

---

***Illustrative PFRS  
consolidated  
financial statements***  
for 2012 year-ends

Compiled by Isla Lipana & Co.



**Isla Lipana & Co.**

*The information presented herein has been compiled by Isla Lipana & Co., the Philippine member firm of PwC (PricewaterhouseCoopers). These illustrative financial statements are not a substitute for reading the standards and interpretations themselves or for professional judgment as to fairness of presentation. While every effort has been made to ensure completeness and accuracy in the information presented, neither the firm nor any of our partners and staff shall be liable on any ground whatsoever to any party in respect of decisions or actions they may take as a result of using the illustrative financial statements. Unauthorized use of the information may violate copyright, trademark, and other laws.*

PwC helps organizations and individuals create the value they're looking for. We're a network of firms in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at [www.pwc.com](http://www.pwc.com).

"PwC" is the brand under which member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide services. Together, these firms form the PwC network. Each firm in the network is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way.

© 2012 Isla Lipana & Co. All rights reserved. Isla Lipana & Co. is the Philippine member firm of PwC. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate and legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

## ***Introduction***

This publication provides an illustrative set of consolidated financial statements, prepared in accordance with Philippine Financial Reporting Standards (PFRS), for a fictional manufacturing, wholesale and retail publicly-listed company, Moonwalk Corporation.

Moonwalk Corporation is an existing preparer of PFRS consolidated financial statements. The PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) considered in preparing these illustrative corporate consolidated financial statements are those issued by Financial Reporting Standards Council (FRSC) up to October 31, 2012 which are effective for annual periods beginning on or after January 1, 2012. These illustrative financial statements do not therefore reflect the effect of the standards that may be issued after October 31, 2012 (see Appendix IA for the complete list of standards and interpretations used as the basis for the accounting policies).

This publication is not intended to reflect the effect of any actions that have been taken, or may be taken in the future, to adopt or otherwise effect the new standards and interpretations in the Philippines. Further guidance may be issued accordingly.

Areas in which presentation has changed significantly since 2011 have been highlighted in pink while minor changes are highlighted in yellow.

We have attempted to create a realistic set of consolidated financial information for a corporate entity. Certain items that may or may not apply to a particular reporting entity may have been included in these illustrative corporate consolidated financial statements. For example, if the reporting entity does not have material operating leases, disclosure of the accounting policy for operating leases need not be included. Similarly, if the Company does not have derivatives, the risk management policy as they apply to derivatives should not be included. Readers should then refer to the appendices released along with this publication or other publications where necessary for those sample disclosures not included in the illustrative consolidated financial statements.

This illustrative set of financial statements is intended for general reference only. **They are not a substitute for reading the standards and interpretations themselves** or for professional judgment as to fairness of presentation. They do not cover all possible disclosures that PFRS requires, nor do they take into account any specific legal framework. Further specific information may be required in order to ensure fair presentation under PFRS. We recommend that readers refer to our PFRS Disclosure and Content Checklist.

The sample disclosures in this publication should not be considered the only acceptable form of presentation. The form and content of each reporting entity's financial statements are the responsibility of the entity's management, and forms of presentation alternative to those proposed in this publication that are equally acceptable, may be preferred and adopted if they comply with the specific disclosure requirements prescribed in PFRS. Also, additional accounting disclosures may be required in order to comply with local laws, national financial reporting standards and/or Philippine Stock Exchange regulations. Example of such is the disclosure requirements by the Philippine and Exchange Commission (SEC) through Securities Regulation Code (SRC) Rule 68 Part II (formerly Rule 68.1). Some of the disclosure requirements are included in the disclosure for Moonwalk Corporation and some are placed as footnotes.

There are additional statements required to accompany the auditor's report on the financial statements when filed with certain regulatory authorities, such as the SEC and the Bureau of Internal Revenue (BIR). Examples of these are as follows<sup>1</sup>:

- Supplemental written statement indicating that the auditor has examined the financial statements of an entity filing under Rule 68 for non-public and non-secondary licensees (Revised SRC Rule 68, as amended on October 20, 2011, Part I Section 3B(v), formerly SRC Rule 68 Section 3d);
- Written statement indicating that partners of the auditing firm are independent from the client (Section 8-A of BIR Revenue Regulation No. V-1);
- Auditor's report on the additional components of the financial statements as required by Revised SRC Rule 68, as amended on October 20, 2011, Part I, Section 4, and Part II, Section 6;
- Separate auditor's opinion on the supplementary information required to be disclosed in the notes to the financial statements (BIR Revenue Regulation Nos. 15-2010 and 19-2011); and
- Emphasis of a matter paragraph in the case of a capital deficiency indicating that the auditor has conducted sufficient audit procedures to verify the validity of the company's concrete plan to address the capital deficiency (Revised SRC Rule 68, as amended on October 20, 2011, Part I Section 3B(iv) sub-paragraph (v)).

Compliance of concerned companies, both public and non-public, with the disclosure requirements of regulatory bodies such as BIR, SEC, or the Insurance Commission is the responsibility of the client's management.

### **Abbreviations**

PFRS1p37	=	Philippine Financial Reporting Standard [number], paragraph [number].
7p22	=	Philippine Accounting Standard [number], paragraph [number].
SIC-15p5	=	Standing Interpretations Committee [number], paragraph [number].
DV	=	Disclose Voluntary. Disclosure is encouraged but not required and, therefore, represents best practice.
IFRIC-13p5	=	IFRIC Interpretation [number], paragraph [number]

---

<sup>1</sup> Sample auditor's reports illustrating the first three (3) items can be found in Appendix IV. Sample wordings for the last two (2) items are shown in the Illustrative Independent Auditor's Report in Section 1 of this publication.

## ***Philippine Financial Reporting Standards Illustrative PFRS Consolidated Financial Statements 2012***

Until October 31, 2012, the FRSC has approved the adoption of the following interpretations, new standards and amendments to existing standards which are effective January 1, 2012:

<b>Standards, Amendments or Interpretations</b>	<b>Effective date</b>
Amendment to PFRS 7, 'Financial instruments: Disclosures', on transfer of financial assets	July 1, 2011
Amendment to PFRS 1, 'First time adoption', on hyperinflation and fixed dates	July 1, 2011
Amendment to PAS 12, 'Income taxes', on deferred tax	January 1, 2012

No interpretations, new standards or amendments were adopted early for the purpose of these illustrative corporate consolidated financial statements.

Other disclosures which are considered relevant but not included in this publication are presented in the following appendices:

	<b>Appendix</b>
Standards, interpretations and amendments up to October 31, 2012	IA
Standards, interpretations and amendments effective on or after January 1, 2012	IB
Alternative presentation methods	II
Accounting policies and disclosures for areas not covered in the Illustrative PFRS Consolidated Financial Statements	III
Illustrative Independent Auditor's Reports on certain SEC and BIR requirements	IV
Non-PFRS financial reporting framework	V

## **Table of contents**

---

### **Section 1:**

<b>Illustrative Independent Auditor's Report and Consolidated Financial Statements .....</b>	<b>9</b>
<b>Independent Auditor's Report.....</b>	<b>3</b>
<b>Consolidated Statements of Financial Position .....</b>	<b>7</b>
<b>Consolidated Statements of Income .....</b>	<b>11</b>
<b>Consolidated Statements of Total Comprehensive Income .....</b>	<b>13</b>
<b>Consolidated Statements of Changes in Equity.....</b>	<b>20</b>
<b>Consolidated Statements of Cash Flows .....</b>	<b>23</b>
<b>Notes to Consolidated Financial Statements .....</b>	<b>27</b>
Note 1 - General information.....	27
Note 2 - Summary of significant accounting policies.....	28
Note 3 - Financial risk and capital management .....	53
Note 4 - Critical accounting estimates, assumptions and judgments.....	68
Note 5 - Cash and cash equivalents.....	70
Note 6 - Financial assets at fair value through profit or loss .....	71
Note 7 - Derivative financial instruments .....	71
Note 8 - Available-for-sale financial assets.....	73
Note 9 - Trade and other receivables .....	74
Note 10 - Inventories .....	75
Note 11 - Non-current assets held for sale and discontinued operations .....	75
Note 12 - Deferred income tax .....	77
Note 13 - Investment in associates .....	79
Note 14 - Property, plant and equipment.....	79
Note 15 - Intangible assets .....	81
Note 16 - Trade and other payables .....	84
Note 17 - Borrowings .....	84
Note 18 - Provisions for other liabilities and charges .....	87
Note 19 - Retirement benefit obligations .....	88
Note 20 - Share capital and share premium .....	93
Note 21 - Other reserves .....	95

Note 22 - Retained earnings.....	97
Note 23 - Expenses by nature .....	97
Note 24 - Employee benefit expense .....	98
Note 25 - Share-based payment .....	98
Note 26 - Other income.....	99
Note 27 - Other gains (losses), net.....	100
Note 28 - Finance income and costs .....	100
Note 29 - Income tax expense.....	101
Note 30 - Earnings per share.....	103
Note 31 - Dividends per share.....	103
Note 32 - Cash generated from operations .....	104
Note 33 - Related party transactions.....	105
Note 34 - Segment information .....	108
Note 35 - Business combinations .....	111
Note 36 - Transactions with non-controlling interests .....	113
Note 37 - Commitments and contingencies.....	114
Note 38 - Events after the reporting period.....	115
Note 39 - Supplementary information required by the Bureau of Internal Revenue.....	118
<b>Section 2:</b>	
<b>Appendices .....</b>	<b>125</b>
<b>Appendix I - Standards, interpretations and amendments .....</b>	<b>126</b>
<b>Appendix II - Alternative presentation methods.....</b>	<b>132</b>
<b>Appendix III - Accounting policies and disclosures not covered in the Illustrative PFRS Consolidated Financial Statements.....</b>	<b>137</b>
(A) Investment property.....	138
(B) Construction contracts .....	139
(C) Leases: Accounting by lessor.....	141
(D) Investments in subsidiaries .....	143
(E) Investments: held-to-maturity financial assets .....	143
(F) Government grants.....	145
(G) Joint ventures .....	145
(H) Oil and gas exploration assets.....	146

---

(I) Revenue recognition: multiple element arrangements .....	149
(J) Employee benefits .....	149
(K) Retained earnings in excess of paid up capital .....	154
(L) Prepayments .....	154
(M) Biological assets .....	154
(N) Customer loyal programmes .....	157
(O) Put option arrangements.....	157
(P) Foreign currency translations: disposal of foreign operation and partial disposal .....	158
(Q) Share-based payments: modification and cancellation.....	158
(R) PFRS for SMEs.....	159
<b>Appendix IV - Illustrative Independent Auditor's Reports.....</b>	<b>160</b>
<b>Appendix V - Non-PFRS financial reporting framework.....</b>	<b>169</b>

---

***Section 1***  
***Illustrative Independent***  
***Auditor's Report and***  
***Consolidated Financial***  
***Statements***

Compiled by Isla Lipana & Co.

# ***Moonwalk Corporation and Subsidiaries***

**Consolidated Financial Statements  
As at December 31, 2012 and 2011 and for the years ended  
December 31, 2012, 2011 and 2010**

Compiled by Isla Lipana & Co.

## **Independent Auditor's Report<sup>2</sup>**

To the Board of Directors and Shareholders<sup>3</sup> of  
Moonwalk Corporation  
99C Saudi Arabia St., Shoe Expo and Trading Center  
Paranaque City<sup>4</sup>

### ***Report on the [Consolidated] Financial Statements<sup>5</sup>***

We have audited the accompanying [consolidated] financial statements of Moonwalk Corporation and its subsidiaries (the "Group"), which comprise the [consolidated] statements of financial position as at December 31, 2012 and 2011, and the [consolidated] statements of income, statements of total comprehensive income, statements of changes in equity and statements of cash flows [for the years then ended December 31, 2012, 2011 and 2010] or [for each of the three years in the period ended December 31, 2012]<sup>6</sup>, and a summary of significant accounting policies and other explanatory information.

#### ***Management's Responsibility for the [Consolidated] Financial Statements***

Management is responsible for the preparation and fair presentation of these [consolidated] financial statements in accordance with Philippine Financial Reporting Standards<sup>7</sup>, and for such internal control as management determines is necessary to enable the preparation of [consolidated] financial statements that are free from material misstatement, whether due to fraud or error.

---

<sup>2</sup> It is PwC's preference that reports are titled 'Independent Auditor's Report'.

<sup>3</sup> Reports should not be addressed solely to the Board of Directors of a company unless the report is intended only for the private use of the company. Reports should not be addressed more openly or widely, for example to third parties, as this increases the firm's risk.

<sup>4</sup> For reports submitted to the SEC per SRC Rule: state client's full registered address, or the principal place of business, if different from the registered office.

<sup>5</sup> The subheading "Report on the financial statements" is only required/mandatory if there is additional report on other legal and regulatory requirements included in the audit report, see Page 4 "Report on other legal and regulatory requirements" for sample report of other legal and regulatory requirements.

<sup>6</sup> The format of the audit report will need to be tailored to reflect the legal framework of particular countries. In the Philippine setting, the audit report covers both the current year and the comparative year. For entities cover under the Revised SRC Rule 68 Part II Section 4A, shall file its balance sheet as at the end of each two most recent completed fiscal years while income statement, cash flows statement and statement of changes in equity shall be in comparative format for the three most recent completed fiscal years.

<sup>7</sup> For other Non-PFRS framework, please refer to Appendix V for sample independent auditor's report and basis of preparation.

**Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Moonwalk Corporation  
Page 4**

*Auditor's Responsibility*

Our responsibility is to express an opinion on these [consolidated] financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing<sup>8</sup>. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the [consolidated] financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the [consolidated] financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the [consolidated] 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 [consolidated] 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<sup>9</sup>. 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 [consolidated] financial statements.

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

*Opinion*

In our opinion, the accompanying [consolidated] financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2012 and 2011, and its financial performance and its cash flows for [the years then ended December 31, 2012, 2011 and 2010] or [each of the three years in the period ended December 31, 2012] in accordance with Philippine Financial Reporting Standards.<sup>10</sup>

<sup>8</sup> (PSA 700 par. 61) There are currently no fundamental differences between International Standards and Practice Statements issued by the IAASB and the equivalent pronouncements issued by the Auditing and Assurance Standards Council or AASC and no such differences are expected in the future. For this reason, when the auditor is requested to conduct the audit in accordance with both ISAs and Philippine Auditing Standards, the wording of the relevant sections of the auditor's report will be as follows:

*"Auditor's Responsibility*

*Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with both Philippines Standards on Auditing and the International Standards on Auditing. Those standards require....."*

<sup>9</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows:

*"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."*

<sup>10</sup> For other Non-PFRS framework, please refer to Appendix V for sample independent auditor's report and basis of preparation.

Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Moonwalk Corporation  
Page 5

Applicable for entities in a capital deficiency position (EOM)

*Emphasis of Matter*<sup>11</sup>

We draw attention to Note 1 to the financial statements which indicates that the Company has incurred a net loss of Pxxx for the year ended December 31, 2012 which increased the accumulated deficit to Pxxx and capital deficiency to Pxxx as at the said date. These conditions, along with other matters set forth in Note 1 to the financial statements, indicate existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Management's plans regarding this matter are disclosed in Note 1. We have performed audit procedures to evaluate management's plans for future action as to their likelihood to improve the situation and as to their feasibility under the circumstances. Our opinion is not qualified in respect of this matter.<sup>12</sup>

<sup>11</sup> Emphasis of matter paragraph is preferably located after the paragraph containing the auditor's opinion but before the section on any other reporting responsibilities. Accordingly, this should be properly titled in the independent auditor's report.

<sup>12</sup> For entities in a capital deficiency position, Revised SRC Rule 68, as amended on October 20, 2011, Part I Section 3B(iv) sub-paragraph (v) requires an emphasis of matter paragraph indicating the following:

- (a) the fact that the company has incurred a capital deficiency that raises an issue on its going concern status;
- (b) a brief discussion of a concrete plan to address the capital deficiency and reference to the note to the financial statements that provides complete disclosure of the said plan; and
- (c) a statement that the auditor has conducted sufficient audit procedures to verify the validity of the entity's plan to address such capital deficiency. Presented above is a sample wording of the emphasis of a matter paragraph in the auditor's report. The form and content of this particular paragraph, if required and necessary, will vary depending on the circumstances of the entity and the plan to address the capital deficiency.

The exemptions to the above requirement are provided in Part I Section 3B(iv) sub-paragraph (vii), as follows:

- (a) The entity is at pre-operating stage and has incurred capital deficiency due to higher pre-operating expenses than initial capital. Projected financial statements indicate that it will generate net income once it starts commercial operations;
- (b) Significant losses incurred in prior years but has generated positive results (net income) from operations over the current period due to developments in the business or regularization of its operation;
- (c) The entity has incurred capital deficiency during the current period only due to a significant adjustment arising from the adoption of new financial reporting framework or occurrence of non-recurring transaction for the period;
- (d) Such other cases which the SEC may consider as valid ground for considering the company as a going concern.

Please note that Part I Section 3B(iv) sub-paragraph (vi) of the said Rule further provides that in the event that the company fails to present to the external auditor a concrete plan or sufficient supporting documents to address the capital deficiency, that auditor shall provide an emphasis of matter paragraph indicating that the company is **no longer a going concern and should use liquidation basis** in the preparation of its financial statements. For detailed guidance on reportorial requirements for companies, see Revised SRC Rule 68.

Note further that this is the suggested wording of the Revised SRC Rule 68, which may need to be tailored depending on the client's circumstances.

Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Moonwalk Corporation  
Page 6

**Report on Bureau of Internal Revenue Requirements<sup>13</sup>**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 39 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Isla Lipana & Co.**

[Partner's manual signature]

Signing partner's name<sup>14</sup>

Partner

CPA Cert. No. XXXXX

P.T.R. No. XXXXXXX, issued on [date], Makati City

SEC A.N. (individual) as general auditors XXXXX, Category A; effective until [date]<sup>15</sup>

SEC A.N. (firm) as general auditors 0009-FR-3; effective until [date]

TIN XXXXXXX

BIR A.N. XXXXXXXXXXX, issued on [date]; effective until [date]

BOA/PRC Reg. No. 0142, effective until [date]

Makati City

Date

<sup>13</sup> FOR ALL REPORTS SUBMITTED TO THE BIR, RR 15-2010 requires disclosure of supplementary information on taxes and licenses to be included in the notes to the financial statements. Moreover, RR 19-2011 provides additional information previously included in the Annual Income Tax Return to be disclosed in the notes to the financial statements. Such supplementary information that is not required by the applicable financial reporting framework (PFRS) but is clearly differentiated from the audited financial statements is covered by a separate audit report.

<sup>14</sup> FOR ALL REPORTS SUBMITTED TO THE SEC AND THE BIR and Reports provided for Listed Companies and Secondary Licensees to be printed in their Annual Report, SRC Rule 68 requires that the certifying partner sign his/her own signature and shall indicate that he/she is signing for the Firm, the name of which is printed in the report. Likewise, the auditor's report shall be dated, shall state the signing accountant's License, Tax Identification and PTR numbers, and registration with BoA/PRC. All Assurance Partners shall indicate their respective individual SEC accreditation number, as well as that of the firm, irrespective of whether or not the report relates to the financial statements of public companies to avoid the hassle of identifying which reports are for public companies.

<sup>15</sup> Following Revised SRC Rule 68 Part 1 Section 3.B, the expiration dates of the firm's and the individual partner's SEC accreditation should be included in the partner's signature block.

1Rp51(a)

**Moonwalk Corporation and Subsidiaries**

1Rp10(a,f)

**Consolidated Statements of Financial Position**

1Rp51(c);1Rp36

December 31, 2012 and 2011<sup>16</sup>

1Rp51(e)

(All amounts in thousand Philippine Peso)

1Rp113; 1Rp38		Notes <sup>17</sup>	2012	2011
1Rp9(a)	<b><u>ASSETS</u></b>			
1Rp60; 1Rp66	<b>Current assets</b>			
1Rp54(i); PFRS7p8	Cash and cash equivalents	5	17,928	34,062
1Rp54(d); PFRS7p8(a)	Financial assets at fair value through profit or loss	6	11,820	7,972
1Rp54(d); PFRS7p8(a)	Derivative financial instruments	7	1,069	951
1Rp54(d); PFRS7p8(d)	Available-for-sale financial assets	8	1,950	-
1Rp54(h); PFRS7p8(c)	Trade and other receivables	9	19,765	18,330
1Rp54(g)	Inventories	10	24,700	18,182
	Total current assets <sup>18</sup>		77,232	79,497
1Rp54(j); PFRS5p38	Assets of disposal group classified as held for sale	11	3,333	-
1Rp60	<b>Non-current assets</b>			
1Rp54(d); PFRS7p8(a)	Derivative financial instruments, net of current portion	7	395	245
1Rp54(d); PFRS7p8(d)	Available-for sale financial assets, net of current portion	8	17,420	14,910
1Rp54(h); PFRS7p8(c)	Trade and other receivables, net of current portion	9	2,322	1,352
1Rp54(o); 1Rp56	Deferred income tax assets	12	3,520	3,321
1Rp54(e); 28p38	Investment in associates	13	13,373	13,244
1Rp54(a)	Property, plant and equipment	14	155,341	100,233
1Rp54(c)	Intangible assets	15	26,272	20,700
	Total non-current assets		218,643	154,005
	Total assets <sup>19</sup>		299,208	233,502

<sup>16</sup> When there is a prior period adjustment, retrospective application of accounting policy, or reclassification, the statement of financial position shall be presented as at the beginning of the earliest comparative period, or for three years.

<sup>17</sup> Indicate only the main note. Reference to other accounts or disclosure should be done within the notes to financial statements.

<sup>18</sup> For entities reporting under the Revised SRC Rule 68, Part II Annex 68-D of the said rule provides that for entities presenting Other Current Assets, any items therein in excess of 5% of total current assets must be stated separately. The remaining items may be aggregated and shown as one line item.

<sup>19</sup> For entities reporting under the Revised SRC Rule 68, Part II Annex 68-D of the said rule provides that for entities presenting Other Assets, any items therein in excess of 5% of total non-current assets must be stated separately.

1Rp113; 1Rp38		Notes <sup>17</sup>	2012	2011
1Rp9(b,c)	<b>LIABILITIES AND EQUITY</b>			
1Rp60; 1Rp69	<b>Current liabilities</b>			
1Rp54(k); PFRS7p8(f)	Trade and other payables	16	16,670	12,478
1Rp54(n)	Income tax liabilities		2,566	2,771
1Rp54(m); PFRS7p8(f)	Borrowings	17	11,716	18,258
1Rp54(m); PFRS7p8(e)	Derivative financial instruments	7	460	618
1Rp54(l); 1Rp78(d)	Provisions for other liabilities and charges	18	3,226	2,396
	Total current liabilities		34,638	36,521
1Rp54(j); PFRS5p38	Liabilities of disposal group classified as held-for-sale	11	220	-
	<b>Non-current liabilities</b>			
1Rp54(m); PFRS7p8(f)	Borrowings, net of current portion	17	115,121	96,346
1Rp54(m); PFRS7p8(e)	Derivative financial instruments, net of current portion	7	135	129
1Rp54(o); 1Rp56	Deferred income tax liabilities	12	12,370	9,053
1Rp54(l); 1Rp78(d)	Retirement benefit obligations	19	4,635	2,233
1Rp54(l); 1Rp78(d)	Provisions for other liabilities and charges, net of current portion	18	316	274
	Total non-current liabilities <sup>20</sup>		132,577	108,035
	Total liabilities		167,435	144,556
1Rp54(r)	<b>Equity attributable to owners of the Parent<sup>21</sup></b>			
1Rp78(e)	Share capital	20	25,300	21,000
1Rp78(e)	Share premium	20	17,144	10,494
1Rp78(e)	Other reserves	21	11,435	7,005
1Rp78(e)	Retained earnings <sup>22</sup>	22	70,006	48,681
			123,885	87,180
1Rp54(q)	<b>Non-controlling interest</b>		7,888	1,766
	Total equity		131,773	88,946
	<b>Total liabilities and equity</b>		299,208	233,502

The notes on pages 1 to \_\_\_ are integral part of these consolidated financial statements.

<sup>20</sup> For entities reporting under the Revised SRC Rule 68, Part II Annex 68-D of the said rule provides that for entities presenting Other Non-Current Liabilities, any items therein in excess of 5% of total non-current liabilities must be stated separately.

<sup>21</sup> Major line items of equity (issued capital, reserves and retained earnings) should be presented in the statement of financial position.

<sup>22</sup> Show breakdown of retained earnings into appropriated and unappropriated. Unreasonable accumulation of retained earnings of more than 100% of the paid up capital is considered a violation of Section 43 of the Corporation Code. Justification of the reason for accumulating retained earnings for more than 100% of the paid-up capital should be disclosed which may include any or all of the ff: (a) when justified by definite corporate expansion projects or programs approved by the Board of Directors; (b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign from declaring dividends without its consent and such consent has not yet been obtained; (c) when there are special reserves for contingencies. To ensure compliance with this requirement, Revised SRC Rule 68 requires companies whose retained earnings are in excess of 100% of their paid-up capital to submit to the SEC a Reconciliation of Retained Earnings Available for Dividend Declaration (Annex 68-C). Please note that this may also create an exposure on improperly accumulated earnings tax (IAET) which covers certain exemptions of entities (RR 2-2001).

### **Commentary - Statement of Financial Position**

The commentary that follows explains some of the key requirements in PAS 1, 'Presentation of Financial Statements' that impact the statement of financial position.

- 1Rp10 1 PAS 1 refers to the balance sheet as the 'statement of financial position'. Use of this title is not mandatory.
- 1Rp54, 55 2 Paragraph 54 of PAS 1 sets out the line items that are, as a minimum, required to be presented in the statement of financial position. Additional line items, headings and subtotals are presented in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.
- 1Rp77, 78 3 An entity discloses, either in the statement of financial position or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. The detail provided in sub-classifications depends on the PFRS requirements and on the size, nature and function of the amounts involved.

#### **Current/non-current distinction**

- 1Rp60 4 An entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities are presented broadly in order of liquidity.
- 1Rp61 5 Whichever method of presentation is adopted, an entity discloses for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than 12 months after the reporting period; and (b) more than 12 months after the reporting period, the amount expected to be recovered or settled after more than 12 months.
- 1Rp66-70 6 Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realized as part of the normal operating cycle even when they are not expected to be realized within 12 months after the reporting period. Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than 12 months after the reporting period.
- 1Rp68 7 The operating cycle of an entity is the time between the acquisition of assets for processing and their realization in the form of cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be 12 months.

#### **Consistency**

- 1Rp45 8 The presentation and classification of items in the financial statements is retained from one period to the next unless:
- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate according to the criteria for selecting and applying accounting policies in PAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'; or
  - (b) a PFRS requires a change in presentation.

#### **Materiality and aggregation**

- 1Rp29 9 Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.
- 1Rp54, 56 10 Current and deferred tax assets and liabilities are presented separately from each other and from other assets and liabilities. When a distinction is made between current and non-current assets and liabilities in the statement of financial position, deferred tax assets and liabilities are presented as non-current.

#### **Offsetting**

- 1Rp32 11 An entity does not offset assets and liabilities unless required or permitted to by a PFRS. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debt allowances on receivables—is not offsetting.

### Three statements of financial position required in certain circumstances

1Rp39	12	If an entity has applied an accounting policy retrospectively, restated items retrospectively or reclassified items in its financial statements, it provides a third statement of financial position as at the beginning of the earliest comparative period presented. However, where the retrospective change in policy or the restatement has no effect on this earliest statement of financial position, we believe that it would be sufficient for the entity merely to disclose that fact.
PIC Q&A 2011-01	13	PIC Q&A provides further guidance on the presentation of a third statement of financial position and the related notes disclosures. If a third statement of financial position/balance sheet is presented, the notes supporting balance sheet accounts will have to be for 3 periods; while the notes supporting the other statements will be for 2 periods (3 periods for public companies).
2011 Annual Improvements	14	2011 Annual Improvements also provides guidance on the presentation of a third balance sheet, but it is effective January 1, 2013 (early application permitted). It clarifies that when an entity produces an additional balance sheet as required by PAS 8, the balance sheet should be as at the date of the beginning of the preceding period – that is, the opening position. No notes are required to support this balance sheet. On the other hand, when management provides additional comparative information voluntarily – for example, statement of profit and loss, balance sheet – it should present the supporting notes to these additional statements.

1Rp51(a)

**Moonwalk Corporation and Subsidiaries**

1Rp12;1Rp10(b)

**Consolidated Statements of Income<sup>23</sup>**

1Rp51(c);1Rp36

For the years ended December 31, 2012, 2011 and 2010<sup>24</sup>

1Rp51(e)

(All amounts in thousand Philippine Peso)

1Rp113; 1Rp38		Notes	2012	2011	2010
	<b>Continuing operations</b>				
1Rp82(a)	Sales <sup>25</sup>		211,034	112,360	
1Rp99,p103	Cost of sales	23	(77,366)	(46,682)	
1Rp103	<b>Gross profit</b>		133,668	65,678	
1Rp99,p103	Selling, marketing and distribution costs	23	(52,529)	(21,213)	
1Rp99,p103	Administrative expenses <sup>26</sup>	23	(29,895)	(10,426)	
1Rp99,p103	Other income <sup>27</sup>	26	2,750	1,259	
1Rp85	Other (losses) gains, net	27	(90)	63	
	<b>Operating profit</b>		53,904	35,361	
1Rp85	Finance income	28	1,730	1,609	
1Rp82(b)	Finance costs	28	(8,173)	(12,197)	
1Rp82(c)	Share of profit of associates	13	215	145	
	<b>Profit before income tax</b>		47,676	24,918	
1Rp82(d); 12p77	Income tax expense	29	(14,611)	(8,670)	
1Rp82(f)	<b>Profit from continuing operations</b>		33,065	16,248	
	<b>Discontinued operations</b>				
PFRS5p33(a)	Profit for the year from discontinued operations	11	100	120	
1Rp82(f)	<b>Profit for the year</b>		33,165	16,368	

**FOR COMPANIES REPORTING UNDER SECTION 17.2 OF THE SECURITIES REGULATION CODE**

Revised SRC Rule 68 (Part II) issued by the SEC states that the audited income statement, changes in equity and cash flows should present a comparative format for each of the three most recent completed fiscal years or such shorter period as the registrant has been in existence.

**Please note, however, that the comparative figures for the year 2010 were**

<sup>23</sup> This is a typical example of a statement of total comprehensive income using the function of expense or "cost of sales" method which provides more relevant information to users than the other method (classification of expense by nature). However, allocating costs to functions may require arbitrary allocations and involve considerable judgment. Companies classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expenses and employee benefits expenses.

Refer to Appendix II, for an illustration of the statement of income using nature of expense method, which is an alternative presentation method.

<sup>24</sup> Alternatively, this may also be worded as "For each of the three years in the period ended December 31, 2012".

<sup>25</sup> The SEC requires that deductions from gross sales (discounts, returns, VAT and allowances and rebates) be shown together with the amounts in the notes to FS. A general statement that says that "Revenue is shown net of value-added tax, returns, rebates and allowances..." is not acceptable to the SEC.

<sup>26</sup> For entities reporting under the Revised SRC Rule 68, Part II Annex 68-D of the said rule provides that for entities presenting Other Expenses, any amount that is material or that which constitutes 5% or more of total revenues must be stated separately.

<sup>27</sup> The gross amount of finance cost should be presented on the face of the statement of income. Interest income arising from investing activities should be classified as part of other income.

1Rp113; 1Rp38		Notes	2012	2011	2010
1Rp83(a)	<b>Profit attributable to:</b>				not presented in these illustrative financial statements.
1Rp83(a)(ii)	Owners of the parent		30,617	15,512	
1Rp83(a)(i)	Non-controlling interest		2,548	856	
	<b>Profit for the year</b>		<b>33,165</b>	<b>16,368</b>	
33p67A	<b>Basic earnings per share</b>	30			
33p66	From continuing operations		1.31	0.76	
33p68	From discontinued operations <sup>28</sup>		0.01	0.01	
33p66			<b>1.32</b>	<b>0.77</b>	
33p67A	<b>Diluted earnings per share</b>	30			
33p66	From continuing operations		1.18	0.71	
33p68	From discontinued operations <sup>28</sup>		0.01	0.01	
33p66			<b>1.19</b>	<b>0.72</b>	

The notes on pages 1 to \_\_\_ are integral part of these consolidated financial statements.

<sup>28</sup> Basic and diluted EPS for the discontinued operation can be presented either in the statement of comprehensive income or in the notes to financial statements.

1Rp51(a)

## Moonwalk Corporation and Subsidiaries

1Rp10(b)

### Consolidated Statements of Total Comprehensive Income

1Rp51(c);1Rp36

For the years ended December 31, 2012, 2011 and 2010<sup>29,30</sup>

1Rp51(e)

(All amounts in thousand Philippine Peso)

1Rp113; 1Rp38	Notes	2012	2011	2010
1Rp82(f)	<b>Profit for the year</b>	33,165	16,368	
1Rp82(g), p91	<b>Other comprehensive income:</b>			
1Rp82(g); 16p77(f)	Gain on revaluation of land and building	21	755	912
1Rp82(g); 39p55(b)	Fair value change in available-for-sale financial assets	21	362	62
1Rp82(h); 28p39	Share of other comprehensive income of associates	21	(86)	91
1Rp82(g); 19p93B	Actuarial loss on retirement benefit obligation	22, 19	-	(494)
12p80(d)	Impact of changes in tax rate on deferred tax	22, 29	(10)	-
1Rp82(g); PFRS7p23(c)	Cash flow hedges	21	64	(3)
1Rp82(g)	Net investment hedge	21	(45)	40
1Rp82(g); 21p32	Currency translation difference	21	2,413	(1,111)
PFRS3p59	<b>Reclassification</b> of revaluation of previously held interest in Flip Flops and Beyond Corporation	21, 35	(850)	-
	<b>Other comprehensive income for the year, net of tax</b>		2,603	194
1Rp82(i)	<b>Total comprehensive income for the year</b>		35,768	16,562
1Rp83(b)	<b>Attributable to:</b>			
1Rp83(b)(ii)	Owners of the parent		32,968	15,746
1Rp83(b)(i)	Non-controlling interest		2,800	816
	<b>Total comprehensive income for the year</b>		35,768	16,562
	<b>Total comprehensive income attributable to owners of the parent arises from:</b>			
	Continuing operations		32,868	15,626
PFRS5p33(d)	Discontinued operations	11	100	120
			32,968	15,746

**FOR COMPANIES REPORTING UNDER SECTION 17.2 OF THE SECURITIES REGULATION CODE**

Revised SRC Rule 68 (Part II) issued by the SEC states that the audited income statement, changes in equity and cash flows should present a comparative format for each of the three most recent completed fiscal years or such shorter period as the registrant has been in existence.

