016, 2015 and 2014, respectively (Note 19). Farm land lease expense amounting ₱24,726,761 and ₱18,722,462 in 2016 and 2015, respectively, were included in the cost of inventories.

Insurance pertains to insurance premiums paid in advance for the Company's vehicles.

Deposit refers to advances made for foreign investment from joint venture.

Others consist primarily of advance payment for real property tax paid, subscription fee and consultation fee.

11. Property and Equipment

The composition of and movement on this account follow:

2016

	Land	Machinery and Equipment	Buildings and Warehouse	Office Equipment	Transportation Equipment	Tools and Equipment	Furniture and Fixtures	Assets under Construction	Total
Cost									
At June 1, 2015	₱159,984,786	₱304,706,652	₱405,002,274	₱12,431,213	₱80,016,069	₱636,926	₱4,018,051	₱67,837,342	₱1,034,633,313
Additions	3,876,000	58,268,434	358,437	2,583,268	23,357,647	–	7,280,071	142,902,068	238,625,925
Disposal	–	–	–	–	(5,321,088)	–	–	–	(5,321,088)
At May 31, 2016	163,860,786	362,975,086	405,360,711	15,014,481	98,052,628	636,926	11,298,122	210,739,410	1,267,938,150
Accumulated Depreciation									
At June 1, 2015	–	(192,724,446)	(255,146,460)	(10,441,158)	(51,582,699)	(636,926)	(3,610,997)	–	(514,142,686)
Depreciation (Note 22)	–	(37,007,842)	(67,224,736)	(734,813)	(9,687,262)	–	(1,260,322)	–	(115,914,975)
Disposal	–	–	–	–	5,321,088	–	–	–	5,321,088
At May 31, 2016	–	(229,732,288)	(322,371,196)	(11,175,971)	(55,948,873)	(636,926)	(4,871,319)	–	(624,736,573)
Net Book Value as of May 31, 2016	₱163,860,786	₱133,242,798	₱82,989,515	₱3,838,510	₱42,103,755	₱–	₱6,426,803	₱210,739,410	₱643,201,577

2015

	Land	Machinery and Equipment	Buildings and Warehouse	Office Equipment	Transportation Equipment	Tools and Equipment	Furniture and Fixtures	Assets under Construction	Total
Cost									
At June 1, 2014	₱152,332,898	₱247,883,728	₱381,888,013	₱10,467,908	₱66,115,512	₱636,926	₱4,018,051	₱11,322,491	₱874,665,527
Additions	7,651,888	56,822,924	7,180,860	1,963,305	17,065,899	–	–	72,448,252	163,133,128
Disposal	–	–	–	–	(3,165,342)	–	–	–	(3,165,342)
Transfer	–	–	15,933,401	–	–	–	–	(15,933,401)	–
At May 31, 2015	159,984,786	304,706,652	405,002,274	12,431,213	80,016,069	636,926	4,018,051	67,837,342	1,034,633,313
Accumulated Depreciation									
At June 1, 2014	–	170,514,227	191,085,691	9,366,849	46,953,964	493,238	3,261,542	–	421,675,511
Depreciation (Note 22)	–	22,210,219	64,060,769	1,074,309	7,794,077	143,688	349,455	–	95,632,517
Disposal	–	–	–	–	(3,165,342)	–	–	–	(3,165,342)
At May 31, 2015	–	192,724,446	255,146,460	10,441,158	51,582,699	636,926	3,610,997	–	514,142,686
Net Book Value as of May 31, 2015	₱159,984,786	₱111,982,206	₱149,855,814	₱1,990,055	₱28,433,370	₱–	₱407,054	₱67,837,342	₱520,490,627

Depreciation charged to cost of sales, operating expenses and ending inventories follows:

	2016	2015	2014
Cost of sales (Note 19)	**₱70,998,745**	₱46,802,758	₱36,627,244
Operating expenses (Note 20)	**39,380,137**	41,059,034	64,658,841
Ending inventories (Note 9)	**17,331,120**	11,795,027	4,024,302
Total	**127,710,002**	99,656,819	105,310,387
Beginning inventories	**(11,795,027)**	(4,024,302)	(6,012,163)
Depreciation	**₱115,914,975**	₱95,632,517	₱99,298,224

Fully depreciated assets, amounting ₱281,698,284 and ₱276,581,114 as of May 31, 2016 and 2015, respectively, are still in active use.

No borrowing costs were capitalized to property and equipment items as construction was financed by internally generated funds.

Carrying value of property and equipment items that are pledged by the Company as security to short-term notes payable amounted to ₱441,953,538 and ₱355,212,281 in 2016 and 2015, respectively.

12. Development Costs

Development costs pertain to costs incurred for the development and further enhancement of the Company's existing and commercially viable hybrid seeds.

