statements of the Group have been prepared as a continuation of consolidated financial statements of Asiawide and Mega Asia.

Because the consolidated financial statements represent a continuation of the consolidated financial statements of Asiawide and Mega Asia, except for their capital structure, the consolidation will reflect the following:

After the asset purchase transaction (as at and for the year ended December 31, 2014)

a)! the transferred assets and liabilities of Asiawide and Mega Asia recognized and measured at their pre-combination carrying amounts, not at their acquisition-date fair values;

b)! legal capital of the Parent Company;

c)! the retained earnings and other equity balances (other than the legal capital) of the Parent Company and ARC Refreshments;

d)! the consolidated statement of comprehensive income reflected that of Asiawide and Mega Asia for one-month period (i.e. from January 1, 2014 up to the date of asset purchase transactions), and that of ARC Refreshment and Parent Company for the full period.

Impact of the asset purchase agreement which was executed on January 31, 2014 to the consolidated financial statements

In January 2014, the effect of the execution of the asset purchase agreement and the exclusion of certain assets and liabilities of Asiawide and Mega Asia from the combined net assets were reflected in the consolidated financial statements as movement in equity, as follows:

Retained earnings of Asiawide and Mega Asia	₱1,322,571,953
Equity reserve	353,750,001
	₱1,676,321,954

The reduction in equity represents the cash payment to the owners of Asiawide and Mega Asia amounting to ₱1,570.52 million and the net assets of Asiawide and Mega Asia not included in the asset purchase transaction amounting to ₱105.8 million as of January 31, 2014.

Details of the net assets excluded from the asset purchased are as follows:

Cash and cash equivalents	₱794,171,315
Net noncash assets and liabilities (Notes 10 and 23)	(688,368,721)
	₱105,802,594

Acquisition of ARCHI

On August 13, 2015, the shareholders of ARCHI signed a Share Purchase Agreement where the shareholders offered to sell their shares to the Parent Company. On the same date, Deeds of Absolute Sale of Shares were executed on the subject shares. As a result, ARCHI became a wholly-owned subsidiary of the Parent Company.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with

PFRS. The separate financial statements of the subsidiaries are prepared using the same reporting date and reporting period as those of the Parent Company, using consistent accounting policies.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only, if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Changes in Accounting Policies and Disclosures

New and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2016

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new accounting pronouncement starting January 1, 2016. Unless otherwise indicated, the adoption did not have any significant impact on the financial statements of the Group.

- **Amendments to Philippine Accounting Standards (PAS) 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation***
- **Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants***
- **Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements***
- **Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations***
- **PFRS 14, *Regulatory Deferral Accounts***
- **Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception***
- **Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative***

Improvements to PFRS

2012-2014 Cycle

- **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'***

New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2016

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new, revised and amended standards and new Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC) to have a significant impact on its consolidated financial statements.

Effective in 2017:

- **Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)***
- **Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative***
- **Amendments to Philippine Accounting Standard (PAS) 12, *Income Taxes Recognition of Deferred Tax Assets for Unrealized Losses***

Effective in 2018:

- **Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions***

- **Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4***

- **PFRS 15, *Revenue from Contracts with Customers***

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 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 PFRS 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 PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of adopting this standard.

- **PFRS 9, *Financial Instruments***

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, 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 providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

- **Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)***
- **Amendments to PAS 40, *Investment Property, Transfers of Investment Property***
- **Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration***

Effective in 2019:

- **PFRS 16, *Leases***

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

Deferred Effectivity:

- **Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

Summary of Significant Accounting Policies

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods
Revenues reflected in the consolidated statement of comprehensive income pertain to sale of goods. Revenue from the sale of goods is recognized when the risks and rewards of ownership of the goods have passed to the buyer, which is upon delivery of the goods. Revenue recognized is net of trade deals and pick-up discounts.

In 2016, 2015 and 2014, the Group recognized net revenues amounting to ₱11.37 billion, ₱11.26 billion and ₱10.35 billion, net of trade and pick-up discounts of ₱2.59 billion, ₱2.53 billion and ₱2.20 billion, respectively.

Tolling Revenues
Revenue from tolling services is recognized when the service has been rendered.

Interest Income
Interest income from bank deposits and short-term investments is recognized as it accrues using the effective interest rate (EIR) method.

Other Income
Other income is recognized when there are incidental economic benefits, other than the usual business operations, that will flow to the Group and that can be measured reliably. Sale of scrap materials and cullets is recognized as revenue upon delivery of the items and transfer of control to the buyer.

<u>Cost and Expense Recognition</u>
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are generally recognized when the expense arises following the accrual basis of accounting.

Cost of Sales
Cost of sales, which comprise mainly of purchases of raw materials and related production cost, are recognized on a monthly basis in relation with the recognition of the related revenue arising from the sale.