**Please note, however, that the comparative figures for the year 2010 were not presented in these illustrative financial statements.**

<sup>29</sup> For two-year comparative financial statements, that date label will be "FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011". The date label is applicable for use on the statements of comprehensive income, changes in equity, and cash flows.

<sup>30</sup> Alternatively, this may also be worded as "For each of the three years in the period ended December 31, 2012".

Items in the income statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 29.

The notes on pages 11 to \_\_\_ are integral part of these consolidated financial statements.

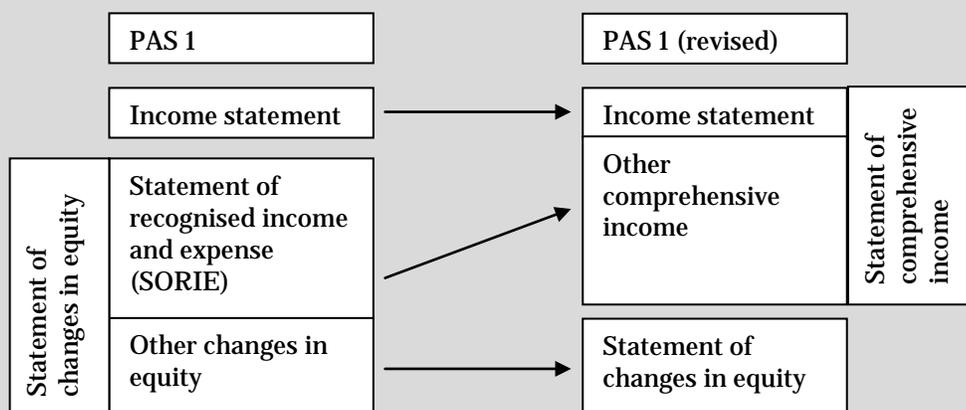
### Commentary - Statement of Income and Statement of Total Comprehensive Income

The commentary that follows explains some of the key requirements in PAS 1, *Presentation of Financial Statements*, and other requirements that impact the income statement/statement of comprehensive income.

- 1Rp81
- 1 Entities have a choice of presenting all items of income and expense recognized in a period either:
    - (a) in a single statement of comprehensive income; or
    - (b) in two statements (as adopted by Moonwalk Corporation) comprising:
      - (i) a separate income statement, which displays components of profit or loss; and
      - (ii) a statement of comprehensive income, which begins with profit or loss and displays components of other comprehensive income.

The main difference between these two options is that in option (a), profit for the year is shown as a sub-total rather than the 'bottom line', and the statement continues down to total comprehensive income for the year.

- 2 The relationship between the old and new formats is illustrated in the following diagram:



- 1Rp82
- 3 A single statement of comprehensive income includes, as a minimum, the following line items:
    - (a) Revenue
    - (b) Finance costs
    - (c) Share of the profit or loss of associates and joint ventures accounted for using the equity method
    - (d) Tax expense
    - (e) A single amount comprising the total of:
      - (i) the post-tax profit or loss of discontinued operations; and
      - (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
    - (f) Profit or loss.
    - (g) Each component of other comprehensive income classified by nature.
    - (h) Share of the other comprehensive income of associates and joint ventures accounted for using the equity method.
    - (i) Total comprehensive income.
- 1Rp83
- 4 The following items are disclosed as allocations for the period:
    - (a) Profit or loss attributable to:

	<ul style="list-style-type: none"> <li>(i) non-controlling interests; and</li> <li>(ii) owners</li> </ul>
	(b) Total comprehensive income for the period attributable to: <ul style="list-style-type: none"> <li>(i) non-controlling interests; and</li> <li>(ii) owners.</li> </ul>
PFRS5 p33(d)	(c) From July 1, 2009, the amount of income attributable to owners of the parent from: <ul style="list-style-type: none"> <li>(i) continued operations; and</li> <li>(ii) discontinued operations.</li> </ul>
1Rp84	5 If the entity prepares a separate income statement, this includes: <ul style="list-style-type: none"> <li>(a) Items (a)-(f) in paragraph 3 above.</li> <li>(b) Item (a) in paragraph 4 above.</li> </ul>
1Rp12	6 If the two-statement presentation is used, the statement of comprehensive income follows immediately after the income statement.
1Rp85	7 Additional line items, headings and subtotals are presented in the statement of comprehensive income and the income statement (where presented) when such presentation is relevant to an understanding of the entity's financial performance. For example, a sub-total of gross profit (revenue less cost of sales) may be included where expenses have been classified by function.
	8 Additional sub-headings should be used with care. The 'Framework for the preparation and presentation of financial statements' states that, to be useful, information must be reliable; that is, free from material error and bias. The apparent flexibility in PAS 1 can therefore only be used to enhance users' understanding of the GAAP-compliant numbers. It cannot be used to detract from the GAAP numbers. The Committee of European Securities Regulators (CESR)'s recommendation on disclosure of alternative performance measures provides useful guidance on the use of sub-totals and alternative performance measures: <ul style="list-style-type: none"> <li>(a) GAAP numbers should be given at least equal prominence to non-GAAP numbers.</li> <li>(b) Additional line items, sub-totals and columns may be used, but only if they do not detract from the GAAP numbers by introducing bias or by overcrowding the income statement.</li> <li>(c) Each additional line item or column should contain all the revenue or expenses that relate to the particular line item or column inserted.</li> <li>(d) Each additional line item or column should contain only revenue or expense that is revenue or expense of the entity itself.</li> <li>(e) Items may be segregated (for example, by use of columns or sub-totals) where they are different in nature or function from other items in the income statement.</li> <li>(f) It is generally not permissible to mix natural and functional classification of expenses where these categories of expenses overlap.</li> <li>(g) Terms used for additional line items and sub-totals should be defined if they are not terms recognized in PFRS.</li> <li>(h) Additional line items, columns and sub-totals should only be presented when they are used internally to manage the business.</li> <li>(i) Various presentations will be acceptable individually, but consideration should be given to the aggregate effect of these presentations, so that the overall message of the income statement is not distorted or confused.</li> <li>(j) The presentation method should generally be consistent from year to year.</li> </ul>
	9 EBIT (earnings before interest and tax) may be an appropriate sub-heading to show in the income statement. This line item usually distinguishes between the pre-tax profits arising from operating activities and those arising from financing activities.
	10 In contrast, a sub-total for EBITDA (earnings before interest, tax, depreciation and amortization) can only be included as a sub-total where the entity presents its expenses by nature and provided the sub-total does not detract from the GAAP numbers either by implying that EBITDA is the 'real' profit or by overcrowding the income statement so that the reader cannot determine easily the entity's GAAP performance. Where an entity presents its expenses by function, it will not be possible to show depreciation and amortization as separate line items in arriving at operating profit, because depreciation and amortization are types of expense, not functions of the business. In this case, EBITDA can only be disclosed by way of footnote, in the notes or in the review of operation.

### **Material items of income and expense**

- 1Rp97 11 When items of income and expense are material, their nature and amount is disclosed separately either in the income statement or in the notes. In the case of Moonwalk Corporation these disclosures are made on the face of the income statement and in Notes 23, 26, 27 & 28.
- 1Rp85, 97 12 PAS 1 does not provide a specific name for the types of items that should be separately disclosed. Where an entity discloses a separate category of 'exceptional', 'significant' or 'unusual' items either in the income statement or in the notes, the accounting policy note should include a definition of the chosen term. The presentation and definition of these items should be applied consistently from year to year. However, it is not appropriate to show an operating profit line which excludes these items.

### **Analysis of expenses by nature or function**

- 13 Where an entity classifies its expenses by nature, it must take care to ensure that each class of expense includes all items related to that class. Material restructuring cost may, for example, include redundancy payments (employee benefit cost), inventory write-downs (changes in inventory) and impairments in property, plant and equipment. It is not acceptable to show restructuring costs as a separate line item in an analysis of expenses by nature where there is an overlap with other line items.
- 14 Entities that classify their expenses by function include the material items within the function to which they relate. In this case, material items can be disclosed as footnotes or in the notes to the financial statements.

### **Operating profit**

- 1RBC56 15 An entity may elect to include a sub-total for its result from operating activities. This is permitted, but care should be taken that the amount disclosed is representative of activities that would normally be considered to be 'operating'.
- Items that are clearly of an operating nature (for example, inventory write-downs, restructuring and relocation expenses) are not excluded simply because they occur infrequently or are unusual in amount. Nor can expenses be excluded on the grounds that they do not involve cash flows (for example, depreciation or amortization). As a general rule, operating profit is the subtotal after 'other expenses' - that is, excluding finance costs and the share of profits of equity accounted investments - although in some circumstances it may be appropriate for the share of profits of equity-accounted investments to be included in operating profit (see paragraph 17 below).

### **Re-ordering of line items**

- 1Rp86 16 The line items and descriptions of those items are re-ordered where this is necessary to explain the elements of performance. However, entities are required to make a 'fair presentation' and should not make any changes unless there is a good reason to do so.
- 17 For example, the share of profit of associates is normally shown after finance cost. However, where the group conducts a significant amount of its business through associates (or joint ventures), it may be more appropriate to show finance costs after the share of profit of associates. Management may even insert a subtotal 'profit before finance costs if the business conducted through associates is a strategically significant component of the group's business activity'. However, an inclusion of the share of profit of associates in operating profit is only appropriate if the associates (or joint ventures) are regarded as a primary vehicle for the conduct of the group's operations.
- 18 Finance revenue cannot be netted against finance costs; it is included in 'other revenue/other income' or shown separately in the income statement. Where finance income is an incidental benefit, it is acceptable to present finance revenue immediately before finance costs and include a sub-total of 'net finance costs' in the income statement. Where earning interest income is one of the entity's main line of business, it is presented as 'revenue'.

### **Discontinued operations**

- 1Rp82(e)  
PFRS5p33(a)(b) 19 As stated in paragraph 3(e) above, entities disclose a single amount in the statement of comprehensive income (or separate income statement), comprising the total of (i) the post-tax profit or loss of discontinued operations, and (ii) the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation. Paragraph 33 of PFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', also requires an analysis of this single amount. This analysis may be presented in the notes or in the statement of comprehensive income (separate income statement). If it is presented in the income statement, it should be presented in a section identified as relating to discontinued operations - that is, separate from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see PFRS 5 p11).

### **Earnings per share**

- 33p66 20 PAS 33, 'Earnings Per Share', requires an entity to present in the statement of comprehensive income basic and diluted earnings per share (EPS) for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for total profit or loss attributable to the ordinary equity holders of the parent entity for each class of ordinary shares. Basic and diluted EPS is disclosed with equal prominence for all periods presented.
- 33p67A 21 If an entity presents a separate income statement, basic and diluted earnings per share are presented at the end of that statement.
- 33p73 22 Earnings per share based on alternative measures of earnings may also be given if considered necessary but should be presented in the notes to the financial statements only.
- 33p67 23 If diluted EPS is reported for at least one period, it should be reported for all periods presented, even if it equals basic EPS. If basic and diluted EPS are equal, dual presentation can be accomplished in one line in the statement of comprehensive income.
- 33p68 24 An entity that reports a discontinued operation discloses the basic and diluted amounts per share for the discontinued operation either in the statement of comprehensive income or in the notes to the financial statements.
- 33p69, 41, 43 25 Basic and diluted EPS is disclosed even if the amounts are negative (that is, a loss per share). However, potential ordinary shares are only dilutive if their conversion would increase the loss per share. If the loss decreases, the shares are anti-dilutive.
- 33p4 26 When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with PAS 27, 'Consolidated and Separate Financial Statements', the disclosures required by PAS 33 are presented only on the basis of the consolidated information. An entity that chooses to disclose EPS based on its separate financial statements presents such EPS information only in its separate statement of comprehensive income.

### **Components of other comprehensive income**

- 1Rp7 27 Components of other comprehensive income (OCI) are items of income and expense (including reclassification adjustments) that are not recognized in profit or loss as required or permitted by other PFRS. They include: changes in the revaluation surplus relating to property, plant and equipment or intangible assets; actuarial gains and losses on defined benefit plans; gains and losses arising from translating the financial statements of a foreign operation; gains and losses on remeasuring available-for-sale financial assets; and the effective portion of gains and losses on hedging instruments in a cash flow hedge.
- 1Rp91, 90 28 Entities may present components of other comprehensive income either net of related tax effect or before related tax effects. Moonwalk Corporation has chosen to present the items net of tax. In this case the amount of income tax relating to each component of OCI, including reclassification adjustments, is disclosed in the notes.

### **Reclassification adjustments**

- 1Rp92, 94 29 An entity discloses separately any reclassification adjustments relating to components of other comprehensive income either in the statement of comprehensive income or in the notes. Moonwalk Corporation provides this information in Note 21, 'Other reserves'.
- 1Rp7, 95 30 Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognized in other comprehensive income in the current or previous periods. They arise, for example, on disposal of a foreign operation, on derecognition of an available-for-sale financial asset and when a hedged forecast transaction affects profit or loss.
- 1Rp82A 31 PAS1 has been amended, effective for annual periods beginning on or after July 1, 2012. The amendment requires items of OCI, classified by nature, to be grouped into those that will be reclassified subsequently to profit or loss when specific conditions are met and those that will not be reclassified to profit or loss. The amendment also requires entities that present items of OCI before related tax effects with the aggregate tax shown separately to allocate the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified.
- 1Rp107 32 The amount of dividends recognized as distributions to owners during the period and the related amount per share are presented either in the statement of changes in equity or in the notes. Following the revisions made to PAS 1,

dividends cannot be displayed in the statement of comprehensive income or income statement.

**Consistency**

- 1Rp45 33 The presentation and classification of items in the financial statements is retained from one period to the next unless:
- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements that another presentation or classification would be more appropriate, addressing the criteria for the selection and application of accounting policies in PAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'; or
  - (b) PFRS requires a change in presentation.

**Materiality and aggregation**

- 1Rp29 34 Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

**Offsetting**

- 1Rp32 35 Assets and liabilities, and income and expenses, are not offset unless required or permitted by a PFRS. Examples of income and expenses that are required or permitted to be offset are as follows:
- 1Rp34(a) (a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses.
  - 1p34(b) (b) Expenditure related to a provision that is recognized in accordance with PAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.
  - 1Rp35 (c) Gains and losses arising from a group of similar transactions are reported on a net basis (for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading). However, such gains and losses are reported separately if they are material.

## Summary

The disclosure requirements of surrounding the components of OCI can be summarized as follows:

Item	Reference	Requirement	Presentation in Moonwalk Corporation
Each component of other comprehensive income recognized during the period classified by nature.	PAS 1p82(g)	Statement of comprehensive income	Statement of comprehensive income
Reclassification adjustments during the period relating to components of other comprehensive income	PAS 1p92	Statement of comprehensive income or notes	Note 21
Tax relating to each component of other comprehensive income, including reclassification adjustments	PAS 1p90	Statement of comprehensive income or notes	Note 29
Reconciliation for each component of equity, showing separately: -Profit/loss -Other comprehensive income -Transactions with owners	PAS 1p106(d)	Statement of changes in equity	Statement of changes in equity
For each component of equity, an analysis of other comprehensive income by item	PAS 1p106A	Statement of changes in equity or notes	Note 21

1Rp51(a)

**Moonwalk Corporation and Subsidiaries**

1Rp10(c)

**Consolidated Statements of Changes in Equity**

1Rp51(c);1Rp36

For the years ended December 31, 2012, 2011 and 2010<sup>31,32</sup>

1Rp51(e)

(All amounts in thousand Philippine Peso)

		Attributable to equity holders of the Company							
		Notes	Share capital	Share premium	Other reserves <sup>33</sup>	Retained earnings	Total	Non-controlling interests	Total equity
1Rp106,108,109									
1R113									
	<b>Balance at January 1, 2011</b>		20,000	10,424	6,364	48,470	85,258	1,500	86,758
	<b>Comprehensive income</b>								
1Rp106(d)(i)	Profit for the year		-	-	-	15,512	15,512	856	16,368
	Other comprehensive income for the year <sup>34</sup>		-	-	641	(407)	234	(40)	194
1Rp106(a)	<b>Total comprehensive income for the year</b>		-	-	641	15,105	15,746	816	16,562
	<b>Transactions with owners</b>								
	Employees share option scheme:								
PFRS2p50	Value of employee services	22	-	-	-	822	822	-	822
	Tax credit relating to share option scheme	22	-	-	-	20	20	-	20
PFRS2p50	Proceeds from shares issued	20	1,000	70	-		1,070	-	1,070
1Rp106(d)(iii)	Dividend relating to 2011	31	-	-	-	(15,736)	(15,736)	(550)	(16,286)
1Rp106(d)(iii)	<b>Total transactions with owners</b>		1,000	70	-	(14,894)	(13,824)	(550)	(14,374)
	<b>Balance at December 31, 2011</b>		21,000	10,494	7,005	48,681	87,180	1,766	88,946
	<b>Comprehensive income</b>								
1Rp106(d)(i)	Profit for the year		-	-		30,617	30,617	2,548	33,165
1Rp106(d)(ii)	Other comprehensive income for the year		-	-	2,261	90	2,351	252	2,603
1R106(a)	<b>Total comprehensive income for the year</b>		-	-	2,261	30,707	32,968	2,800	35,768
	<i>forward</i>								

<sup>31</sup> Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

<sup>32</sup> Alternatively, this may also be worded as "For each of the three years in the period ended December 31, 2012".