The rollforward analysis of this account follows:

	2016	2015
Cost		
At beginning of year	**₱1,081,144,295**	₱920,518,290
Additions	**409,417,910**	160,626,005
At end of year	**1,490,562,205**	1,081,144,295
Accumulated Amortization		
At beginning of year	**161,000,631**	150,374,829
Amortization (Note 22)	**22,043,527**	10,625,802
At end of year	**183,044,158**	161,000,631
Net Book Value at End of Year	**₱1,307,518,047**	₱920,143,664

Amortization expense charged to cost of sales and ending inventories follows:

	2016	2015	2014
Cost of sales (Note 19)	**₱22,258,242**	₱9,921,387	₱8,637,938
Ending inventories (Note 9)	**8,787,677**	9,002,392	8,297,977
Total	**31,045,919**	18,923,779	16,935,915
Beginning inventories	**(9,002,392)**	(8,297,977)	(6,310,113)
Amortization	**₱22,043,527**	₱10,625,802	₱10,625,802

The details of the development costs on a per hybrid seed follow:

<u>2016</u>

	Developed Hybrid Rice Seeds SLs 7, 8, 9 and 11	**Hybrid Rice Seeds Under Development SLs 12, 16, 18, 19, 20, 21, 22, 24, 26**	**Hybrid Corn**	**Total**
Cost				
At beginning of year	**₱238,412,315**	**₱833,315,222**	**₱9,416,758**	**₱1,081,144,295**
Additions	**–**	**409,417,910**	**–**	**409,417,910**
At end of year	**238,412,315**	**1,242,733,132**	**9,416,758**	**1,490,562,205**
Accumulated Amortization				
At beginning of year	**151,583,873**	**–**	**9,416,758**	**161,000,631**
Amortization	**22,043,527**	**–**	**–**	**22,043,527**
At end of year	**173,627,400**	**–**	**9,416,758**	**183,044,158**
Net Book Value at End of Year	**₱64,784,915**	**₱1,242,733,132**	**₱–**	**₱1,307,518,047**

<u>2015</u>

	Developed Hybrid Rice Seeds SLs 7, 8, 9 and 11	Hybrid Rice Seeds Under Development SLs 5, 12, 16, 18 and 19	Hybrid Corn	Total
Cost				
At beginning of year	₱238,412,315	₱672,689,217	₱9,416,758	₱920,518,290
Additions	–	160,626,005	–	160,626,005
At end of year	238,412,315	833,315,222	9,416,758	1,081,144,295
Accumulated Amortization				
At beginning of year	140,958,071	–	9,416,758	150,374,829
Amortization	10,625,802	–	–	10,625,802
At end of year	151,583,873	–	9,416,758	161,000,631
Net Book Value at End of Year	₱86,828,442	₱833,315,222	₱–	₱920,143,664

SLs 11, 12, 16, 18, 19, 20, 21, 22, 24 and 26 are the additional hybrid rice seeds that are under development following the success in breeding SLs 7, 8 and 9. These are all hybrid rice seeds that have been initially determined as viable having been gone through several testing and experimentation stages that stabilized the parental lines. Currently, the Company is preparing for bigger volume of production of parental lines for further enhancement prior to commercial production to make the hybrid seeds tolerant to tropical conditions and it followed the same processes involved in the development and production of SLs 7, 8 and 9.

In 2015, the Company changed the name of SL 5H to SL 21H.

The more popular commercial rice brands produced from SLs 9 and 7 are Doña Maria Miponica and Doña Maria Jasponica which have a total ending inventory of ₱5,963,794 and ₱12,566,551, respectively, during the year.

13. Biological Assets

The biological assets amounting to ₱12,950,147 and nil as of May 31, 2016 and 2015, respectively, pertain to parental line growing crops.

14. Accounts and Other Payables

This account consists of:

	2016	2015
Trade payables	**₱145,870,820**	₱104,645,354
Non-trade payables	**23,736,010**	33,516,616
Accrued expenses	**9,505,721**	16,644,168
Others	**3,068,185**	3,221,002
	₱182,180,736	₱158,027,140

Trade payables are payable to suppliers and are noninterest-bearing. The normal credit terms of trade payables of the Company are expected to be settled within the next twelve (12) months.

Non-trade payables are liabilities to financing companies for the lease of vehicles intended to support the Company's operations. Interest rates ranges from 5.00% to 6.00% in 2016 and 2015 which is payable monthly. Interest expense incurred amounted to ₱5,408,392 and ₱2,921,827 in 2016 and 2015, respectively (see Note 23).

Accrued expenses consist of accrual for bonus and employee welfare benefits.

15. Trust Receipts Payable

This account consists of payables to the following:

	2016	2015
Land Bank of the Philippines	**₱413,886,558**	₱399,965,484
Maybank Philippines	**137,504,100**	144,355,954
Chinatrust (Philippines) Commercial Bank Corporation	**49,482,600**	42,146,163
Banco de Oro	**47,979,259**	54,765,254
Philippine National Bank	**11,589,349**	46,982,341
China Banking Corporation	**8,684,340**	31,971,448
Philippine Bank of Communications	**–**	71,415,000
	₱669,126,206	₱791,601,644

Proceeds from the availment of trust receipts payable were utilized to procure imported and local raw materials used in production (Note 9).

Interest rates range from 4.75% to 5.25% in 2016, 4.50% to 6.00% in 2015 and 4.75% to 6.00% in 2014. Interest expense incurred amounted to ₱34,286,320, ₱18,789,223 and ₱17,027,300 in 2016 2015 and 2014, respectively (see Note 23).

16. **Short-term Notes Payable**

Short-term notes payable which amounted to ₱4,178,962,718 and ₱2,493,526,576 as of May31, 2016 and 2015, respectively, represent secured short-term borrowings availed from local banks with prevailing annual market rates ranging from 4.00% to 5.00% , 4.00% to 6.00% and 4.75% to 6.00% in 2016, 2015 and 2014, respectively, with maturity dates ranging from three (3) months to one (1) year. The proceeds from availment of short-term notes payable were used to finance the working capital requirements of the Company.