Cost of Services
Cost of services which mainly pertain to the cost of tolling services rendered to Asiawide Kalbe Philippines, Inc. (AKPI) is recognized when the cost is incurred.

Selling and Marketing Expenses
Selling and marketing expenses consist of costs associated with the development and execution of marketing promotion activities and all expenses connected with selling, servicing and distributing Group products.

General and Administrative Expenses
General and administrative expenses are incurred in the normal course of business and are generally recognized when the services are used or the expenses arise.

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

<u>Short-term Investment</u>
Short-term investment pertains to bank time deposit with more than three (3) months but within one year, and earns interest at the respective short-term investment rates.

<u>Financial Instruments</u>
Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). The initial measurement of financial instruments, except for those classified as at fair value through profit or loss (FVPL), includes transaction costs.
The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, loans and receivables and available-for-sale (AFS) financial assets. The Group classifies its financial liabilities as financial liabilities at FVPL and

other financial liabilities. The classification depends on the purpose for which the financial assets were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date. As at December 31, 2016 and 2015, the Group has no AFS financial assets, financial assets at FVPL, HTM financial assets and financial liabilities at FVPL.

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.

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

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the EIR method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is included in interest income under "Interest income" account in the consolidated statement of comprehensive income. The losses arising from impairment of receivables are recognized in the consolidated statements of comprehensive income under "General and administrative expenses" account. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on *Impairment of Financial Assets Carried at Amortized Cost*).

They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated as at FVPL. This accounting policy relates to the Group's "Cash and cash equivalents", "Trade and other receivables", which arise primarily from sale of goods, short-term investment under "Other current assets" and security deposits under "Other non-current assets" accounts in the consolidated statement of financial position.

Loans and receivables are classified as current assets when they are expected to be realized within twelve months from the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g. payables, accruals).

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

Any effects of restatement of foreign currency-denominated liabilities, if any, are recognized in "Foreign exchange gain - net" account in the consolidated statement of comprehensive income.

Other financial liabilities are classified as current liabilities when they are expected to be settled within 12 months from the reporting date or when the Group has an unconditional right to defer settlement for at least 12 months from reporting date. Otherwise, they are classified as noncurrent liabilities.

This accounting policy applies primarily to the Group's "Trade and other payables", "Short-term loans payable", "Dividends payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement benefits liability).

<u>Impairment of Financial Assets Carried at Amortized Cost</u>
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has or have occurred after initial recognition of the asset (an incurred "loss event") and that loss has an impact on the estimated future cash flows of the financial asset or the group of financial asset that can be reliably estimated. Objective evidence of impairment may include indications that borrower is experiencing significant financial difficulty, default or delinquency reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as charges in arrear or economic condition that correlate with default.

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

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

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Impaired receivables are derecognized when they are assessed as uncollectible.

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

<u>Derecognition of Financial Instruments</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:

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

When the Group has transferred its rights to receive cash flows from an asset 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 Group'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 the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where 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. The difference in the respective carrying amounts is recognized in consolidated statement of comprehensive income.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amount and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

<u>Inventories</u>
Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted-average method and includes expenditures incurred in bringing the materials and supplies to their existing location and condition. NRV is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Any write-down of materials, supplies, spare parts and finished goods to NRV is recognized as an expense in consolidated statement of comprehensive income in the year incurred.

Containers (i.e returnable bottles, pallets and shells) included under inventories, are stated at deposit value, which is the estimated salvage value of the containers at the end of the estimated trip life.

The Group provided allowance for inventory losses on unusable containers in circulation that failed to meet the Group's quality standards and excess bottles as determined by management based on the containers profiling analysis conducted by the Group. The Group provides allowance for inventory losses on finished goods and raw materials whenever utility of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

<u>Investment in a Joint Venture</u>

A joint venture is a type joint arrangement whereby the parties that have joint control of an arrangement, and have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Under the equity method, the interest is initially recognized at cost. The carrying amount is increased or decreased to recognize the Group's share of the profits and losses of the joint venture after the date of the acquisition.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of the joint venture is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discontinues its share of further losses.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its interests in joint ventures. At each reporting date, the Group determines whether there is objective evidence that the interest in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as "Share in net income/losses of a joint venture" in the consolidated statement of comprehensive income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the statement of comprehensive income.

Customers Deposit Liability

Customers deposit liability consists of cash deposit received by the Group associated with the returnable containers (i.e., beverage bottles) upon sale of product. The cash deposit is paid back to customers upon return of returnable containers.