<sup>33</sup> Individual reserves can be grouped into 'Other reserves' in the statement of changes in equity if these are similar in nature and can be regarded as a component of equity. If the individual reserves are not shown in the statement of changes in equity, an analysis should be given in the notes.

<sup>34</sup> The single-line presentation for other comprehensive income illustrated above reflects the Group's application of the amendment to PAS 1 arising from 'Improvements to PFRS' issued in 2010. Management can implement this by either (a) showing each line item of other comprehensive income separately in the above statement; or (b) by having a single-line presentation of other comprehensive income (as shown above) plus a separate note showing an analysis of each item of other comprehensive income for each component of equity.

1Rp106,108,109		Attributable to equity holders of the Company							
1R113		Notes	Share capital	Share premium	Other reserves <sup>33</sup>	Retained earnings	Total	Non-controlling interests	Total equity
<b>Transactions with owners</b>									
Employee share option scheme:									
PFRS2p50	Value of employee services	22	-	-	-	690	690	-	690
PFRS2p50	Proceeds from shares issued	20	750	200	-	-	950	-	950
	Tax credit relating to share option scheme	22	-	-	-	30	30	-	30
1Rp106(d)(iii)	Issue of share capital - business combination	20	3,550	6,450	-	-	10,000	-	10,000
1Rp106(d)(iii)	Purchase of treasury shares	21	-	-	(2,564)	-	(2,564)	-	(2,564)
1Rp106(d)(iii)	Convertible bond - equity component	21	-	-	5,433	-	5,433	-	5,433
1Rp106(d)(iii)	Dividend relating to 2012	31	-	-	-	(10,102)	(10,102)	(1,920)	(12,022)
1Rp106(d)(iii)	<b>Total contributions by and distributions to owners</b>		4,300	6,650	2,869	(9,382)	4,437	(1,920)	2,517
<b>Changes in ownership interests in subsidiaries that do not result in a loss of control</b>									
1Rp106(d)(iii)	Non-controlling interest arising on business combination	35	-	-	-	-	-	4,542	4,542
1Rp106(d)(iii)	Acquisition of non-controlling interest in XYZ Group	36	-	-	(800)	-	(800)	(300)	(1,100)
1Rp106(d)(iii)	Decrease in ownership	36	-	-	100	-	100	1,000	1,100
1Rp106(d)(iii)	<b>Total transactions with owners</b>		4,300	6,650	2,869	(9,382)	4,437	2,622	7,059
	<b>Balance at December 31, 2012</b>		25,300	17,144	11,435	70,006	123,885	7,888	131,773

The notes on pages 1 to \_\_\_ are an integral part of these consolidated financial statements.

### **Commentary - Statement of Changes in Equity**

The commentary that follows explains some of the key requirements in PAS 1, 'Presentation of Financial Statements', and other aspects that impact the statement of changes in equity.

#### **Non-controlling interest**

- 1Rp106
- 1 Information to be included in the statement of changes in equity includes:
    - (a) Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interest.
    - (b) For each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with PAS 8.
    - (c) For each component of equity, reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
      - i profit or loss;
      - ii each item of other comprehensive income; and
      - iii transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in loss of control.
  - 2 The IASB has published an amendment to PAS 1, which is applicable from January 1, 2011. The standard was amended to state explicitly that an entity presents the components of changes in equity either in the statement of changes in equity or in the notes to the financial statements. Unless otherwise specified, the proposed effective date for the amendments is for annual periods beginning on or after January 1, 2011, although entities are permitted to adopt them earlier.  
Moonwalk Corporation has included the items in the statement of changes in equity.
- 1Rp107
- 3 The amount of dividends recognized as distributions to owners during the period and the related amount per share are now disclosed either in the statement of changes in equity or in the notes and can no longer be presented in the income statement. Moonwalk Corporation presents this information in Note 31.
  - 4 For each component of equity, the analysis of other comprehensive income by item may either be presented in the statement of changes in equity or disclosed within the notes.

1Rp51(a)

**Moonwalk Corporation and Subsidiaries**

1R,p10(d)

**Consolidated Statements of Cash Flows**

1Rp51(c);1Rp36

For the years ended December 31, 2012, 2011 and 2010<sup>35</sup>

1Rp51(e)

(All amounts in thousand Philippine Peso)

7p10,18(b)	Notes	2012	2011	2010
7p21	<b>Cash flows from operating activities</b>			
	Cash generated from operations	32	71,751	41,703
7p31	Interest paid		(7,835)	(14,773)
7p35	Income tax paid		(16,909)	(10,526)
	Net cash from operating activities		47,007	16,404
7p21	<b>Cash flows from investing activities</b>			
7p39	Acquisition of subsidiary, net of cash acquired	35	(3,750)	-
7p16(a)	Purchases of property, plant and equipment	14	(9,505)	(6,042)
7p16(b)	Proceeds from sale of property, plant and equipment	32	6,354	2,979
7p16(a)	Purchases of intangible assets	15	(3,050)	(700)
7p16(c)	Purchases of available-for-sale financial assets	8	(4,887)	(1,150)
	Proceeds from sale of available-for-sale financial assets		151	-
7p16(e)	Loans granted to associates	33	(1,343)	(112)
7p16(f)	Loan repayments received from related parties	33	63	98
7p31	Interest received		1,054	1,193
7p31	Dividends received		1,130	1,120
	Net cash used in investing activities		(13,783)	(2,614)
7p21	<b>Cash flows from financing activities</b>			
7p17(a)	Proceeds from issuance of common shares	20	950	1,070
7p17(b)	Purchase of treasury shares	22	(2,564)	-
7p17(c)	Proceeds from issuance of convertible bond	17	50,000	-
7p17(c)	Proceeds from issuance of redeemable preferred shares	17	-	30,000
7p17(c)	Proceeds from borrowings		8,500	18,000

**FOR COMPANIES REPORTING UNDER SECTION 17.2 OF THE SECURITIES REGULATION CODE**

Revised SRC Rule 68 (Part II) issued by the SEC states that the audited income statement, changes in equity and cash flows should present a comparative format for each of the three most recent completed fiscal years or such shorter period as the registrant has been in existence.

**Please note, however, that the comparative figures for the year 2010 were not presented in these illustrative financial statements.**

<sup>35</sup> Alternatively, this may also be worded as "For each of the three years in the period ended December 31, 2012".

		<b>Notes</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
7p10,18(b)					
7p17(d)	Repayments of borrowings		(88,993)	(34,674)	
7p31	Dividends paid to Company's shareholders	31	(10,102)	(15,736)	
	Dividends paid to holders of redeemable preferred shares		(1,950)	(1,950)	
7p42A	Acquisition of interest in a subsidiary from non-controlling interest	36	(1,100)	-	
7p42A	Sale of interest in a subsidiary to non-controlling interest	36	1,100	-	
7p31	Dividends paid to non-controlling interests		(1,920)	(550)	
	Net cash used in financing activities		(46,079)	(3,840)	
	Exchange gains (losses) on cash and cash equivalents		535	(61)	
7p45	<b>Net (decrease) increase in cash and cash equivalents</b>		(12,855)	9,950	
	Cash and cash equivalents at January 1		27,598	17,587	
	<b>Cash and cash equivalents at December 31</b>	5	15,278	27,598	

The notes on pages 11 to \_\_\_ are an integral part of these consolidated financial statements.

## Commentary - Statement of Cash Flows

The commentary that follows explains some of the key requirements in IAS 7, 'Statements of Cash Flows'.

### Reporting cash flows

#### *Cash flows from operating activities*

- 7p18 1 Cash flows from operating activities are reported using either:
- (a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
  - (b) the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.
- 7p20 2 Moonwalk Corporation continues to use the indirect method. For an illustration of a statement of cash flows presented using the direct method, refer to Appendix II.

#### *Cash flows from investing and financing activities*

- 7p21 4 Major classes of gross cash receipts and gross cash payments arising from investing and financing activities are reported separately, except to the extent that cash flows described in paragraphs 22 and 23 of PAS 7 are reported on a net basis.

#### *Sale of property, plant and equipment held for rental to others*

- 7p14 5 Cash flows from the sale of property, plant and equipment are normally presented as cash flows from investing activities. However, cash payments to manufacture or acquire assets that will be held for rental to others and subsequently for sale are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also therefore cash flows from operating activities.

#### *Reporting on a net basis*

- 7p22, 23 7 Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:
- (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity (for example, rents collected on behalf of, and paid over to, the owners of properties); and
  - (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short (for example, advances made for, and repayment of, principal amounts relating to credit card customers).
- 7p24 8 Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:
- (a) Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date.
  - (b) The placement of deposits with, and withdrawal of deposits from, other financial institutions.
  - (c) Cash advances and loans made to customers and the repayment of those advances and loans.

#### *Interest and dividends*

- 7p31 9 Cash flows from interest and dividends received and paid are each disclosed separately. Each is classified in a consistent manner from period to period as either operating, investing or financing activities.
- 7p33 10 Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of net profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
- 7p34 11 Dividends paid may be classified as 'financing cash flows' because they are a cost of obtaining financial resources. Alternatively, they may be classified as operating cash flows to assist users to determine the ability of an entity to pay dividends out of operating cash flows.

*Income taxes*

7p35 12 Cash flows arising from income taxes are separately disclosed and classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

*Effects of exchange rate changes*

7p28 13 Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency are reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities. It also includes the differences, if any, had those cash flows been reported at period-end exchange rates.

*Additional recommended disclosures*

7p50 14 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

7p50(a) (a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.

7p50(c) (b) The aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity.

7p50(d) (c) The amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see PFRS 8, 'Operating Segments').

1Rp51(a) **Moonwalk Corporation and Subsidiaries**

1Rp10(e) Notes to Consolidated Financial Statements<sup>36</sup>

1Rp51(c);1Rp38 As at December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 <sup>37,38</sup>

1Rp51(e) (In the notes, all amounts are in thousand Philippine Peso unless otherwise stated)

**Note 1 - General information**

1Rp138 (a)(b); SEC Memo Circular No. 5-2006; 1Rp51(a)(b) Moonwalk Corporation ('the Company') was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on November 19, 2000, the same date the Company attained its status of being a public company. The Company and its subsidiaries ('the Group') manufacture, distribute and sell shoes, footwear products and leather goods through a network of independent retailers.

1Rp138(c); 24Rp13 The Group is controlled by Parent Footworks Philippines, Inc. (incorporated in the Philippines), which owns 57% of the Company's shares. The remaining 43% of the shares are widely held. The ultimate parent of the Group is Grand Feet Supreme Holdings, Inc. (incorporated in the Philippines).

The Company has its primary listing on the Philippine Stock Exchange, Inc.

On March 1, 2011, the Group acquired control of Flip Flops and Beyond Corporation, owner and operator of a chain of stores selling shoes, sandals and other footwear products and accessories located in Luzon, Cebu and Miami in the US, and in Spain, UK, and throughout Western and Southern Europe (see Note 35).

1Rp138(a); SEC requirement Annex C SRC Rule 12.A.2.xiv The Company has its registered office address, which is also its principal place of business at 99 Saudi Arabia St. Better Living Subdivision, Paranaque City. It has 535 employees as at December 31, 2012 (2011 - 210 employees)<sup>39</sup>.

SRC Rule 68.1 Annex 68.1-K (11); SEC Memo Circular No. 5- The Company is considered a public company under Rule 3.1 of the Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public corporation as any corporation with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities. As at December 31, 2012, the Company has 745 shareholders (2011 - 680) each

<sup>36</sup> PAS 1 provides that notes shall, as far as practicable, be presented in a systematic manner. Notes are normally presented in the following order: (a) a statement of compliance with PFRS or other financial reporting framework; (b) a summary of significant accounting policies applied; (c) supporting information for items presented on the face of the statement of financial position, statements of income, statement of changes in equity and statement of cash flows, in the order in which each statement and each line item is presented; and (d) other disclosures.

In presenting the accounting policies, it is recognized that certain items may not necessarily apply to a particular reporting entity. For example, if the reporting entity does not have material operating leases, it is not necessary to include disclosure of the accounting policy for operating leases. Similarly, if a company does not have derivatives, the risk management policy as they apply to derivatives should not be included. However, those that pertain to credit risk, foreign exchange risk, etc. may have to be retained. Certain items that do not apply to this entity have not been included in these illustrative financial statements. Additional accounting policies, disclosures, and critical estimates and judgments have been included in Appendix III. The reporting entity should describe each specific accounting policy that is necessary for a proper understanding of the financial statements.

<sup>37</sup> For two-year comparative financial statements, the label will be "AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011".

<sup>38</sup> Alternatively, this may also be worded as "for each of the three years in the period ended December 31, 2012".

<sup>39</sup> Disclosure of number of employees is no longer required in the audited financial statements. However, under SRC Rule 12 the Company is required to report to the SEC the number of employees as stated in Annex C of SRC Rule 12.A.2. Voluntary disclosure of number of employees is at the discretion of the Company.

2006 holding at least 100 shares of the Company's common shares.<sup>40</sup> The Company's major shareholders consist mainly of local companies and group of shoe manufacturers.

10p17 These consolidated financial statements have been approved and authorized for issuance by the Board of Directors on [DATE].<sup>41</sup>

Revised SRC  
Rule 68, Part I  
Section 3B(iv)  
subpar(v)

**Applicable for entities in a capital deficiency position**

The Company has been incurring losses and is in a capital deficiency position as at December 31, 2012. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty. The Company plans to address such uncertainty through [state the entity's plans to address the capital deficiency].<sup>42</sup>

**Note 2 - Summary of significant accounting policies**

**Commentary – accounting policies notes**

The following note is a complete reiteration of a large number of possible accounting policies. Management should only present information that relates directly to the business and should avoid boilerplate disclosures.

1Rp112(a)  
1Rp117(b)  
1Rp119 The principal accounting policies applied in the preparation of these consolidated financial statements<sup>43</sup> are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

27p10 **Applicable for separate financial statements not preparing consolidated financial statements**

These financial statements are prepared as the Company's separate financial statements. The Company did not present consolidated financial statements because it is a wholly owned subsidiary and its ultimate parent company publishes consolidated financial statements which are available for public use and prepared in accordance with International Financial Reporting Standards. In accordance with PAS 27, Consolidated and Separate Financial Statements, a parent that is in itself a controlled subsidiary and that meets certain requirements need not present consolidated financial statements. The ultimate parent

<sup>40</sup> For companies reporting under the Revised SRC Rule 68 Part II, disclosure on number of shareholders should be made in the notes, while a separate statement is required for non-public entities under the Revised SRC Rule 68, Part I Section 3B(v), formerly SRC Rule 68 Section 3.d.

<sup>41</sup> The date of approval of the financial statements is the date on which those with the recognized authority assert that they have prepared the entity's complete set of financial statements, including the related notes, and they have taken responsibility for them. An entity should disclose the date when the financial statements were authorized for issue and who gave that authorization. Consequently, our report should not be dated earlier than the date indicated in the financial statements.

<sup>42</sup> In the Philippines, for entities in a capital deficiency position, the SEC requires disclosures on the entity's plan to address such capital deficiency. Presented above is a sample wording of such disclosure. The form and content of this particular paragraph, if required and necessary, will vary depending on the circumstances of the entity and the plan to address the capital deficiency. For detailed guidance on reportorial requirements for companies, see Revised SRC Rule 68.

<sup>43</sup> In preparing the **separate financial statements of a parent that prepares consolidated financial statements** in accordance with PAS 27, refer to Appendix III for additional disclosures, as well as modifications to the auditor's report, to be considered when preparing separate (parent only) financial statements.

In preparing the **separate financial statements of a parent that elects not to prepare consolidated financial statements in accordance with PAS 27, paragraph 10**, disclose the fact that the financial statements are stand-alone financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the parent/ultimate parent where consolidated financial statements that comply with either PFRS or PFRS have been produced for public use; the address where these consolidated financial statements are obtainable, among others (PAS 27, paragraph 41).

PAS 27p10 provides the exemption criteria when a parent need not present consolidated financial statements.

company's consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary S Company. The consolidated financial statements of P Company can be obtained from its website: <http://www.pcompany.com>.

## 2.1 Basis of preparation<sup>44</sup>

- 1Rp116 The consolidated financial statements of Moonwalk Corporation have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.
- 1Rp117(a) The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit or loss.
- 1Rp125;  
1Rp122 The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

## 8p28 Changes in accounting policy and disclosures

### *(a) New and amended standards adopted by the Group<sup>45</sup>*

There are no PFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2012 that would be expected to have a material impact on the Group.<sup>46</sup>

### *(b) New standards, amendments and interpretations not yet adopted<sup>45</sup>*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- *PAS 1 (Amendment), Financial Statement Presentation - Other Comprehensive Income* (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income. The Group will apply the amendment beginning January 1, 2013. The adoption is not expected to have a significant impact on the financial statements but will result in changes in presentation in the statement of total comprehensive income.

<sup>44</sup> With respect to certain entities under Non-PFRS framework, please refer to Appendix V for sample disclosures.

<sup>45</sup> A detailed list of IFRSs and IFRIC interpretations effective on or after January 1, 2012 is included as Appendix IB.

<sup>46</sup> See Commentary # 11 on the summary of significant accounting policies on page 53.