Included in the short-term notes payable are ₱1,000,000,000 worth of short-term commercial papers (STCPs), issued by the Company on January 22, 2016, as authorized by the Securities and Exchange Commission. The STCPs are listed at the Philippine Dealing & Exchange Corp..

Total interest expense recognized on these short-term notes payable amounted to ₱142,886,098, ₱114,448,876 and ₱97,085,110 in 2016, 2015 and 2014, respectively (see Note 23).

17. **Equity**

Capital Stock
The details of the number of common shares and the movements thereon follow:

	2016	2015
Authorized shares	**2,000,000,000**	2,000,000,000
Par value per share	**₱1**	₱1
Authorized capital stock	**₱2,000,000,000**	₱2,000,000,000
At beginning of year	**710,000,000**	710,000,000
Stock dividends declared	**100,000,000**	–
Issuance of shares of stock	**1**	–
Issued and outstanding	**₱810,000,001**	₱710,000,000

Retained Earnings
On June 10, 2015, the Company's Board of Directors approved the declaration of stock dividends amounting to ₱100,000,000 to the Company's shareholders of record as of June 10, 2015. The stock dividends were subsequently issued on August 6, 2015.

18. **Revenue**

The analysis of the Company's revenue from sales follows:

	2016	2015	2014
Hybrid seeds	**₱2,288,996,574**	₱1,789,259,879	₱833,791,308
Rice	**966,940,203**	945,693,029	786,049,042
	3,255,936,777	2,734,952,908	1,619,840,350
Less: Sales discounts	**156,578,930**	133,431,451	87,742,836
Sales returns	**547,149,352**	554,718,164	195,928,329
	703,728,282	688,149,615	283,671,165
Net Sales	**₱2,552,208,495**	₱2,046,803,293	₱1,336,169,185

The Company delivers or positions to drop-off in the MAO the municipal requirements of hybrid rice seeds based from the seed matching made with the Municipal/City agriculturist in consultation with the DA-Regional Fields Unit (RFU) and Provincial Local Government Units. The balance of seed cost is collected from the farmer beneficiaries through the MAO.

In 2016, 2015 and 2014, total hybrid seeds sold including agricultural produce to DA amounted to ₱615,971,670, ₱480,723,523 and ₱471,433,700, respectively.

19. Cost of Sales

This account consists of:

	2016	2015	2014
Fertilizers, seeds and agrichemicals	**₱1,041,371,322**	₱979,634,150	₱556,016,837
Personnel expenses (Notes 21 and 26)	**158,211,532**	107,002,490	59,921,357
Depreciation and amortization (Notes 11, 12 and 22)	**93,256,987**	56,724,145	45,265,182
Transportation	**63,567,777**	39,468,296	19,528,793
Rent (Notes 10 and 30)	**54,350,374**	41,152,693	25,840,157
Light, water and utilities	**23,506,376**	16,437,265	11,303,143
Repairs and maintenance	**17,665,175**	9,324,765	4,236,164
Security services	**8,132,636**	6,726,034	2,379,669
Taxes and licenses	**2,397,496**	1,676,434	852,808
Others	**65,699,541**	13,748,092	2,317,257
	₱1,528,159,216	₱1,271,894,364	₱727,661,367

20. Operating Expenses

This account consists of:

	2016	2015	2014
Personnel expenses (Notes 21 and 26)	**₱102,610,262**	₱82,360,796	₱95,339,425
Freight and other selling expenses	**86,688,922**	73,339,694	31,718,855
Advertising and promotion	**60,004,696**	38,362,036	17,313,021
Depreciation and amortization (Notes 11 and 22)	**39,380,137**	41,059,034	64,658,841
Taxes and licenses	**26,753,798**	25,336,828	14,323,078
Transportation and travel	**23,449,126**	25,997,485	26,652,489
Supplies	**20,497,030**	25,379,398	7,410,733
Entertainment, amusement and recreation (EAR)	**15,302,713**	11,445,012	4,841,964
Gas, oil and lubricant	**10,992,301**	10,803,742	17,422,471
Rent (Note 30)	**10,495,053**	9,905,733	8,910,057
Insurance	**10,412,261**	9,246,570	7,023,460
Bank charges	**10,096,428**	7,666,225	713,564
Loss on inventory returns	**5,349,276**	6,290,034	6,886,790
Repairs and maintenance	**5,109,686**	5,396,913	6,196,686
Contributions and donations	**4,685,687**	4,451,187	687,979

(Forward)

	2016	2015	2014
Communication	**₱4,508,391**	₱3,744,699	₱2,931,626
Legal and professional fees	**4,341,859**	2,269,028	1,051,651
Commission	**3,632,406**	104,613	4,812,019
Training and recruitment	**1,066,534**	1,223,493	1,150,892
Light, water and utilities	**989,379**	2,360,332	3,941,508
Security services	**836,535**	360,553	1,972,910
Membership dues	**742,004**	716,258	1,044,374
Miscellaneous (Note 8)	**9,305,770**	17,181,007	17,274,950
	₱457,250,254	₱405,000,670	₱344,279,343

Miscellaneous pertains to various expenses incurred by the Company such as bad debts and showroom expenses.