Deferred Pallets and Containers

The Group purchases returnable containers (i.e. beverage bottles) that are being circulated in the normal course of trade. The containers are initially recorded at cost, net of salvage value of the containers at the end of estimated trip life (see accounting policy on Inventories). These containers are presented as "Deferred pallets and containers" in the consolidated statement of financial position, and are carried at cost, net of an estimated salvage value less accumulated amortization and any impairment in value. They are amortized over four (4) years representing the trip life of the containers. Amortization of "Deferred pallets and containers" is included under "Cost of sales and services" account in the consolidated statement of comprehensive income. Amortization of bottles, shells and pallets commences once they are available for use over the estimated useful life of four years (see Note 3 for the change in estimated useful life of deferred containers). An allowance is provided for excess, unusable and obsolete returnable bottles and cases based on the specific identification method.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation, depletion and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment consists of construction cost, and its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life.

The average estimated useful lives of property, plant and equipment are as follows:

Category	Number of Years
Building	15-20
Machinery and equipment	10
Vehicles	5
Waste water facility	2-5
Leasehold improvements	5 or lease term, whichever is shorter
Laboratory equipment	2
Tools	3
Office and other equipment	2-3

The useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When assets are disposed of, or are permanently withdrawn from use and no future economic benefits are expected from their disposals, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in statement of comprehensive income. Fully depreciated property, plant and equipment are retained in the accounts until these are no longer in use.

Construction in progress under “Property, plant and equipment” is stated at cost. This includes cost of construction, equipment and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and are available for use.

Impairment of Nonfinancial Assets

Property, plant and equipment and deferred pallets and containers are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or cash generating unit (CGU) is written down to its recoverable amount. The estimated recoverable amount is the higher of fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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 non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

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. The Group used value in use to assess the recoverable amount of an asset.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

Input Value-Added Tax (VAT)
Input VAT represents VAT imposed to the Group by its suppliers for the acquisition of goods and services as required by the Philippine taxation laws and regulations.

Input taxes under "Other current assets" account is stated at its estimated NRV and will be used to offset against the Group's output VAT liabilities. Output VAT is the amount of VAT calculated and charged on the Group's own sale of goods and services to third parties.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium the difference between the proceeds and the par value is credited to "Additional paid-in capital".

Retained Earnings
Retained earnings represent all accumulated profits or losses of the Group and dividend distributions, if any, to shareholders of the Parent Company and other capital adjustments. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date.

Leases

Determination of Whether an Arrangement Contains a Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specific asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Operating Leases - The Group as a Lessee
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

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

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- 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 the consolidated statement of comprehensive income. 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 high quality corporate 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 the consolidated statement of comprehensive income.

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 in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

Foreign Currency-denominated Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or reporting date are recognized in the consolidated statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Income Taxes

Current Income Tax

Current income tax liabilities for the current and prior periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

Deferred Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefit of unused tax credits to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each 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 assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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 reporting date.

Contingencies

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

Earnings Per Share (“EPS”)

Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement. Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share and diluted earnings per only from the date when all necessary conditions are satisfied (i.e. the events have occurred). If the conditions are not satisfied, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period.

<u>Segment Reporting</u>
A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment subject to risks and rewards that are different from those of other segments, which operating results are regularly reviewed by the chief operating decision maker to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available. Financial information on segment reporting is presented in Note 25.

<u>Events After the Reporting Date</u>
Post year-end events that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect amounts reported in the financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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. Actual results could differ from such estimates.

<u>Judgments</u>
In the process of applying the Group's accounting policies, management has made the judgment below, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements.

Identifying a Business Combination
The Group determines whether a transaction or an event is a purchase of a business or purchase of an asset by applying PFRS 3 which provides the definition of a business.

The Group has determined that the assets acquired and liabilities assumed from the asset purchase transaction entered into on January 31, 2014 constitute a business (see Note 1). The assets acquired are substantially all the operating assets of Asiawide and Mega Asia used in the manufacturing, bottling and distributing operations, and the liabilities assumed are those incurred in the normal course of business.

Determining Operating Lease Commitments - The Group as Lessee
The Group has entered into various operating lease agreements as a lessee. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all significant risks and rewards of ownership of these properties. This conclusion was reached because the lease agreements do not transfer to the Group the ownership over the assets at the end of the lease term, and do not provide the Group with a bargain purchase option over the leased assets, therefore accounting for the contracts as operating leases. Rent expense charged to current operation amounted to ₱329.61 million, ₱345.20 million and ₱321.03 million in 2016, 2015 and 2014, respectively (see Notes 14 and 15).

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

Estimating Useful Life of Deferred Pallets and Containers
In accordance with its policy, the Company periodically reviews the estimated useful life of the deferred pallets and containers based on the containers profiling and scuff level analysis. The estimation of useful life is based on internal technical evaluation done on a collective basis, and the Group's experience with similar assets. A review in 2014 indicated that the actual trip lives of the containers were longer than 2013 estimate. As a result, effective February 1, 2014, in view of the change in the expected pattern of economic benefits from the assets, the Group revised its estimate of the useful life of its containers from three years to four years.