- *PAS 19 (Amendment), Employee Benefits* (effective January 1, 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. They would also require recognition of all actuarial gains and losses in other comprehensive income as they occur and of all past service costs in profit or loss. The amendments replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group has yet to assess the full impact of the amendments and intends to adopt the amendment beginning January 1, 2013.
- *PFRS 9, Financial Instruments* (effective January 1, 2015). This new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of PAS 39 that relate to the classification and measurement of financial instruments. PFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Group has yet to assess the full impact of PFRS 9 and intends to adopt PFRS 9 beginning January 1, 2015. The Group will also consider the impact of the remaining phases of PFRS 9 when issued.
- *PFRS 10, Consolidated Financial Statements* (effective January 1, 2013). This new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group has yet to assess the full impact of PFRS 10 and intends to adopt PFRS 10 beginning January 1, 2013.
- *PFRS 12, Disclosures of Interests in Other Entities* (effective January 1, 2013). This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group has yet to assess the full impact of PFRS 12 and intends to adopt PFRS 12 beginning January 1, 2013.
- *PFRS 13, Fair Value Measurement* (effective January 1, 2013). This new standard aims to improve consistency and reduce complexity by providing a clarified definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements, which are largely aligned with IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within PFRS or US GAAP. The Group is yet to assess the full impact of PFRS 13 and intends to adopt PFRS 13 beginning January 1, 2013.

There are no other PFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.<sup>47</sup>

<sup>47</sup> See Commentary # 11 on the summary of significant accounting policies on page 53.

1Rp119

## 2.2 Consolidation<sup>48</sup>

27p22  
27p24

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2012. The subsidiaries financial statements are prepared for the same reporting year as the Company. The Group uses uniform accounting policies, any difference between subsidiaries and parent company are adjusted properly. This consolidated financial statements include the financial statements of the Company and the following subsidiaries as at December 31:

Subsidiaries	Country of incorporation	Principal activities	Percentage of ownership

### (a) Subsidiaries

27p12  
27p14

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

PFRS3p5  
PFRS3p37  
PFRS3p39  
PFRS3p53  
PFRS3p18  
PFRS3p19

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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

PFRS3p58

**Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration is not re-measured, and its subsequent settlement is not accounted for within equity.**

PFRS3p32  
PFRS3p34

Goodwill (Note 2.10) is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired.

<sup>48</sup> Where no consolidated FS are prepared, ensure that all the criteria for not presenting consolidated FS mentioned in PAS 27.10 are met.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

27p20 Inter-company transactions, balances and income and expenses on transactions between group companies  
27p24 are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

***(b) Changes in ownership interests in subsidiaries without change of control***

27p30 Transactions with non-controlling interests that do not result in loss of control are accounted for as equity  
27p31 transactions—that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

***(c) Disposal of subsidiaries***

27p34,35 When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at  
28p18 the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

1p119 ***(d) Associates***

28p13 Associates are all entities over which the Group has significant influence but not control, generally  
28p11 accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

28p19A If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

28p11,39 The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its  
28p29 share of post-acquisition movements in other comprehensive income is recognized in other comprehensive  
28p30 income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

28p31 The Group determines at each reporting date whether there is any objective evidence that the investment in  
28p33 the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

28p22 Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the  
28p26 Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in profit or loss.

1Rp119

## **2.3 Cash and cash equivalents**

PFRS7p21  
7p45

In the consolidated cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

1Rp119

## **2.4 Financial instruments**

### **2.4.1 Classification**

The Group classifies its financial assets and liabilities according to the categories described below. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

#### *(a) Financial assets*

PFRS7p21  
39p9

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

#### *(i) Financial assets at fair value through profit or loss*

39p9

1Rp66, 68

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

The Group's financial assets at fair value through profit or loss and derivative financial assets are classified under this category.

#### *(ii) Loans and receivables*

39p9  
1Rp66, 68

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are then classified as non-current assets.

The Group loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 2.6 and 2.3).

#### *(iii) Held-to-maturity investments*

39p9

1Rp66, 68

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date which are classified as current assets.

The Group does not hold financial assets under this category.

*(iv) Available-for-sale financial assets*

39p9  
1Rp66, 68  
PFRS7AppB5(b) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months from the reporting date.

The Group's available-for-sale financial assets are classified under this category.

*(b) Financial liabilities*

PFRS7p21  
39p9 The Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value); and financial liabilities at amortized cost.

*(i) Financial liabilities at fair value through profit or loss*

39p9 This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

The Group's derivative financial liabilities are classified as financial liabilities at fair value through profit or loss.

*(ii) Other liabilities at amortized cost*

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost.

The Group's trade and other payables and borrowings are classified under this category.

## **2.4.2 Recognition and measurement**

*(a) Initial recognition and measurement*

39p38  
PFRS7AppB5(c)  
39p43 Regular purchases and sales of investments are recognized on trade date - the date on which the Group commits to purchase or sell the asset. Financial assets and liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are recognized as expense in profit or loss.

*(b) Subsequent measurement*

39p46  
39p47 Available for-sale financial assets and financial assets and liabilities at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Other financial liabilities are measured at amortized cost using the effective interest method.

- 39p55(a)  
PFRS7  
AppdxBp5(e) Gains or losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, including interest and dividend income and interest expense, are presented in profit or loss within 'other gains/(losses) - net' in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognized in profit or loss as part of other income when the Group's right to receive payment is established.
- 39p55(b)  
PFRS7AppB5(e)  
39AG83  
1Rp79(b) Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income. Changes in the fair value of non-monetary securities classified as available-for-sale are recognized in other comprehensive income.
- 39p67 When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in profit or loss as gains and losses from investment securities.
- PFRS7AppB5(e) Interest on available-for-sale securities calculated using the effective interest method is recognized in profit or loss as part of **finance** income. Dividends on available-for-sale equity instruments are recognized in profit or loss as part of other income when the Group's right to receive payment is established.

### 2.4.3 Determination of fair value

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

PFRS7p27  
39AG71-73 The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily FTSE 100 equity investments classified as trading securities or available-for-sale.

39AG74 The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

#### 2.4.4 Impairment of financial assets

##### (a) Assets carried at amortized cost

39p58  
39p59

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

PFRS7AppB5(f) The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty granting to the borrower a concession that the lender;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - i) Adverse changes in the payments status of borrowers in the portfolio; and
  - ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

39p64

For loans and receivables category, the Group first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables 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.

39p63  
39AG84

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

39p65

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss. Reversals of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited against operating expenses in profit or loss.

Impairment testing of trade receivables is described in Note 2.6.

*(b) Assets classified as available-for-sale*

39p67-70 The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. **Generally, the Group treats 'significant' as 20% or more and 'prolonged' as greater than twelve months.** If any such evidence exists for available-for-sale financial assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from equity and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed **through profit or loss.** If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

**2.4.5 Derecognition**

39p16 Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

39p39 Financial liabilities are derecognized when extinguished, i.e., when the obligation is discharged or is cancelled or expires.

**2.4.6 Offsetting**

32p42 Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

1Rp119 **2.5 Derivative financial instruments and hedging activities**

PFRS7p21 Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are  
PFRS7p22 subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends  
39p86 on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); (b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or (c) hedges of a net investment in a foreign operation (net investment hedge).

39p88 The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

PFRS7p23-24 The fair values of various derivative instruments used for hedging purposes are disclosed in Note 3. Movements on the hedging reserve in other comprehensive income are shown in Note 21. The full fair value of a hedging derivative is classified as a non-current asset when the remaining maturity of the hedged item is more than 12 months, and as a current asset if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

*(a) Fair value hedge*

39p89 Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognized in profit or loss within 'finance costs'. The gain or loss relating to the ineffective portion is recognized in profit or loss within 'other gains/(losses) - net'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognized in profit or loss within 'finance costs'.

39p92 If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

*(b) Cash flow hedge*

39p95  
1Rp79(b) The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss within 'other gains/(losses) - net'.

39p99,100  
39p98(b) Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in profit or loss within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognized in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognized in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

39p101 When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss within 'other gains/(losses) - net'.

*(c) Net investment hedge*

39p102  
1Rp79(b) Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss within other gains/losses - net.

Gains and losses accumulated in equity are included in profit or loss when the foreign operation is partially disposed of or sold.

*(d) Derivatives at fair value through profit or loss accounted for at fair value through profit or loss*

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in profit or loss within 'other gains/(losses) - net'.

1Rp119 **2.6 Trade receivables**

1Rp66 Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

PFRS7p21

39p43

39p46(a)

Trade receivables with average credit term of 30 to 90 days are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment.

39p59

PFRS7AppB5(f)

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

PFRS7AppB5(d)

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss within operating expenses. When a receivable remains uncollectible after the Group has exerted all legal remedies, it is written-off against the allowance account for receivables.

1Rp119 **2.7 Inventories<sup>49</sup>**

2p36(a); 2p9

2p10; 2p25

2p28; 2p30

39p98(b)

Inventories are stated at the lower of cost and net realizable value. Raw material cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). **It excludes borrowing costs.** The cost of finished goods and work in progress are calculated based on weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials<sup>50</sup>.

1Rp119 **2.8 Non-current assets (or disposal groups) held-for-sale**

PFRS5p6

PFRS5p15

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and the sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

---

<sup>49</sup> Inventory costing method

(a) If raw material is using other method (e.g., weighted average, standard costing), state the method applicable.

(b) For companies using standard costing, state that standard costs are adjusted to actual costs at periodic intervals or standard costs approximate actual costs (PAS 2.21) if such is the case. Otherwise, method used is not acceptable.

<sup>50</sup> If not applicable, please exclude this sentence from your disclosure.

If applicable, please note that management may choose to keep these gains in equity until the acquired asset or assumed liability affects profit or loss. At this time, management should reclassify the gains to profit or loss.

1Rp119 **2.9 Property, plant and equipment<sup>51</sup>**

16p73(a) Land and buildings comprise mainly of factories, retail outlets and offices. Land and buildings are shown at fair value less subsequent depreciation for buildings. The fair values used are based on periodic valuation performed by external independent valuers **with sufficient regularity**. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

16p15-16  
39p98(b) All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

16p12  
16p13 Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

16p39  
1Rp79(b)  
16p40  
16p41 Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

16p73(b)  
16p50 Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives (in years), as follows:

16p73(c)

- |  |          |
|--|----------|
| • Buildings                                | 25 to 40 |
| • Office furniture, fixtures and equipment | 10 to 15 |
| • Vehicles                                 | 3 to 5   |
| • Furniture, fittings and equipment        | 3 to 8   |

16p51 The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

36p59 An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

---

<sup>51</sup> When certain classes of property, plant and equipment are stated at revalued amounts, the disclosure pertaining to revaluation alone would be as follows:

*"Land and buildings are measured at fair values less depreciation on buildings and impairment charged subsequent to the date of revaluation. Following initial recognition at cost, land and buildings are carried at revalued amounts, which is the fair value at date of revaluation less any subsequent accumulated depreciation on buildings and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ significantly from its carrying amount. The increase of the carrying amount of an asset as a result of a revaluation should be credited directly to equity (under the heading 'revaluation surplus'), unless it reverses a revaluation decrease previously recognized as an expense, in which case it should be credited in profit or loss. A revaluation decrease should be charged directly against any related revaluation surplus, with any excess being recognized as an expense in profit or loss.*

*Each year an entity may transfer from revaluation surplus reserve to retained earnings the difference between the depreciation charges calculated based on the revalued amount and the depreciation charge based on the assets' historical cost.*

*The profit or loss on disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset. On disposal of the revalued asset, the relevant revaluation surplus included in equity is transferred directly to retained earnings."*

- 16p67 An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost, appraisal increase and their related accumulated depreciation are removed from the accounts. Any gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in profit or loss.<sup>52</sup>
- 16p68; 16p71
- 16p41; 1Rp79(b) When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.
- 1Rp119 **2.10 Intangible assets**
- 1Rp119 (a) *Goodwill*
- PFRS3p51 Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the fair value of the of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the date of acquisition. Separately recognized goodwill is carried at cost less accumulated impairment losses. Goodwill is an indefinite-lived intangible asset and hence not subject to amortization.
- PFRS3p54
- 36p80 For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the entity sold.
- 38p108 Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.
- 36p124
- 1Rp119 (b) *Trademarks and licenses*
- 38p74 Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair values at the acquisition date. Trademarks and licenses have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives of 15 to 20 years.
- 38p97
- 38p118
- (a)(b)
- 38p4 Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of three to five years.
- 38p118(a)(b)
- 1Rp119 (c) *Contractual customer relationships*
- 38p118(a)(b) Contractual customer relationships acquired in a business combination are recognized at the fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over expected life of the customer relationship.
- 1Rp119 (d) *Computer software*
- 38p57 Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria

<sup>52</sup> This should be modified depending on which financial statement line item the actual gain or loss is charged in profit or loss (e.g., other income). Use the specific account as shown in the statement of total comprehensive income.

are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

38p66 Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

38p68 Other development expenditures that do not meet these criteria are recognized as an expense as incurred.  
38p71 Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

38p97 Computer software development costs recognized as assets are amortized over their estimated useful lives,  
38p118(a)(b) which do not exceed three years.

## 1Rp119 **2.11 Impairment of non-financial assets**

36p9 Assets that have an indefinite useful life—for example, goodwill or intangible assets not ready for use—are  
36p10 not subject to amortization and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 1Rp119 **2.12 Trade payables**

1Rp66 Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

PFRS7p21 Trade payables are recognized initially at fair value and subsequently measured at amortized cost using  
39p43 effective interest method.  
39p47

## 1Rp119 **2.13 Borrowings**

PFRS7p21 Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are  
39p43 subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and  
39p47 the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

32p18(a) 32p35	Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognized in profit or loss as interest expense.
1Rp119	<b>2.14 Borrowing costs</b>
23p8	General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.
23p12	Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.
	All other borrowing costs are recognized in profit or loss in the period in which they are incurred.
1Rp119	<b>2.15 Compound financial instruments</b>
32p28	Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.
32AG31	The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.
32p36	Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound instrument is not re-measured subsequent to initial recognition except on conversion or expiry.
1Rp69; 1Rp71	Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.
1Rp119	<b>2.16 Current and deferred income tax<sup>53</sup></b>
12p58 12p61A	The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.
12p12 12p46	The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date <u>in the countries where the Company's subsidiaries and associates operate and generate taxable income<sup>54</sup></u> . Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

<sup>53</sup> If property, plant and equipment are revalued, the following notations are necessary:

*"Deferred income tax is provided on the temporary difference between the carrying amount of the revalued property, plant and equipment and its tax base. Any taxable temporary difference reflects the tax consequences that would follow from the recovery of the carrying amount of the asset through sale (non-depreciable assets) and through use (depreciable assets), using the tax rate applicable to the taxable amount derived from the sale of a non-depreciable capital asset at 6% or an ordinary asset at 35% or the tax rate applicable during the years the asset is utilized."*

<sup>54</sup> The underline phrase shall be deleted if the Group or Company is not subject to income tax in numerous jurisdictions.

12p15  
12p24  
12p47

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

12p24  
12p34  
12p37

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. The Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

12p15

Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

12p39  
12p44

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except to the extent that the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

12p74

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 1Rp119 **2.17 Provisions**

37p14, 24  
37p72  
37p63

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

37p24

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

37p45  
37p47

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 1Rp119 **2.18 Employee benefits**

### *(a) Pension obligations*

19p27  
19p25  
19p7  
19p120A(b)

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount

of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

- 19p64  
19p78 The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds<sup>55</sup> that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.
- 19p93-93D  
19p120A(a) Actuarial gains and losses arising from experience adjustments and changes in actuarial are charged or credited to equity in other comprehensive income in the period in which they arise.
- 19p96 Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.
- 19p44 For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.
- (b) Other post-employment obligations*
- 19p120A(a-b) Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.
- (c) Termination benefits*
- 19p133  
19p134  
19p139  
19p140 Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting date are discounted to present value.

---

<sup>55</sup> PAS 19 paragraph 78 requires the use of market yields on high quality corporate bonds to discount post-employment obligations. However, in the Philippines, as there is no deep market in high quality corporate bonds, the market yields (at the reporting date) on government bonds shall be used. Following PIC Q&A No. 2008-01 (Revised), the rate to be used shall be the yield (at balance sheet date) for Peso government bonds with the same tenor as the expected payment of retirement benefits. As Peso government bonds bear interest, the yield shall be converted to a zero coupon rate through such methods as bootstrapping, average bond duration method or re-investment method.

*(d) Profit-sharing and bonus plans*

19p17	The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.
1Rp119	<b>2.19 Share-based payments</b>
PFRS2p15(b) PFRS2p19	The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:
PFRS2p21 PFRS2p20	<ul style="list-style-type: none"><li>• Including any market performance conditions (for example, an entity's share price);</li><li>• Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and</li></ul>
PFRS2p21A	<ul style="list-style-type: none"><li>• Including the impact of any non-vesting conditions (for example, the requirement for employees to save).</li></ul>
PFRS2p15 PFRS2p20	Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.  In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.  At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.  When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.  The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity <b>in the parent entity accounts</b> .
1Rp119	<b>2.20 Share capital</b>
PFRS7p21 32p18(a)	Common shares are classified as equity. Mandatorily redeemable preferred shares (Note 2.13) are classified as liabilities.
32p37	Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.
32p33	Where any member of the Group purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

1Rp119	<b>2.21 Dividend distribution</b>
10p12	Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's Board of Directors.
1Rp119	<b>2.22 Foreign currency transactions and translation</b>
	<i>(a) Functional and presentation currency</i>
21p9 21p17, 18 1Rp51(d)	Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency. <sup>56</sup>
	<i>(b) Transactions and balances</i>
21p21, 28 21p32 39p95(a) 39p102(a)	Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions <b>or valuation where items are remeasured</b> . Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.  Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other (losses)/gains - net'.
39AG83	Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.
21p30	Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.
	<i>(c) Group companies</i>
21p39	The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
21p39(a)	(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
21p39(b) 21p39	(ii) Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
1p76(b) 21p39(c)	(iii) All resulting exchange differences are recognized in other comprehensive income.