21. Personnel Expenses

This account consists of:

	2016	2015	2014
Salaries, wages and other benefits	**₱299,195,391**	₱191,190,741	₱154,505,048
Employee welfare	**14,997,334**	8,610,107	6,423,717
Pension expense (Note 26)	**2,000,304**	1,980,811	1,652,973
	₱316,193,029	₱201,781,659	₱162,581,738

Personnel expenses are allocated as follows:

	2016	2015	2014
Cost of sales (Note 19)	**₱158,211,532**	₱107,002,490	₱59,921,357
Operating expenses (Note 20)	**102,610,262**	82,360,796	95,339,425
Ending inventories	**125,352,641**	69,981,406	57,563,034
Total	**386,174,435**	259,344,692	212,823,816
Less: Beginning inventories	**(69,981,406)**	(57,563,033)	(50,242,078)
	₱316,193,029	₱201,781,659	₱162,581,738

22. Depreciation and Amortization

Depreciation and amortization expenses are allocated as follows:

	2016	2015	2014
Cost of sales (Note 19)	**₱93,256,987**	₱56,724,145	₱45,265,182
Operating expenses (Note 20)	**39,380,137**	41,059,034	64,658,841
Ending inventories (Notes 11 and 12)	**26,118,797**	20,797,419	12,322,279
Total	**158,755,921**	118,580,598	122,246,302
Less: Beginning inventories	**(20,797,419)**	(12,322,279)	(12,322,276)
	₱137,958,502	₱106,258,319	₱109,924,026

23. **Finance Cost**

Finance costs are incurred from the following:

	2016	2015	2014
Short-term notes payable (Note 16)	**₱142,886,098**	₱114,448,876	₱97,085,110
Trust receipts payable (Note 15)	**34,286,320**	18,789,223	17,027,300
Finance lease liability (Note 14)	**5,408,392**	2,921,827	3,316,201
	₱182,580,810	₱136,159,926	₱117,428,611

24. **Income Tax**

Provision for income tax consists of:

	2016	2015	2014
Final tax	**₱108,383**	₱53,689	₱37,443
Current	–	–	515,290
	₱108,383	₱53,689	₱552,733

Final taxes are paid at the rate of 20.00% and 7.50% on peso and dollar denominated cash in banks, respectively, which are final withholding taxes on gross interest income. The current income tax in 2014 represents MCIT.

The Company availed of the tax incentives under its Board of Investment (BOI) registration where it enjoyed ITH status. Accordingly, the Company did not recognize any DTA in 2016, 2015 and 2014 on temporary differences that will not reverse within the ITH period (see Note 27).

Details of unrecognized NOLCO, MCIT and temporary differences follow:

	2016	2015	2014
Allowance for impairment	**₱16,000,000**	₱12,000,000	₱9,000,000
Pension liability	**10,674,781**	13,216,506	11,438,781
NOLCO	**6,465,323**	6,465,323	6,465,323
MCIT	**515,290**	515,290	515,290

The Company's NOLCO and excess MCIT can be claimed as additional deductions against future taxable income over a period of three years. Details are as follows:

	Year Incurred	Balance	Year of Expiration
NOLCO	2014	₱6,465,323	2017
MCIT	2014	515,290	2017

Deferred taxes as of May 31, 2016 relate to the tax effects of pension amounting to ₱1,362,609.

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the statements of comprehensive income follows:

	2016	2015	2014
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	**11.62**	15.90	17.10
Applied NOLCO	–	–	1.22
Interest income subject to final tax rate	**(0.01)**	(0.03)	(0.01)
Nontaxable fair value gain	**(4.56)**	(2.27)	(8.27)
ITH (Note 27)	**(37.03)**	(43.58)	(39.77)
Effective income tax rate	**0.02%**	0.02%	0.27%

Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling of such expenses.

25. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share amounts were computed as follows:

		2016	2015 (As restated)	2014 (As restated)
a.	Net income attributable to equity holders of the Company	**₱458,990,823**	₱254,413,823	₱200,939,839
b.	Weighted average number of common shares outstanding*	**810,000,001**	810,000,000	810,000,000
c.	Earnings per share (a/b)**	**₱0.57**	₱0.31	₱0.25

**Retrospectively adjusted for the issuance of stock dividend in 2016.*
***The effect on earnings per share related to the restatement in 2015 and 2014 was ₱0.05 and ₱0.03, respectively*

There were no potential dilutive shares in 2016, 2015 and 2014.

26. Retirement Plan

The Company has an unfunded, noncontributory defined benefit type of retirement plan covering substantially all of its employees based on the minimum contribution required by law. The latest retirement valuation report was as of May 31, 2016.

The following tables summarize the components of the pension expense recognized in the statements of comprehensive income and amounts recognized in the Company statements of financial position for the retirement plan.

Based on the actuarial valuation as of May 31, 2016 computed using the PUC method, the Company's pension liability and expenses are summarized as follows:

	May 31		
	2016	2015	2014
Pension expense (Note 21)	**₱2,000,304**	₱1,980,811	₱1,652,973
Pension liability	**10,674,781**	13,216,506	11,438,781

Components of pension expense in profit or loss follow:

	2016	2015	2014
Current service cost	**₱1,375,163**	₱1,390,570	₱1,071,886
Net interest cost on defined benefit obligation	**625,141**	590,241	581,087
Total pension expense	**₱2,000,304**	₱1,980,811	₱1,652,973

The movements in the net pension liability follow:

	May 31		
	2016	2015	2014
At beginning of year	**₱13,216,506**	₱11,438,781	₱8,939,797
Net pension expense	**2,000,304**	1,980,811	1,652,973
Amount to be recognized in OCI	**(4,542,029)**	(203,086)	846,011
At end of the year	**₱10,674,781**	₱13,216,506	₱11,438,781