The Group recognized amortization expense amounting to ₱816.23 million, ₱639.85 million and ₱479.65 million in 2016, 2015 and 2014, respectively. The carrying value of deferred pallets and containers as at December 31, 2016 and 2015 amounted to ₱1,910.05 million and ₱2,025.16 million, respectively (see Note 9).

Estimating Impairment Losses on Inventories
The Group maintains allowance for inventory losses at a level considered adequate to reflect the cost of materials and supplies over its NRV. The Group recognizes materials and supplies at NRV whenever NRV becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. Increase in the NRV of materials and supplies, will increase cost of materials and supplies but only to the extent of their original acquisition costs.

As at December 31, 2016 and 2015, the carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to ₱2,057.40 million and ₱1,918.85 million, respectively (see Note 6).

Estimating Useful Lives of Property, Plant and Equipment
The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically, and are updated if expectations differ from previous estimates based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets

tempered by related industry benchmark information. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

The Group recognized depreciation expense amounting to ₱272.54 million and ₱262.60 million in 2016 and 2015, respectively. The carrying amounts of property, plant and equipment, excluding construction-in-progress, amounted to ₱1,118.32 million and ₱ 1,062.87 million as at December 31, 2016 and 2015, respectively (see Note 8).

Estimating Salvage Value of Deferred Pallets and Containers
In determining the estimated salvage value of deferred pallets and containers, management takes into account the most reliable evidence available at the time the estimates are made. The salvage value is equal to the amount the Group would receive currently if the assets were already of the age and in the condition expected at the end of estimated trip life.

The deposit values of deferred pallets and containers are reviewed periodically and are updated if expectations differ from previous estimates based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information.

Estimating Retirement Benefits Cost
The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. These assumptions are described in Note 20 to the consolidated financial statements.

The Group's retirement liability amounted to ₱2.05 million and ₱93.32 million as of December 31, 2016 and 2015, respectively. Retirement benefit cost amounted to ₱20.79 million, ₱36.82 million and ₱32.01 million in 2016, 2015 and 2014, respectively (see Note 20).

Estimating Realizability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available in the future to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on forecasted taxable income. This forecast is based on the Group's past results and future expectations on revenues and expenses.

The Group has deferred tax assets amounting to ₱26.52 million and ₱34.02 million as of December 31, 2016 and 2015, respectively (see Note 21).

4. **Cash and Cash Equivalents**

	2016	2015
Cash on hand and with banks	**₱931,411,832**	₱658,548,022
Cash equivalents	**951,983,569**	394,626,882
	₱1,883,395,401	₱1,053,174,904

Cash with banks earn interest at the respective bank deposit rates. Cash equivalents consist of short-term placements which are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term placement rates.

Cash deposits with maturities of more than three months but less than one year are classified as short-term investments under “Other current assets”.

Interest income on cash and cash equivalents and short-term investments amounted to ₱12.42 million, ₱8.11 million and ₱36.82 million in 2016, 2015 and 2014, respectively.

5. Trade and Other Receivables

	2016	2015
Trade	**₱315,735,839**	₱276,873,491
Due from related parties (see Note 18)	**70,044,183**	68,090,870
Receivables from officers and employees	**17,584,385**	12,348,873
Others	**12,866,589**	14,317,218
	416,230,996	371,630,452
Less allowance for impairment losses on receivables	**1,091,432**	1,233,310
	₱415,139,564	₱370,397,142

“Trade receivables” are non-interest bearing and are generally on 7 to 60 days term.

“Receivables from officers and employees” represent loans, cash advances and other receivables from employees.

“Others” consist of interest receivable, advances to contractors and external receivables from other companies, among others. Interest receivable as of December 31, 2016 and 2015 amounted to ₱1.92 million and ₱0.42 million, respectively.

The balance and movements of allowance for probable losses on trade receivables are as follows:

	2016	2015
Balance at beginning of year	**₱1,233,310**	₱2,169,999
Provision	**–**	732,160
Write-off against allowance	**(141,878)**	(1,668,849)
Balance at end of year	**₱1,091,432**	₱1,233,310

6. Inventories

	2016	2015
Inventories at NRV:		
Containers and pallets - on hand	**₱711,188,318**	₱668,743,595
Inventories at cost:		
Containers and pallets - in trade	**607,160,076**	509,934,779
Raw materials	**399,897,908**	399,810,788
Spare parts and supplies	**233,298,391**	233,044,823
Finished goods	**105,853,386**	107,313,825
	₱2,057,398,079	₱1,918,847,810