<sup>56</sup> A Company whose functional currency is other than the Philippine Peso and chooses to present financial statements expressed in Philippine Peso is allowed under PAS 21. However, if this is the case, the Company shall submit financial statements expressed in both its functional currency and in Philippine Peso as required by the SEC (SEC Memo Circular 1, series of 2006).

21p47 Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in equity.

1Rp119 **2.23 Revenue recognition**<sup>57</sup>

18p35(a) Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

18p14 (a) *Sale of goods - wholesale*

The Group manufactures and sells a range of footwear products in the wholesale market. Sales of goods are recognized when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specific location, the risk of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sale contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Footwear products are often sold with volume discounts; customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specified in the sales contract, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales made with a credit term of 60 days, which is consistent with the market practice.

18p14 (b) *Sale of goods - retail*

The Group operates a chain of retail outlets for selling shoes and other footwear and leather products and accessories. Sales of goods are recognized when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card.

It is the Group's policy to sell its products to the retail customer with a right to return within 28 days. Accumulated experience is used to estimate and provide for such returns at the time of sale. The Group does not operate any loyalty programs.

18p14 (c) *Internet revenue*

Revenue from the provision of the sale of goods on the internet is recognized at the point that the risks and rewards of the inventory have passed to the customer, which is the point of dispatch. Transactions are settled by credit or payment card.

Provisions are made for internet credit notes based on the expected level of returns, which in turn is based upon the historical rate of returns.

---

<sup>57</sup> Disclose entity-specific revenue recognition policy.

\* Please note that disclosure that net sales are presented net of returns, discounts and rebates is a requirement of Philippine SEC.

18p20 (d) *Sales of services*

The Group sells design services and transportation services to other shoe manufacturers. These services are provided on a time and material basis or as a fixed-price contract, with contract terms generally ranging from less than one year to three years.

Revenue from time and material contracts, typically from delivering design services, is recognized under the percentage-of-completion method. Revenue is generally recognized at the contractual rates. For time contracts, the stage of completion is measured on the basis of labor hours delivered as a percentage of total hours to be delivered. For material contracts, the stage of completion is measured on the basis of direct expenses incurred as a percentage of the total expenses to be incurred.

Revenue from fixed-price contracts for delivering design services is also recognized under the percentage-of-completion method. Under this method, revenue is generally recognized based on the services performed to date as a percentage of the total services to be performed.

Revenue from fixed-price contracts for delivering transportation services is generally recognized in the period the services are provided, using a straight-line basis over the term of the contract.<sup>58</sup>

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

18p30(b) (e) *Royalty income*

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

18p30(a) (f) *Interest income*

39p63 Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues reversal the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

18p30(c) (g) *Dividend income*

Dividend income is recognized when the right to receive payment is established.

1p119 **2.24 Leases**

17p33  
SIC-15p5 Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

1Rp119 The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

---

<sup>58</sup> The use of straight-line basis may not always be applicable; disclosure should be tailored accordingly (e.g. percentage of completion).

- 17p20,  
17p27 Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.
- IFRIC4p1, 6 When the Group enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Group assesses whether the arrangement is, or contains, a lease. The Group does not have such arrangements.<sup>59</sup>
- 2.25 Earnings per share**
- 33p10 (a) *Basic*
- Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares in issue during the year, excluding common shares purchased by the Company and held as treasury shares.
- (b) *Diluted*
- Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: convertible debt and share options. The convertible debt is assumed to have been converted into common shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.
- 1Rp119 **2.26 Segment reporting**
- PFRS 8p5(b) Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.
- 2.27 Related party relationships and transactions**
- 24Rp9 Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.
- 2.28 Subsequent events (or Events after the reporting date)**
- 10p19-22 Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

<sup>59</sup> Disclosure should be revised as applicable to the Group.

## 2.29 Reclassifications<sup>60</sup>

1Rp41 Certain amounts in the 2010 financial statements and supporting note disclosures have been reclassified to conform to the current period presentation, including the reclassification of P700 million from provisions for other liabilities and charges to trade and other payables in the consolidated statement of financial position. Such reclassification did not affect the statement of cash flows nor did it impact previously reported net income or retained earnings.

### Commentary - Summary of significant accounting policies

1p16	<b>Statement of compliance with PFRS</b>
	<p>1 An entity whose financial statements and notes comply with PFRS makes an explicit and unreserved statement of such compliance in the notes. The financial statements and notes are not described as complying with PFRS unless they comply with all the requirements of PFRS.</p> <p>2 Where an entity can make the explicit and unreserved statement of compliance in respect of only:</p> <ul style="list-style-type: none"><li>(a) the parent financial statements and notes, or</li><li>(b) the consolidated financial statements and notes,</li></ul> <p>it clearly identifies to which financial statements and notes the statement of compliance relates.</p>
	<b>Summary of accounting policies</b>
	<p>3 A summary of significant accounting policies includes:</p>
1p117(a)	(a) the measurement basis (or bases) used in preparing the financial statements; and
1p117(b)	(b) the other accounting policies used that are relevant to an understanding of the financial statements.
1p116	4 The summary may be presented as a separate component of the financial statements.
1p119	5 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Some PFRS specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, PAS 16, 'Property, Plant and Equipment', requires disclosure of the measurement bases used for classes of property, plant and equipment.
	<b>Changes in accounting policies</b>
	<i>Initial application of PFRS</i>
8p28	<p>6 When initial application of an PFRS:</p> <ul style="list-style-type: none"><li>(a) has an effect on the current period or any prior period;</li><li>(b) would have such an effect except that it is impracticable to determine the amount of the adjustment; or</li><li>(c) might have an effect on future periods, an entity discloses:<ul style="list-style-type: none"><li>(i) the title of the PFRS;</li><li>(ii) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;</li><li>(iii) the nature of the change in accounting policy;</li><li>(iv) when applicable, a description of the transitional provisions;</li><li>(v) when applicable, the transitional provisions that might have an effect on future periods;</li><li>(vi) for the current period and each prior period presented, to the extent practicable, the amount of the</li></ul></li></ul>

<sup>60</sup> PAS1(R) paragraph 41 requires disclosure of nature of the reclassification and amount of each item or class of items that is reclassified.

adjustment:

- for each financial statement line item affected;
  - if PAS 33, 'Earnings per share', applies to the entity, for basic and diluted earnings per share;
- (vii) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- (viii) if retrospective application required by paragraph 19(a) or (b) of PAS 8, 'Accounting policies, changes in accounting estimates and errors', is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

#### *Voluntary change in accounting policy*

8p29

- 7 When a voluntary change in accounting policy:
- (a) has an effect on the current period or any prior period,
  - (b) would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or
  - (c) might have an effect on future periods, an entity discloses:
    - (i) the nature of the change in accounting policy;
    - (ii) the reasons why applying the new accounting policy provides reliable and more relevant information;
    - (iii) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
      - for each financial statement line item affected, and
      - if IAS 33 applies to the entity, for basic and diluted earnings per share;
    - (iv) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
    - (v) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

#### *Change during interim periods*

1p112(c)

- 8 There is no longer an explicit requirement to disclose the financial effect of a change in accounting policy that was made during the final interim period on prior interim financial reports of the current annual reporting period. However, where the impact on prior interim reporting periods is significant, an entity should consider explaining this fact and the financial effect.

8p30

#### **PFRS issued but not yet effective**

- 9 When an entity has not applied a new PFRS that has been issued but is not yet effective, it discloses:
- (a) this fact; and
  - (b) (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new PFRS will have on the entity's financial statements in the period of initial application.
- 10 An entity considers disclosing:
- (a) the title of the new PFRS;
  - (b) the nature of the impending change or changes in accounting policy;
  - (c) the date by which application of the PFRS is required;
  - (d) the date as at which it plans to apply it initially; and
  - (e) either:
    - (i) a discussion of the impact that initial application of the PFRS is expected to have on the entity's financial statements, or
    - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

8p31

- 11 It is PwC's view that disclosures in the paragraph above are not necessary in respect of standards and interpretations that are clearly not applicable to the entity (for example industry-specific standards) or that are not expected to have a material effect on the entity. Instead, disclosure should be given in respect of the developments that are, or could be, significant to the entity. Management will need to apply judgement in determining whether a standard is expected to have a material effect. The assessment of materiality should consider the impact both on previous transactions and financial position and on reasonably foreseeable future transactions. For pronouncements where there is an option that could have an impact on the entity, the management expectation on whether the entity will use the option should be disclosed.

### **Disclosures not illustrated in Moonwalk Corporation's financial statements**

For disclosures relating to PAS 29, "Financial Reporting in Hyperinflationary Economies", and PFRS 6 "Exploration for and Evaluation of Mineral Resources", please refer to 2012 PFRS Disclosure Checklists.

## **Note 3 - Financial risk and capital management**

### **3.1 Financial risk management**

PFRS7p31 The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### **3.1.1 Market risk<sup>61</sup>**

##### *(a) Foreign exchange risk*

PFRS7p33(a) The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the UK Pound. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

PFRS7p33(b)  
PFRS7p22(c) Management has set up a policy to require Group companies to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use forward contracts, transacted with Group Treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

PFRS7p22(c) The Group Treasury's risk management policy is to hedge between 75% and 100% of anticipated cash flows (mainly export sales and purchase of inventory) in each major foreign currency for the subsequent 12 months. Approximately 90% (2011 - 95%) of projected sales in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

<sup>61</sup> Disclose the sensitivity analysis for each type of risk to which the entity is exposed at the reporting dates showing the impact to profit or loss and equity. In addition, the method and assumptions used in preparing the sensitivity analysis including any change in the method, assumption used and the reasons for such change.

PFRS7p33(a)(b) The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency  
PFRS7p22(c) translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The Company's foreign currency denominated assets and liabilities at December 31 are as follows:

	In USD	In GBP	In Euro	In CNY
<b>2012</b>				
Cash and cash equivalents				
Receivables				
Payables				
Borrowings				
Net foreign currency assets				
Year-end exchange rates				
Peso equivalent				
<b>2011</b>				
Cash and cash equivalents				
Receivables				
Payables				
Borrowings				
Net foreign currency assets				
Year-end exchange rates				
Peso equivalent				

21p52(a) The exchange differences credited (charged) to profit or loss are as follows:

	Note	2012	2011	2010*
Other gains/(losses), net	21	(277)	200	
Finance costs, net	26	2,594	996	
		2,317	1,196	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

PFRS7p40 The Group assessed the impact of changes in Peso-US Dollar and Peso-UK Pound exchange rates as at  
PFRS7IG36 December 31, 2012 and 2011 in demonstrating sensitivities to a possible reasonable change in Peso exchange rate.

At December 31, 2012, if the Peso had weakened/strengthened by 11% against the US Dollar with all other variables held constant, post-tax profit for the year would have been P362 (2011 - P51) higher/ lower, mainly as a result of foreign exchange gains/losses on translation of US Dollar-denominated trade receivables, financial assets at fair value through profit or loss and debt securities classified as available-for-sale and foreign exchange losses/gains on translation of US Dollar denominated borrowings. Similarly, the impact would have been C6,850 (2011: C6,650) higher/lower due to an increase in the volume of cash flow hedging in US dollars.

Profit is more sensitive to movement in currency/US Dollar exchange rates in 2012 than 2011 because of the increased amount of US-Dollar denominated borrowings. Similarly, the impact on equity would have been P6,850 (2011 - P6,650) higher/lower due to an increase in the volume of cash flow hedging in US Dollars.

At December 31, 2012, if the Peso had weakened/strengthened by 4% against the UK Pound with all other variables held constant, post-tax profit for the year would have been P135 (2011 - P172) lower/higher,

mainly as a result of foreign exchange gains/losses on translation of UK Pound-denominated trade receivables, financial assets at fair value through profit or loss, debt securities classified as available-for-sale and foreign exchange gains/losses on translation of UK Pound-denominated borrowings.

PFRS7p33(a)(b) *(b) Price risk*

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the statement of financial position either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

At December 31, 2012, the impact of 10% increase/decrease (2011 - 10%) in the bid share price of listed equity securities, with all other variables held constant, would have been an increase/decrease of P6.4 million in the Group's total comprehensive income and equity for the year (2011 - P3.2 million). The Group's sensitivity analysis takes into account the historical performance of the stock market.

*(c) Cash flow and fair value interest rate risk*

PFRS7p33(a) As the Group has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

PFRS7p33(a)(b) The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose  
PFRS7p22(c) the Group to cash flows interest rate risk<sup>62</sup> which is partially offset by cash on held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain approximately 60% of its borrowings in fixed rate instruments using the interest rate swaps to achieve this when necessary. During 2012 and 2011, the Group's borrowings at variable rate were denominated in Philippine Peso, the UK Pound and other currencies.

PFRS7p33(a)(b) The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on post-tax profit of a 10 basis-point shift would be a maximum increase of P41 (2011 - P37) or decrease of P34 (2011 - P29), respectively. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the management.

PFRS7p22(b)(c) Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting the borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

PFRS7p22(b)(c) Occasionally, the Group also enters into fixed-to-floating rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates in excess of the 60% target.

---

<sup>62</sup> It is necessary to disclose what kind of market risk management has assessed based on the actual facts (cash flow or fair value interest risk). If the interest rate is variable, the risk falls under cash flow interest rate risk and if fixed rate, the risk falls under interest rate risk.

PFRS7p40  
PFRS7IG36

At December 31, 2012, if interest rates on Philippine Peso-denominated borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been P22 (2011 - P21) lower/higher, mainly as a result of higher/lower interest expense on floating-rate borrowings; other components of equity would have been P5 (2011 - P3) lower/higher mainly as a result of a decrease/increase in the fair value of fixed-rate financial assets classified as available-for-sale.

As at December 31, 2012, if interest rates on UK Pound-denominated borrowings at that date had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been P57 (2011 - P38) lower/higher, mainly as a result of higher/lower interest expense on floating-rate borrowings; other components of equity would have been P6 (2011 - P4) lower/higher mainly as a result of a decrease/increase in the fair value of fixed-rate financial assets classified as available-for-sale.

### 3.1.2 Credit risk<sup>63</sup>

PFRS7p33(a)(b)  
PFRS7p36(a-d) Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating 'A' are accepted. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control section assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilization of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

The credit quality of financial assets is discussed below:

#### (a) Cash in banks and short-term bank deposits

PFRS7p36(c) The Group deposits its cash balance in commercial, universal and rural banks to minimize credit risk exposure. Amount deposited in these banks are as follows:

	2012	2011
Commercial banks	8,790	15,890
Universal banks	5,300	7,840
Rural banks	6,798	11,257
	20,879	34,987

The remaining item in 'cash and cash equivalents' in the statement of financial position is cash on hand.

#### (b) Available-for-sale debt securities

Available-for-sale debt securities mainly pertain to government securities denominated in Philippine Peso with credit rating of BB- according to Standard & Poor's as at December 31, 2012 and 2011.

<sup>63</sup> If by nature of the business the credit risk is not considered high, recommended disclosure is as follows:

"The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution."

(c) Trade and other receivables

PFRS7p36(c) The credit quality of trade and other receivables that are neither past due nor impaired can be assessed by reference to internal credit ratings (if available) or to historical information about counterparty default rates:

	2012	2011
Trade and other receivables		
Group 1	6,645	6,312
Group 2	8,034	7,506
Group 3	3,270	3,212
	17,947	17,030

- Group 1 - new customers/related parties (less than 6 months).
- Group 2 - existing customers/related parties (more than 6 months) with no defaults in the past.
- Group 3 - existing customers/related parties (more than 6 months) with some defaults in the past. All defaults were fully recovered.

None of the loans to related parties are past due but not impaired.

PFRS7p36(d) As at December 31, 2012, trade receivables of P17,670 (2011 - P16,595) were fully performing.

PFRS7p37(b) As at December 31, 2012, trade receivables of P277 (2011 - P207) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2012	2011
Up to 3 months	177	108
Over 3 months	100	99
	277	207

As at December 31, 2012, trade receivables of P227 (2011 - P142) were impaired and provided for. The amount of the provision was P109 as at December 31, 2012 (2011 - P70). The individually impaired receivables mainly relate to wholesalers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The aging of these receivables is as follows:

	2012	2011
3 - 6 months	177	108
Over 6 months	50	34
	227	142

PFRS7p16 The other classes within trade and other receivables do not contain impaired assets.

PFRS7p36(a) The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above.<sup>64</sup> The Group does not hold any collateral as security.<sup>65</sup>

<sup>64</sup> 2010 improvements to PFRS 7 clarify that the requirement to disclose the amount that best represents the maximum exposure to credit risk does not apply when the carrying amounts of financial assets represent maximum exposure to credit risk.

### 3.1.3 Liquidity risk

PFRS7p33 Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the  
PFRS7p39(b) availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines.

PFRS7p33(a,b) Cash flow forecasting is performed in the operating entities of the Group in and aggregated by Group  
PFRS7p34(a) Finance. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 17) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements - for example, currency restrictions.

PFRS7p33(a,b) Surplus cash held by the operating entities over and above balance required for working capital  
PFRS7p39(c) management are transferred to the Group Treasury. Group Treasury invests surplus cash in interest bearing  
PFRS7B11e current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the Group held money market funds of P6,312 (2011 - P934) and other liquid assets of P321 (2011 - P1,400) that are expected to readily generate cash inflows for managing liquidity risk.