Movement of cumulative remeasurement effect recognized in OCI:

	May 31		
	2016	2015	2014
Balance at beginning of year	**(₱3,518,625)**	(₱3,721,711)	(₱2,875,700)
Additional actuarial gains (losses) from plan obligation	**3,179,420**	203,086	(846,011)
Balance at end of year	**(₱339,205)**	(₱3,518,625)	(₱3,721,711)

The reconciliation of the present value of the defined benefit obligation follows:

	May 31		
	2016	2015	2014
Balance at beginning of year	**₱13,216,506**	₱11,438,781	₱8,939,797
Current service cost	**1,375,163**	1,390,570	1,071,886
Interest cost	**625,141**	590,241	581,087
Actuarial losses (gains)	**(4,542,029)**	(203,086)	846,011
Balance at end of year	**₱10,674,781**	₱13,216,506	₱11,438,781

The assumptions used to determine pension benefits of the Company follow:

	2016	2015	2014
Discount rates	**5.27%**	4.73%	5.16%
Salary rate increase	**5.00%**	5.00%	5.00%

The sensitivity analysis that follows has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of the end of reporting period, assuming all other assumptions were held constant.

2016

		Amount of Present value of obligation
Discount rate	**+6.27%**	**₱9,732,448**
	-4.27%	**12,450,860**
Salary rate	**+6.00%**	**12,485,334**
	-4.00%	**9,682,673**

2015

		Amount of present value of obligation
Discount rate	+6.16%	₱9,894,997
	-4.16%	13,328,010
Salary rate	+6.00%	13,224,517
	-4.00%	9,927,709

27. **Registration with the Board of Investment (BOI)**

On February 21, 2014, the BOI approved the Company's registration as new producer of milled (hybrid) rice and by-products (broken rice and rice bran) from March 1, 2014 to February 28, 2018 on a non-pioneer status.

On January 13, 2009 and February 6, 2009, the Company was registered with the BOI as a new producer of hybrid rice seeds in Kalinga and Davao Oriental, respectively, on a pioneer status.

Under the terms of the registration and subject to certain requirements, the Company is entitled to the following fiscal and nonfiscal incentives: (a) ITH for a period of six (6) years from March 2009 for Kalinga and April 2009 for Davao Oriental, or actual start of commercial operations, whichever is earlier; (b) for the first five (5) years from the date of registration, the Company shall be allowed an additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment labor expense; (c) tax credit on taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten (10) years from date of registration; (d) importation of consigned equipment for a period of ten (10) years from date of registration; (e) employment of foreign nationals; (f) exemption from wharf age dues, any export tax, duties, imposts and fees for a ten (10)-year period from date of registration; (g) access to Customs Bonded Manufacturing Warehouse (CBMW) subject to customs rules and regulations provided that the Company exports at least 70% of production; (h) exemption from taxes and duties on imported spare parts and supplies for export producers with CBMW exporting at least 70% of production; and (i) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies.

As of May 31, 2016, the application for extension of BOI registration as a new producer of hybrid rice seeds has been filed to BOI.

28. **Financial Risk Management Objectives and Policies**

The BOD approves the Company's risk management policies and meets regularly to approve any commercial, regulatory and organizational requirements of such policies. These policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets and to specify reporting requirements.

Governance Framework
The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Company's principal financial instruments consist of cash, receivables, security deposits, accounts and other payables, trust receipts payable and notes payable. The main purpose of these financial instruments is to fund the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Company's financial instruments are liquidity risk, credit risk, interest rate risk and foreign currency risk. The BOD reviews and agrees policies for managing each of these risks and they are summarized below:

Liquidity risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exposure arises from inability of the Company to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated.
The Company maintains a level of cash deemed sufficient to finance operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. To cover financing requirements, the Company intends to use internally generated funds and credit facilities with local banks. The Company also manages liquidity through an assessment of the minimum amount of funds needed to meet operating and investment requirements; specifying the sources of funding; and periodic reporting and review of the credit facilities made available to the Company. The Company's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four (4) to six (6) months. Capital expenditures are funded through a mix of suppliers' credit, letters of credit and long-term debt, while operating expenses and working capital requirements are sufficiently funded through cash collections and short-term debt.

Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of financial instruments based on contractual undiscounted payments as of May 31, 2016 and 2015.

2016

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Loans and receivables					
Cash	**₱346,006,634**	**₱–**	**₱–**	**₱–**	**₱346,006,634**
Receivables*	**1,999,148,723**			**2,061,188**	**2,001,209,911**
Security deposits	–	–	–	**9,983,636**	**9,983,636**
	₱2,345,155,357	**₱–**	**₱–**	**₱12,044,824**	**₱2,357,200,181**
Other financial liabilities					
Accounts and other payables*	**₱179,857,398**	**₱–**	**₱–**	**₱–**	**₱179,857,398**
Trust receipts payable	**–**	**434,512,338**	**234,613,868**	**–**	**669,126,206**
Short-term notes payable	**–**	**1,630,770,183**	**2,548,192,535**	**–**	**4,178,962,718**
	₱179,857,398	**₱2,065,282,521**	**₱2,782,806,403**	**₱–**	**₱5,027,946,322**