PFRS7p39(a,b) The table below analyzes the Group's financial liabilities and net-settled derivative financial liabilities into  
AppxB15 relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. **Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows.** The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years
<b>2012</b>				
Borrowings (excluding finance lease liabilities)	20,496	22,002	67,457	38,050
Finance lease liabilities	2,749	1,573	4,719	2,063
Trading and net settled derivative financial instruments (interest rate swaps)	280	10	116	41
Trade and other payables	15,668	-	-	-
Financial guarantee contracts	21	-	-	-

<sup>65</sup> 2010 improvements to PFRS 7 provide that the requirement to disclose the fair value of collateral and other credit enhancements has been replaced with the requirement to disclose their financial effect. The disclosure will need to be presented in quantitative terms and explain the extent to which collateral and other credit enhancements mitigate credit risk.

Other improvements to PFRS 7 include (i) the removal of the requirement to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated; and (ii) clarification that the disclosure of foreclosed collateral is only required if it is held at the reporting date.

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years
<b>2011</b>				
Borrowings (excluding finance lease liabilities)	16,258	11,575	58,679	38,103
Finance lease liabilities	3,203	1,790	5,370	2,891
Trading and net settled derivative financial instruments (interest rate swaps)	317	15	81	50
Trade and other payables	11,518	-	-	-
Financial guarantee contracts	10	-	-	-

PFRS7B10A(a) Of the C67,457 disclosed in the 2011 borrowings time band 'Between 2 and 5 years' the Group intends to repay P40,000 in the first quarter of 2013 (2012: nil).

PFRS7p39(b) The Group's trading portfolio derivative instruments with a negative fair value have been included at their fair value of P268 (2011 - P298) within the less than one year time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the Group to manage the Group's interest rate profile.

PFRS7p39(b) All of the non-trading Group's gross settled derivative financial instruments are in hedge relationships and are due to settle within 12 months of the reporting date. These contracts require undiscounted contractual cash inflows of P78,756 (2011 - P83,077) and undiscounted contractual cash outflows of P78,241 (2011 - P83,366).

1p134,135,  
IG10

### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

During 2012, the Group's strategy, which was unchanged from 2010, was to maintain the gearing ratio within 45% to 50%, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The BB credit rating has been maintained throughout the period. The gearing ratios at December 31, 2012 and 2011 were as follows:

	Note	2012	2011
Total borrowings	17	126,837	114,604
Less cash and cash equivalents	5	(17,928)	(34,062)
Net debt		108,909	80,542
Total equity		131,773	88,946
Total capital		240,682	169,488
Gearing ratio		45%	48%

The decrease in the gearing ratio during 2012 resulted primarily from the issue of share capital as part of the consideration for the acquisition of a subsidiary (Note 35).

PFRS7p6

### 3.3 Financial instruments by category

#### (a) Financial assets

	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale	Total
<b>Financial assets as per statement of financial position</b>					
<b>2012</b>					
Cash and cash equivalents	17,928	-	-	-	17,928
Financial assets at fair value through profit or loss	-	11,820	-	-	11,820
Derivative financial instruments	-	361	1,103	-	1,464
Available-for-sale financial assets	-	-	-	19,370	19,370
Trade and other receivables (excluding prepayments)	20,787	-	-	-	20,787
	38,715	12,181	1,103	19,370	71,369
<b>2011</b>					
Cash and cash equivalents	34,062	-	-	-	34,062
Financial assets at fair value through profit or loss	-	7,972	-	-	7,972
Derivative financial instruments	-	321	875	-	1,196
Available-for-sale financial assets	-	-	-	14,910	14,910
Trade and other receivables (excluding prepayments)	18,536	-	-	-	18,536
	52,598	8,293	875	14,910	76,676

#### (b) Financial liabilities

	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
<b>Financial liabilities as per statement of financial position</b>				
<b>2012</b>				
Trade and other payables (excluding non-financial liabilities)	-	-	15,668	15,668
Borrowings (excluding finance lease liabilities)	-	-	117,839	117,839
Finance lease liabilities	-	-	8,998	8,998
Derivative financial instruments	268	327	-	595
	268	327	142,505	143,100

	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
<b>2011</b>				
Trade and other payables (excluding non-financial liabilities)	-	-	11,518	11,518
Borrowings (excluding finance lease liabilities)	-	-	104,006	104,006
Finance lease liabilities	-	-	10,598	10,598
Derivative financial instruments	298	449	-	747
	298	449	126,122	126,869

### 3.4 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

PFRS7p27B(a) The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2012.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Trading derivatives	-	250	111	361
Trading securities	11,820	-	-	11,820
Derivatives used for hedging	-	1,103	-	1,103
Available-for-sale financial assets				
Equity securities	18,735	-	-	18,735
Debt investments	288	347	-	635
<b>Total assets</b>	30,843	1,700	111	32,654
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	268	-	268
Derivatives used for hedging	-	327	-	327
<b>Total liabilities</b>	-	595	-	595

PFRS7p27B(a) The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2011.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Trading derivatives	-	321	-	321
Trading securities	7,972	-	-	7,972
Derivatives used for hedging	-	875	-	875
Available-for-sale financial assets				
Equity securities	14,646	-	-	14,646
Debt investments	-	264	-	264
<b>Total assets</b>	<b>22,618</b>	<b>1,460</b>	<b>-</b>	<b>24,078</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	298	-	298
Derivatives used for hedging	-	449	-	449
<b>Total liabilities</b>	<b>-</b>	<b>747</b>	<b>-</b>	<b>747</b>

PFRS7p27 Note that all of the resulting fair value estimates are included in level 2 except for certain forward foreign exchange contracts as explained below.

The following table presents the changes in Level 3 instruments for the year ended December 31, 2012:

	Trading derivatives at fair value through profit or loss	Total
Opening balance	-	-
Transfers into level 3	115	115
Gains and losses recognized in profit or loss	(4)	(4)
Closing balance	111	111
Total gains or losses for the period included in profit or loss for assets held at reporting date	(4)	(4)

The following table presents the changes in Level 3 instruments for the year ended December 31, 2011:

	Trading derivatives at fair value through profit or loss	Total
Opening balance	62	62
Transfers into level 3	(51)	(51)
Gains and losses recognized in profit or loss	(11)	(11)
Closing balance	-	-
Total gains or losses for the period included in profit or loss for assets held at reporting date	-	-

In 2012, the Group transferred a held-for-trading forward foreign exchange contract from level 2 into level 3. This is because the counterparty for the derivative encountered significant financial difficulties, which resulted in a significant increase to the discount rate due to increased counterparty credit risk, which is not based on observable inputs.

PFRS7p27B(e) If the change in the credit default rate would be shifted +/- 5% the impact on profit or loss would be P20.

## **Commentary - Financial Risk Management**

### **Accounting standard for presentation and disclosure of financial instruments**

- PFRS7p3 1 PFRS 7, 'Financial instruments: Disclosures', applies to all reporting entities and to all types of financial instruments except:
- Those interests in subsidiaries, associates and joint ventures that are accounted for under PAS 27, 'Consolidated and separate financial statements', PAS 28, 'Investments in associates', or IAS 31, 'Interests in joint ventures'. However, entities should apply PFRS 7 to an interest in a subsidiary, associate or joint venture that according to PAS 27, PAS 28 or PAS 31 is accounted for under PAS 39, 'Financial instruments: Recognition and measurement'. Entities should also apply PFRS 7 to all derivatives on interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in PAS 32.
  - Employers' rights and obligations under employee benefit plans, to which PAS 19, 'Employee benefits', applies.
  - Insurance contracts as defined in PFRS 4, 'Insurance contracts'. However, PFRS 7 applies to derivatives that are embedded in insurance contracts if PAS 39 requires the entity to account for them separately. It also applies to financial guarantee contracts if the issuer applies PAS 39 in recognizing and measuring the contracts.
  - Financial instruments, contracts and obligations under share-based payment transactions to which PFRS 2, 'Share-based payment', applies, except for contracts within the scope of paragraphs 5-7 of PAS 39, which are disclosed under PFRS 7. From January 1, 2009 puttable financial instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or 16C and 16D of PAS 32 (revised).

### **Parent entity disclosures**

- PFRS7 2 Where applicable, all disclosure requirements outlined in PFRS 7 should be made for both the parent and consolidated entity. The relief from making parent entity disclosures, which was previously available under PAS 30, 'Disclosures in the financial statements of banks and similar financial institutions', and PAS 32, has not been retained in PFRS 7.

### **Classes of financial instrument**

- PFRS7p6, B1-B3 3 Where PFRS 7 requires disclosures by class of financial instrument, the entity groups its financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The entity should provide sufficient information to permit reconciliation to the line items presented in the statement of financial position. Guidance on classes of financial instruments and the level of required disclosures is provided in appendix B of PFRS 7.

### **Level of detail and selection of assumptions - information through the eyes of management**

- PFRS7 p34(a) 4 The disclosures in relation to an entity's financial risk management should reflect the information provided internally to key management personnel. As such, the disclosures that will be provided by an entity, their level of detail and the underlying assumptions used will vary greatly from entity to entity. The disclosures in this illustrative financial statement are only one example of the kind of information

that may be disclosed; the entity should consider carefully what may be appropriate in its individual circumstances.

### **Nature and extent of risks arising from financial instruments**

- PFRS7  
p31, 32
- 5 The financial statement should include qualitative and quantitative disclosures that enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

#### **Qualitative disclosures**

- PFRS7p33
- 6 An entity should disclose for each type of risk:
- (a) the exposures to the risk and how they arise;
  - (b) the entity's objectives, policies and processes for managing the risk and the methods used to measure the risk; and
  - (c) any changes in (a) or (b) from the previous period.

#### **Quantitative disclosures**

- PFRS7  
p34(a)(c)
- 7 An entity should provide for each type of risk, summary quantitative data on risk exposure at the end of the reporting period, based on information provided internally to key management personnel and any concentrations of risk. This information can be presented in narrative form as is done on pages x to x of this publication. Alternatively, entities could provide the data in a table that sets out the impact of each major risk on each type of financial instruments. This table could also be a useful tool for compiling the information that should be disclosed under paragraph 34 of PFRS 7.
- PFRS7  
p34(b)
- 8 If not already provided as part of the summary quantitative data, the entity should also provide the information in paragraphs 9-15 below, unless the risk is not material.

#### **Credit risk**

- PFRS7p36,  
37
- 9 For each class of financial instrument, the entity should disclose:
- (a) the maximum exposure to credit risk and any related collateral held;
  - (b) information about the credit quality of financial assets that are neither past due nor impaired;
  - (c) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated;
  - (d) an analysis of the age of financial assets that are past due but not impaired; and
  - (e) (e) an analysis of financial assets that are individually determined to be impaired including the factors in determining that they are impaired.

#### **Liquidity risk**

- PFRS7  
p34(a), 39
- 10 Information about liquidity risk shall be provided by way of:
- (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities;
  - (b) a maturity analysis for derivative financial liabilities (see paragraph 12 below for details); and
  - (c) a description of how the entity manages the liquidity risk inherent in (a) and (b).
- PFRS7  
B11F
- 11 In describing how liquidity risk is being managed, an entity should consider discussing whether it:
- (i) has committed borrowing facilities or other lines of credit that it can access to meet liquidity needs;
  - (ii) holds deposits at central banks to meet liquidity needs;

- (iii) has very diverse funding sources;
- (iv) has significant concentrations of liquidity risk in either its assets or its funding sources;
- (v) has internal control processes and contingency plans for managing liquidity risk;
- (vi) has instruments that include accelerated repayment terms (for example, on the downgrade of the entity's credit rating);
- (vii) has instruments that could require the posting of collateral (for example, margin calls for derivatives);
- (viii) has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; and
- (ix) has instruments that are subject to master netting agreements.

### **Maturity analysis**

- PFRS7  
B11B
- 12 The maturity analysis for derivative financial liabilities should disclose the remaining contractual maturities if these maturities are essential for an understanding of the timing of the cash flow. For example, this will be the case for interest rate swaps in a cash flow hedge of a variable rate financial asset or liability and for all loan commitments. Where the remaining contractual maturities are not essential for an understanding of the timing of the cash flows, the expected maturities may be disclosed instead.
- PFRS7p39,  
B11D
- 13 For derivative financial instruments where gross cash flows are exchanged and contractual maturities are essential to understanding, the maturity analysis should disclose the contractual amounts that are to be exchanged on a gross basis. The amount disclosed should be the amount expected to be paid in future periods, determined by reference to the conditions existing at the end of the reporting period. However, PFRS 7 does not specify whether current or forward rates should be used. We therefore recommend that entities explain which approach has been chosen. This approach should be applied consistently.
- PFRS7B11
- 14 The specific time buckets presented are not mandated by the standard but are based on what is reported internally to the key management personnel. The entity uses judgment to determine the appropriate number of time bands.
- PFRS7  
B11D
- 15 If the amounts included in the maturity tables are the contractual undiscounted cash flows, these amounts will not reconcile to the amounts disclosed on the statement of financial position for borrowings, derivative financial instruments and trade and other payables. Entities can choose to add a column with the carrying amounts that ties into the statement of financial position and a reconciling column if they so wish, but this is not mandatory.
- PFRS7  
B10A
- 16 If an outflow of cash could occur either significantly earlier than indicated or be for significantly different amounts from those indicated in the entity's disclosures about its exposure to liquidity risk, the entity should state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk. This disclosure is not necessary if that information is included in the contractual maturity analysis.

### **Financing arrangements**

- PFRS7  
p39(c)
- 17 Committed borrowing facilities are a major element of liquidity management. Entities should therefore consider providing information about their undrawn facilities. IAS 7, 'Statements of cash flows', also recommends disclosure of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.

### **Market risk**

- PFRS7  
p40(a)(b)
- 18 Entities should disclose a sensitivity analysis for each type of market risk (currency, interest rate and other price risk) to which an entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by 'reasonably possible' changes in the relevant risk variable, as well as the methods and assumptions used in preparing such an analysis.

PFRS7 p40(c)	19 If there have been any changes in methods and assumptions from the previous period, this should be disclosed, together with the reasons for the change.
	<b>Foreign currency risk</b>
PFRS7B23	20 Foreign currency risk can only arise on financial instruments that are denominated in a currency other than the functional currency in which they are measured. Translation related risks are therefore not included in the assessment of the entity's exposure to currency risks. Translation exposures arise from financial and non-financial items held by an entity (for example, a subsidiary) with a functional currency different from the group's presentation currency. However, foreign currency denominated inter-company receivables and payables that do not form part of a net investment in a foreign operation are included in the sensitivity analysis for foreign currency risks, because even though the balances eliminate in the consolidated statement of financial position, the effect on profit or loss of their revaluation under PAS 21 is not fully eliminated.
	<b>Interest rate risk</b>
	21 Sensitivity to changes in interest rates is relevant to financial assets or financial liabilities bearing floating interest rates due to the risk that future cash flows will fluctuate. However, sensitivity will also be relevant to fixed rate financial assets and financial liabilities that are re-measured to fair value.
	<b>Fair value disclosures</b>
	<i>Financial instruments carried at other than fair value</i>
PFRS7p25, 29	22 An entity should disclose the fair value for each class of financial assets and financial liabilities (see paragraph 3 above) in a way that permits it to be compared with its carrying amount. Fair values do not need to be disclosed for the following: <ul style="list-style-type: none"> <li>(a) when the carrying amount is a reasonable approximation of fair value;</li> <li>(b) investments in equity instruments (and derivatives linked to such equity instruments) that do not have a quoted market price in an active market and that are measured at cost in accordance with IAS 39 because their fair value cannot be measured reliably; and</li> <li>(c) A contract containing a discretionary participation feature (as described in PFRS 4, 'Insurance contracts') where the fair value of that feature cannot be measured reliably.</li> </ul>
	23 The information about the fair values can be provided either in a combined financial instruments note or in the individual notes. However, fair values should be separately disclosed for each class of financial instrument (see paragraph 3 above), which means that each line item in the table would have to be broken down into individual classes. For that reason, Moonwalk Corporation has chosen to provide the information in the relevant notes.
	<i>Methods and assumptions in determining fair value</i>
PFRS7p27	24 An entity should disclose for each class of financial instruments (see paragraph 3 above) the methods and, when a valuation technique is used, the assumptions applied in determining fair values. Examples of assumptions that should be disclosed are assumptions relating to prepayment rates, rates of estimated credit losses, interest rates or discount rates. If the entity has changed a valuation technique, that fact and the reason for the change should also be disclosed.
	<i>Financial instruments measured at cost where fair value cannot be determined reliably</i>
PFRS7p30	25 If the fair value of investments in unquoted equity instruments, derivatives linked to such equity instruments or a contract containing a discretionary participation feature (as described in PFRS 4, 'Insurance contracts') cannot be measured reliably, the entity should disclose: <ul style="list-style-type: none"> <li>(a) the fact that fair value information has not been disclosed because it cannot be measured reliably;</li> </ul>

- (b) a description of the financial instruments, their carrying amount and an explanation of why fair value cannot be measured reliably;
- (c) information about the market for the instruments;
- (d) information about whether and how the entity intends to dispose of the financial instruments; and
- (e) if the instruments are subsequently derecognized, that fact, their carrying amount at the time of derecognition and the amount of gain or loss recognized.