**Excluding non-financial receivables and statutory liabilities amounting to ₱44,905,649 and ₱2,323,338, respectively*

2015

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Loans and receivables					
Cash	₱291,206,938	₱–	₱–	₱–	₱291,206,938
Receivables*	1,437,687,961	1,660,100	690,715	–	1,440,038,776
Security deposits	–	–	–	7,089,348	7,089,348
	₱1,728,894,899	₱1,660,100	₱690,715	₱7,089,348	₱1,738,335,062
Other financial liabilities					
Accounts and other payables*	₱155,838,417	₱–	₱–	₱–	₱155,838,417
Trust receipts payable	–	514,044,552	277,557,092	–	791,601,644
Short-term notes payable	–	973,056,968	1,520,469,608	–	2,493,526,576
	₱155,838,417	₱1,487,101,520	₱1,798,026,700	₱–	₱3,440,966,637

**Excluding non-financial receivables and statutory liabilities amounting to ₱45,255,601 and ₱2,188,723, respectively*

Credit Lines

The Company has various open credit lines with different financial institutions as of May 31, 2016 and 2015 (see Notes 14, 15 and 16).

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk arises from the possibility of asset impairment occurring because counterparties cannot meet their obligation in transactions involving financial assets.

To manage credit risk, the Company trades only with recognized and creditworthy third parties. The Company has a well-defined credit policy and established credit procedures. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The Company sets the maximum amounts and limits that may be advanced and placed with individual or corporate counterparties which are set by reference to their long-term ratings.

The credit risk is concentrated to the following counterparties:

	2016	2015
Retail Stores	**38.00%**	60.00%
MAO	**26.00**	15.00
DA-RFU	**24.00**	15.00
Others	**12.00**	10.00
Total	**100.00%**	100.00%

The table below shows the gross maximum exposure of the Company to credit risk for the components of its statements of financial position as of May 31, 2016 and 2015.

	2016	2015
Loans and receivables		
Cash		
Cash in banks	**₱341,322,803**	₱288,690,000
Receivables		
Trade	**1,994,081,471**	1,447,843,500
Non-trade	**60,015,796**	46,021,348
Receivables from employees	**8,018,293**	7,429,529
Security deposits	**9,983,636**	7,089,348
Total	**₱2,413,421,999**	₱1,797,073,725

The table below summarizes the credit quality of the Company's financial assets as of May 31, 2016 and 2015:

2016

	Neither past due nor impaired			Past due or	
	Low Risk	**Average Risk**	**High Risk**	**Impaired**	**Total**
Cash (excluding cash on hand amounting ₱4,683,831)	**₱341,322,803**	**₱–**	**₱–**	**₱–**	**₱341,322,803**
Receivables					
Trade	**1,976,020,283**	–	–	**18,061,188**	**1,994,081,471**
Non-trade	**60,015,796**	–	–	–	**60,015,796**
Receivables from employees	**8,018,293**	–	–	–	**8,018,293**
Security deposits	**9,983,636**	–	–	–	**9,983,636**
	₱2,397,421,999	**₱-**	**₱-**	**₱16,000,000**	**₱2,413,421,999**

2015

	Neither past due nor impaired			Past due or	
	Low Risk	Average Risk	High Risk	Impaired	Total
Cash (excluding cash on hand amounting ₱2,516,938)	₱288,690,000	₱–	₱–	₱–	₱288,690,000
Receivables					
Trade	1,431,843,500	–	–	16,000,000	1,447,843,500
Non-trade	46,021,348	–	–	–	46,021,348
Receivables from employees	7,429,529	–	–	–	7,429,529
Security deposits	7,089,348	–	–	–	7,089,348
	₱1,781,073,725	₱–	₱–	₱16,000,000	₱1,797,073,725

The Company classifies credit quality as follows:

Low risk - credit can proceed with normal credit terms and counterparty possesses strong to very strong capacity to meet its obligation.

Average risk - credit can proceed with extended credit terms and counterparty possesses strong capacity to meet its obligation, however, adverse economic conditions or changing circumstances are more likely to lead a weakened capacity of the obligor to meet its financial commitment on the obligation.

High risk - transaction should be under advance payment or confirmed and irrevocable stand-by letters of credit and subject to quarterly review for possible upgrade after one year. Counterparty will likely impair the capacity or willingness to meet financial commitment on the obligation on adverse economic conditions or changing circumstances.

The Company recognizes impairment losses based on the results of the specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold. These and the other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

Under specific/individual assessment, the Company assesses each individually significant credit exposure for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment. Among the items and factors considered by the Company when assessing and measuring specific impairment allowances are: (a) the timing of the expected cash flows; (b) the projected receipts or expected cash flows; (c) the going concern of the counterparty's business; (d) the ability of the counterparty to repay its obligations during financial crises; (e) the availability of other sources of financial support; and (f) the existing realizable value of collateral. The impairment allowances, if any, are evaluated as the need arises, in view of favorable or unfavorable developments.

With regard to the collective assessment of impairment, allowances are assessed collectively for losses on receivables that are not individually significant and for individually significant receivables when there is no apparent evidence or not yet objective of individual impairment. A particular portfolio is reviewed on a periodic basis, in order to determine its corresponding appropriate allowances. The collective assessment evaluates and estimates the impairment of the portfolio in its entirety even though there is no objective evidence of impairment on an individual assessment. Impairment losses are estimated by taking into consideration the following deterministic information: (a) historical losses/write offs; (b) losses which are likely to occur but has not yet occurred; and (c) the expected receipts and recoveries once impaired.

Credit Terms
Hybrid rice subsidies are paid upon presentation of Municipal Transfer Receipt and farmer master list to DA. Hybrid seed equities and subsidies are generally payable in one cropping season or six (6) months while rice produce is paid within sixty (60) to ninety (90) days.

Interest rate risk
The Company's exposure to market risk for changes in interest rates relates primarily to its notes payable with interest rates subject to regular repricing. The Company's policy is to obtain the most favorable interest rates available without increasing its foreign currency exposure and to manage its interest cost using a mix of fixed and variable rate debt.

As of May 31, 2016, 2015 and 2014 trust receipts payable and short-term notes payable are subject to short-term (i.e., monthly, semi-annual) repricing.

Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's foreign currency risk exposure arises from sales in currencies other than the Company's functional currency.

The Company manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. In addition, the Company believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits in the type of business in which the Company is engaged.

It is the Company's policy not to trade in derivatives contracts.

Information on the Company's foreign currency-denominated financial assets and liabilities and their Philippine Peso equivalents are as follows:

	2016		2015	
	In US Dollar[1]	**In Philippine Peso**	In US Dollar[2]	In Philippine Peso
Financial Assets				
Cash	**\$143,534**	**₱6,710,193**	\$46,551	₱2,075,243
Trade receivables	**643,847**	**30,099,863**	106,453	4,745,675
Total Financial Assets	**\$787,381**	**₱36,810,056**	\$153,004	₱6,820,918
Financial Liability				
Trade payables	**\$991,657**	**₱46,359,968**	\$409,529	₱18,256,803
Net foreign currency denominated assets (liability)	**(\$204,276)**	**(₱9,549,912)**	(\$256,525)	(₱11,435,885)

[1] *The exchange rate used was ₱46.75 to US\$1.00*
[2] *The exchange rate used was ₱44.59 to US\$1.00*

The Company's US Dollar denominated sales approximates 3.00% and 4.50% in 2016 and 2015, respectively. Significant movements of Philippine Peso against US Dollar can affect results of operation.

Sensitivity analysis
The following table demonstrates sensitivity to a reasonably possible change in the Philippine Peso exchange rate, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of financial assets and liabilities) as at May 31, 2016 and 2015. The increase in Philippine Peso rate as against other currencies demonstrates weaker functional currency while the decrease represents stronger Philippine Peso value.

	Currency	**Increase (decrease) in Philippine Peso/ Foreign exchange rate**	**Effect on profit before tax**
2016	**USD**	**+4%**	**(₱342,824)**
		-4%	**342,824**
2015	USD	+2%	(₱228,769)
		-2%	228,769

The Company determined the reasonably possible change in foreign currency using the three (3) years volatility of USD to Philippine Peso using Philippine Dealing Exchange closing rate.

There is no other impact on the Company's equity other than those already affecting the income.

The Company recognized ₱4,627,046 and ₱1,174,541 foreign exchange gains in 2016 and 2015, respectively, arising from the translation of the Company's cash, trade receivables and trade payables.

Price risk on biological assets and agricultural produce
The Company is exposed to risks arising from changes in prices of hybrid rice seeds and milled rice. The Company does not anticipate that hybrid rice seeds and milled rice will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in market prices. The Company reviews its outlook for market prices regularly in considering the need for active financial risk management.

Risk management related to agricultural activity
The Company is exposed to farming risk arising from climatic changes, diseases and other natural risks such as fire, flooding and storms and human-induced losses arising from strike and malicious damage.

The Company does not anticipate that agricultural products will decline significantly in the foreseeable future and therefore, has not entered into derivative or other contracts to manage the risk of decline in market prices. The Company reviews its outlook for market prices regularly in considering the need for active financial risk management.

Agricultural activity covers wet and dry cropping seasons from months of June to November and December to May, respectively.

<u>Fair Values</u>
Financial instruments and liabilities are recognized initially at cost which is the fair value of the consideration given (in case of the asset) or received in (in case of liability). Subsequent to initial recognition, assets and liabilities are either valued at amortized cost using effective interest rate method or at fair value depending on their classification.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

Due to the short-term nature of the transactions, the carrying amounts of cash, receivables, accounts and other payables, trust receipt payable and short-term notes payable approximate their fair values.

<u>Fair Value Hierarchy</u>
As of May 31, 2016 and 2015, the Company has no financial asset and liability measured at fair value. During the reporting periods ended, May 31, 2016 and 2015, there were no transfer between Level 1 and Level 2 measurements, and no transfers into and out of Level 3 fair value measurements.

<u>Capital Management</u>
The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the shareholders may infuse additional capital or the Company may adjust the dividend payment to shareholders. The capital comes mainly from contributions of shareholders.

The Company considers its capital as follows:

	2016	2015
Capital stock	**₱810,000,001**	₱710,000,000
Retained earnings	**1,143,604,399**	784,613,576
Other comprehensive loss	**(339,205)**	(3,518,625)
	₱1,953,265,195	₱1,491,094,951

The Company is not subject to externally imposed capital requirements.

29. Related Party Transactions

Related party transactions are made under the normal course of business. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control. Related parties may be individuals or corporate entities (referred herein as affiliates).

The Company has noninterest-bearing receivables from (payable to) affiliates arising from the normal course of operations.

Amounts receivable from and payable to related parties as of May 31 follow:

2016

	Relationship	**Transaction**	**Amount**	**Outstanding Balance**	**Terms**	**Conditions**
Mica-Genero Abundans Foundation, Inc. (MAGAFI)	Entity under common control	Sales	**₱403,669**	**₱–**	On demand	Unsecured; noninterest-bearing
DM Rice Surprise	Entity under common control	Sales	**1,477,219**	**–**	On demand	Unsecured; noninterest-bearing
Central Bookstore	Entity under common control	Sales	**458,094**	**–**	On demand	Unsecured;
Mart One	Entity under common control	Sales	**195,189**	**–**	On demand	Unsecured; noninterest-bearing
			₱2,534,171	**₱–**		

2015

	Relationship	Transaction	Amount	Outstanding Balance	Terms	Conditions
Mica-Genero Abundans Foundation, Inc. (MAGAFI)	Entity under common control	Sales	₱13,125,700	₱–	On demand	Unsecured; noninterest-bearing
DM Rice Surprise	Entity under common control	Advances	1,996,704	–	On demand	Unsecured; noninterest-bearing
Central Bookstore	Entity under common control	Purchases	265,233	–	On demand	Unsecured;
Mart One	Entity under common control	Sales	263,836	–	On demand	Unsecured; noninterest-bearing
			₱15,651,473	₱–		

The Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis through cash. The net receivable from related parties shown in the statements of financial position amounted to nil as of May 31, 2016 and 2015.

Compensation of key management personnel
Key management personnel of the Company include all officers with rank of Vice-Presidents and Senior Vice-Presidents. The summary of compensation of key management personnel included under Operating expenses account in the statements of comprehensive income follows:

	2016	2015	2014
Salaries and other short-term employee benefits	**₱5,471,843**	₱5,312,469	4,829,517
Pension expense	**1,373,884**	1,305,651	1,068,260
	₱6,845,727	₱6,618,120	₱5,897,777

Terms and conditions of transactions with related parties
The Company has not recognized any impairment losses on amounts due from related parties for each of the three years ended May 31, 2016, 2015 and 2014. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. The Company act as surety for obligations arising from or in connection with the credit accommodations extended to the Company's affiliates by various financial institutions. In return, the affiliates authorized the Company to mortgage, pledge and assign the affiliates' assets as collateral/security to the loans the Company borrowed from financial institutions.

30. **Commitments**

Land lease agreements
In 2016 and 2015, the Company entered into various farm management agreements which cover the lease of approximately 490 hectares of agricultural lands for the production of hybrid rice palay/seeds in Laguna and Davao Oriental. The lease terms range from one (1) cropping season to six (6) cropping seasons. The monthly rent payment on these operating lease ranges from ₱25,000 to ₱30,000 per hectare per cropping season.

The minimum aggregate rental commitments under these operating leases follow:

	2016	2015
Within one (1) year	**₱10,000,000**	₱9,250,000
After one (1) year but not more than five (5) years	**4,700,000**	4,500,000
	₱14,700,000	₱13,750,000

Contract growing agreements
The Company has various contractual commitments with contract growers to buyback all hybrid rice palay and hybrid rice seeds produced by the latter. Contract terms range from six (6) months to three (3) years or one (1) to six (6) cropping seasons. Under the MOA, the Company is obliged and has the sole and exclusive right to:

a. Provide 30-35 kilos of parental seeds per hectare, agricultural chemicals, and needed number of sacks, free of charge;

b. Provide technical assistance and supports, free of charge, to contract growers;

c. Provide mechanical drying and cleaning facilities to contract grower at ₱2.00 per kilo based on dried and cleaned seeds which will be charged to the contract grower; and

d. Buyback all the SL-8H, SL-7H and SL-9H seeds produced by contract grower at the contracted area(s) at ₱70 to ₱80 per kilo.

Under the MOA, the Company shall pay the contract grower within 30 days after the release of moisture content seed analysis results for seeds.

31. Events After Reporting Date

On July 27, 2016, the BOD approved the declaration of stock dividends of Three Hundred Fifty Million Pesos (₱350,000,000) payable on August 2, 2016 to the Company's shareholders of record as of July 15, 2016.

32. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following types of taxes for the year:

Value-Added Tax (VAT)
The NIRC of 1997 provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are VAT exempt under NIRC section 109 (not subject to output VAT) while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12%.

The Company is VAT exempt. Sales amounting ₱2,552,208,495 for the year ended May 31, 2016 pursuant to the provisions of NIRC Section 109 are not subject to VAT.

Withholding Taxes
Details of withholding taxes paid/accrued for the year ended May 31, 2016 follows:

Expanded withholding taxes	₱9,223,985
Withholding taxes on compensation and benefits	4,581,046
	₱13,805,031

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, license and permit fees, fringe benefits taxes and documentary stamp taxes (DST) lodged under the caption "Taxes and Licenses" account under the "Cost of Sales" and "Operating Expenses" sections in the statements of comprehensive income:

Details consist of the following:

Cost of sales:	
License and permits fees	₱874,798
Real estate taxes	1,293,445
Others	229,253
	2,397,496
Operating expenses:	
DST	20,132,412
Real estate taxes	57,534
License and permits fees	3,909,151
Others	2,654,701
	26,753,798
	₱29,151,294

DST paid/accrued on the following transactions are:

Transactions	Amount	DST Thereon
Loan instruments	₱4,178,962,718	₱19,491,100
Trust receipts	669,126,206	641,312
	₱4,848,088,924	₱20,132,412

<u>Tax Assessments and Cases</u>
The Company has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.