*Fair value measurements recognized in the statement of financial position*

PFRS7  
p27B

26 For fair value measurements recognized in the statement of financial position, the entity should also disclose for each class of financial instruments:

- (a) the level in the fair value hierarchy into which the fair value measurements are categorized;
- (b) any significant transfers between level 1 and level 2 of the fair value hierarchy and the reasons for those transfers;
- (c) for fair value measurements in level 3 of the hierarchy, a reconciliation from the beginning balances to the ending balances, showing separately changes during the period attributable to the following:
  - (i) total gains or losses for the period recognized in profit or loss, together with a description of where they are presented in the statement of comprehensive income or the income statement (as applicable);
  - (ii) total gains or losses recognized in other comprehensive income;
  - (iii) purchases, sales issues and settlements (each type disclosed separately); and
  - (iv) transfers into or out of level 3 and the reasons for those transfers;
- (d) the amount of total gains or losses for the period included in profit or loss that are attributable to gains or losses relating to assets and liabilities held at the end of the reporting period, together with a description of where the gains and losses are presented in the statement of comprehensive income or the income statement (as applicable); and
- (e) for fair value measurements in level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, that fact, the effect of those changes and how the effect was calculated.

PFRS7  
p27A

27 Entities should classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy should have the following levels:

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
  - (b) Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).
  - (c) Level 3: inputs for the asset or liability that are not based on observable market data.
- The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

**Additional information where quantitative data about risk exposure is unrepresentative**

PFRS7p35,  
42

28 If the quantitative data disclosed under paragraphs 7, 9, 10 and 14 above is unrepresentative of the entity's exposure to risk during the period, the entity should provide further information that is representative. If the sensitivity analyses are unrepresentative of a risk inherent in a financial instrument (for example, where the yearend exposure does not reflect the exposure during the year), the entity should disclose that fact and the reason why the sensitivity analyses are unrepresentative.

#### **Note 4 - Critical accounting estimates, assumptions and judgments**

Estimates, assumptions and judgments 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.

1Rp125

#### **4.1 Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

##### *(a) Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.11. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 15).

1Rp129(a)  
36p134(f)(i)-(iii)

An impairment charge of P4,650 arose in the wholesale CGU in Step-land (included in Russian operating segment) during the course of the year 2011, resulting in the carrying amount of the CGU being written down to its recoverable amount. If the budgeted gross margin used in the value-in-use calculation for the wholesale CGU in Step-land had been 10% lower than management's estimates at December 31, 2012 (for example, 46% instead of 56%), the Group would have recognized a further impairment of goodwill by P100 and would need to reduce the carrying value of property, plant and equipment by P300.

1Rp129(b)(c)

If the estimated cost of capital used in determining the pre-tax discount rate for the wholesale CGU in Step-land had been 1% higher than management's estimates (for example, 13.8% instead of 12.8%), the Group would have recognized a further impairment against goodwill of P300.

##### *(b) Income taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain.

The Group recognizes liabilities for tax audit issues when it is probable. The liabilities are based on estimates whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

1Rp129(a)

Further, recognition of deferred income taxes depends on management's assessment of the probability of available future taxable income against which the temporary differences can be applied.

1Rp129(b)(c)

Were the actual final outcome (on the judgment areas) of expected cash flows were to differ by 10% from management's estimates, the Group would need to:

- increase the income tax liability by P120 and the deferred tax liability by P230, if unfavorable; or
- decrease the income tax liability by P110 and the deferred tax liability by P215, if favorable.

##### *(c) Fair value of derivatives and other financial instruments*

PFRS7p27  
1Rp129(a)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each

reporting date. The Group has used discounted cash flow analysis for various available-for-sale financial assets that were not traded in active markets.

1Rp129(b)(c) The carrying amount of available-for-sale financial assets would be an estimated P12 lower or P15 higher were the discounted rate used in the discounted cash flow analysis to differ by 10% from management's estimates.

*(d) Revenue recognition*

1Rp129(a) The Group uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver design services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. Were the proportion of services performed to total services to be performed to differ by 10% from management's estimates, the amount of revenue recognized in the year would be increased by P1,175 if the proportion performed were increased, or would be decreased by P1,160 if the proportion performed were decreased.

1Rp129(b)(c)

*(e) Pension benefits*

1Rp129(a) The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of government bonds<sup>46</sup> that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 19.

1Rp129(b)(c) Were the discount rate used to differ by 10% from management's estimates, the carrying amount of pension obligations would be an estimated P425 lower or P450 higher.

*(f) Useful lives of property, plant and equipment*

1Rp129(a) The Group's management determines the estimated useful lives for its property, plant and equipment based on the period over which the assets are expected to be available for use. The Group annually reviews the estimated useful lives of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned.

1Rp129(b)(c) If the actual useful lives of the property, plant and equipment differ by 10% from management's estimates, the carrying amount of property, plant and equipment would be an estimated P250 (2011 - P282) higher or lower.

*(g) Impairment of trade and other receivables*

1Rp129(a) The provision for impairment of receivables is based on the Group's assessment of the collectibility of payments from its debtors. This assessment requires judgment regarding the ability of the debtors to pay the amounts owed to the Group and the outcome of any disputes. Any change in the Group's assessment of the collectibility of receivables could significantly impact the calculation of such provision and results of its financial performance. Total receivables subjected to this assessment are shown in Note 9. The Group

1Rp131

considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the impairment of receivables.

*(h) Net realizable value of inventories*

1Rp129(a) The Group recognizes a provision for impairment of inventories whenever the net realizable value of the inventories becomes lower than cost due to damage, physical deterioration, technological and commercial obsolescence, changes in commodity prices for its raw materials, and other causes.

1Rp131 Results of management's assessment disclosed the needed provision for impairment of inventories as at December 31, 2012 and amounts to P\_\_ (2011 - P\_\_) (Note 10). The provision account, if any, is reviewed on a monthly basis to reflect the accurate valuation of the Group's inventories. Inventory items identified to be obsolete and unusable is written-off and charged as expense for the period. The Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the impairment of inventories.

1Rp122 **4.2 Critical judgments in applying the entity's accounting policies**

*(a) Revenue recognition*

The Group has recognized revenue amounting to P950 for sales of goods to Pure Leather, Inc. in the Philippines during 2011. The buyer has the right to return the goods if their customers are dissatisfied. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 3%. The Group has therefore recognized revenue on this transaction with a corresponding provision against revenue for estimated returns. If the estimate changes by 1%, revenue will be reduced/increased by P10.

*(b) Impairment of available-for-sale equity investments*

The Group follows the guidance of PAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the Group would suffer an additional loss of P1,300 in its 2010 financial statements, being the transfer of the accumulated fair value adjustments recognized in equity on the impaired available-for-sale financial assets to profit or loss.

*(c) Investment in Alpha Limited*

Management has assessed the level of influence that the Group has on Alpha Limited and determined that it has significant influence even though the share holding is below 20% because of the board representation and contractual terms. Consequently, this investment has been classified as an associate.

**Note 5 - Cash and cash equivalents**

Cash and cash equivalents at December 31 consist of:

	2012	2011
Cash at bank and in hand (excluding bank overdrafts)	8,398	28,648
Short-term bank deposits	9,530	5,414
	17,928	34,062

The effective interest rate on short-term bank deposits was 5.9% (2011 - 5.6%); these deposits have an average maturity of 20 days.

7p45 Cash and cash equivalents include the following for the purpose of the statement of cash flows:

	Note	2012	2011
Cash and cash equivalents		17,928	34,062
7p8 Bank overdrafts	17	(2,650)	(6,464)
		15,278	27,598

**Note 6 - Financial assets at fair value through profit or loss**

PFRS7p8(a) Financial assets at fair value through profit or loss at December 31 consist of:  
PFRS7p34(c)

	2012	2011
Listed securities:		
Equity securities - Philippines	5,850	3,560
Equity securities - US	4,250	3,540
Equity securities - UK	1,720	872
	11,820	7,972

7p15 Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the statement of cash flows (Note 32).

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other gains/(losses) - net' in profit or loss (Note 27).

PFRS7p27(b) The fair value of all equity securities is based on their current bid prices in an active market.

**Note 7 - Derivative financial instruments**

Derivative financial instruments at December 31 consist of:

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
PFRS7p22(a)(b) Interest rate swaps - cash flow hedges	351	110	220	121
Interest rate swaps - fair value hedges	57	37	49	11
Forward foreign exchange contracts - cash flow hedges	695	180	606	317
Forward foreign exchange contracts - held-for-trading	361	268	321	298
Total	1,464	595	1,196	747
Less non-current portion:				
Interest rate swaps - cash flow hedges	345	100	200	120
Interest rate swaps - fair value hedges	50	35	45	9
	395	135	245	129
1Rp66,69 Current portion	1,069	460	951	618

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedge item is less than 12 months.

PFRS7p24 The ineffective portion recognized in profit or loss that arises from fair value hedges amounts to a loss of P1 (2011 - P1). The ineffective portion recognized in profit or loss that arises from cash flow hedges amounts to a gain of P17 (2011 - P14). There was no ineffectiveness to be recorded from net investment in foreign entity hedges.

*(a) Forward foreign exchange contracts*

PFRS7p31 The notional principal amounts of the outstanding forward foreign exchange contracts at December 31, 2012 were P92,370 (2011 - P89,689).

PFRS7p23(a)  
39p100  
1Rp79(b) The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognized in the hedging reserve in equity (Note 21) on forward foreign exchange contracts as at December 31, 2012 are recognized in profit or loss in the period or periods during which the hedged forecast transaction affects profit or loss. This is generally within 12 months from the end of the reporting period unless the gain or loss is included in the initial amount recognized for the purchase of fixed assets, in which case recognition is over the lifetime of the asset (five to 10 years).

*(b) Interest rate swaps*

PFRS7p31 The notional principal amounts of the outstanding interest rate swap contracts at December 31, 2012 were P4,314 (2011 - P3,839).

PFRS7p23(a) At December 31, 2012, the fixed interest rates vary from 6.9% to 7.4% (2011 - 6.7% to 7.2%) and the main floating rate is LIBOR.

Gains and losses recognized in the hedging reserve in equity (Note 21) on interest rate swap contracts as at December 31, 2012 will be continuously released to profit or loss until the repayment of the bank borrowings (Note 17).

*(c) Hedge of net investment in foreign entity*

PFRS7p22  
1Rp79(b) A proportion of the Group's US Dollar-denominated borrowing amounting to P321 (2011 - P321) is designated as a hedge of the net investment in the Group's US subsidiary. The fair value of the borrowing at December 31, 2012 was P370 (2011 - P279). The foreign exchange loss of P45 (2011 - gain of P40) on translation of the borrowing to currency at the end of the reporting period is recognized in other comprehensive income.

PFRS7p36(a) The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the statement of financial position.<sup>66</sup>

---

<sup>66</sup> The 2010 annual improvements clarified that this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk. This amendment applies to annual periods beginning on or after January 1, 2011.

**Note 8 - Available-for-sale financial assets**

Movements in available-for-sale financial assets for the year ended December 31 are as follows:

	Notes	2012	2011
At January 1		14,910	13,222
Exchange differences		646	(435)
Acquisition of subsidiary	35	473	-
Additions		4,037	1,150
Disposals		(106)	-
1Rp76(b) Net gains/(losses) transfer from equity	21	(1,150)	-
Net gains/(losses) transfer to equity	21	690	1,125
At December 31		19,370	14,910
Less: non-current portion		(17,420)	(14,910)
1Rp66 Current portion		1,950	-

PFRS7p20(a)(ii) The Group removed profits of P217 (2011 - P187) and losses P87 (2011 - P35) from equity into profit or loss. Losses in the amount of P55 (2011 - P20) were due to impairments.

PFRS7p34 Available-for-sale financial assets at December 31 include the following:

	2012	2011
<b>Listed securities:</b>		
Equity securities - Philippines	8,335	8,300
Equity securities - US	5,850	2,086
Equity securities - UK	4,550	4,260
Debentures with fixed interest of 6.5% and maturity date of August 27, 2013	210	-
Non-cumulative 9.0% non-redeemable preferred shares	78	-
<b>Unlisted securities:</b>		
Debt securities traded on inactive markets with fixed interest ranging from 6.3% to 6.5% and maturity dates between July 2012 and May 2014	347	264
	19,370	14,910

PFRS7p34(c) Available-for-sale financial assets are denominated in the following currencies:

	2012	2011
Philippine Peso	8,335	8,300
US Dollar	5,850	2,086
UK Pound	4,550	4,260
Other currencies	635	264
	19,370	14,910

PFRS7p27 The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities (2011 - 6%; 2010 - 5.8%).

PFRS7p36(a) The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as available-for-sale.<sup>55</sup>

PFRS7p36(c) None of the available-for-sale financial assets is either past due or impaired.

## **Note 9 - Trade and other receivables**

1Rp77 Trade and other receivables at December 31 consist of:

	<b>Notes</b>	<b>2012</b>	<b>2011</b>
PFRS7p36			
		18,174	17,024
		(109)	(70)
		18,065	16,954
1Rp78(b)		1,300	1,146
1Rp78(b)	33	54	46
24Rp18(b)	33	2,668	1,388
		22,087	19,534
		(2,322)	(1,352)
1Rp66		19,765	18,182

All non-current receivables are due within five years from the reporting date.

PFRS7p25 The fair values of trade and other receivables are as follows:

	<b>2012</b>	<b>2011</b>
	18,065	17,172
	54	46
	2,722	1,398
	20,841	18,616

PFRS7p27 The fair values of loans to related parties are based on cash flows discounted using a rate based on the borrowings rate of 7.5% (2011 - 7.2%). The discount rate equals to LIBOR plus appropriate credit rating.

24Rp18(b)(i) The effective interest rates on non-current receivable were as follows:

	<b>Note</b>	<b>2012</b>	<b>2011</b>
	33	6.5-7.0%	6.5-7.0%

PFRS7p14 Certain European subsidiaries of the Group transferred receivable balances amounting to P1,014 to a bank in exchange for cash during the year ended December 31, 2012. The transaction has been accounted for as a collateralized borrowing (Note 17). In case the entities default under the loan agreement the bank has the right to receive the cash flow from the receivable transferred. Without default, the entities will collect the receivables and allocate new receivables as collateral.

PFRS7p34(a) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	<b>2012</b>	<b>2011</b>
	9,846	8,441
	5,987	6,365
	6,098	4,500
	156	228
	22,087	19,534

PFRS7p16 Movements on the provision for impairment of receivables are as follows:

	2012	2011
At January 1	70	8
Provision for impairment of receivables	74	61
Receivables written off during the year as uncollectible	(28)	(50)
Unused amounts reversed	(10)	(8)
Reversal of discount	3	2
At December 31	109	70

The creation and release of provision for impaired receivables have been included in 'other expenses' in the profit for the year (Note 23). Unwind of discount is included in 'finance costs' in the profit for the year (Note 28). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

### **Note 10 - Inventories**

2p36(b)  
1p78(c) Inventories at December 31 consist of:

	2012	2011
At net realizable value		
Finished goods	15,268	8,774
At cost		
Work in progress	1,810	1,796
Raw materials	7,622	7,612
	24,700	18,182

36p126(b)  
36p130(a) The allowance for inventory losses and obsolescence for finished goods amounted to P555 as at December 31, 2012 and 2011.

2p36(d)  
2p38 The cost of inventories recognized as expense and included in 'cost of goods sold' amounted to P60,252 (2011 - P29,545).

2p36(f)(g) The Group reversed P603 of a previous inventory write-down in July 2012. The Group has sold all the goods that were written down to an independent retailer in Australia at original cost. The amount reversed has been included in 'cost of goods sold' in profit or loss.

### **Note 11 - Non-current assets held for sale and discontinued operations**

PFRS5p41  
(a)(b)(d) The assets and liabilities related to company Shoes Limited (part of the wholesale segment) have been presented as held for sale following the approval of the Group's management and shareholders on September 23, 2012 to sell company Shoes Limited in the UK. The completion date for the transaction is expected by May 2013.

	2012	2011
PFRS5p33(c) Operating cash flows	300	190
PFRS5p33(c) Investing cash flows	(103)	(20)
PFRS5p33(c) Financing cash flows	(295)	(66)
	(98)	104

PFRS5p38 (a) *Assets of disposal group classified as held for sale*

	2012	2011
Property, plant and equipment	1,563	-
Goodwill	100	-
Intangible assets	1,000	-
Inventory	442	-
Other current assets	228	-
	<b>3,333</b>	<b>-</b>

PFRS5p38 (b) *Liabilities of disposal group classified as held for sale*

	2012	2011
Trade and other payables	104	-
Other current liabilities	20	-
Provisions	96	-
	<b>220</b>	<b>-</b>

PFRS5p38 (c) *Cumulative income or expense recognized directly in other comprehensive income relating to disposal group classified as held for sale*

	2012	2011
Foreign exchange translation adjustments	-	-

PFRS5p33(b) Analysis of the result of discontinued operations, and the result recognized on the re-measurement of assets or disposal group, is as follows<sup>67</sup>:

	2012	2011
Revenue	1,200	1,150
Expenses	(960)	(950)
Profit before tax of discontinued operations	240	200
12p81(h)(ii) Tax	(96)	(80)
Profit after tax of discontinued operations	144	120
Pre-tax gain/(loss) recognized on the re-measurement of assets of disposal group	(73)	-
12p81(h)(ii) Tax	29	-
After tax gain/(loss) recognized on the re-measurement of assets of disposal group	(44)	-
Profit for the year from discontinued operations	100	120

<sup>67</sup> These disclosures can also be made on the face of the primary financial statements.

## Note 12 - Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2012	2011
1p61		
<b>Deferred tax assets:</b>		
Deferred tax asset to be recovered after more than 12 months	(2,873)	(3,257)
Deferred tax asset to be recovered within 12 months	(647)	(64)
	(3,520)	(3,321)
<b>Deferred tax liabilities:</b>		
Deferred tax liability to be recovered after more than 12 months	10,743	8,016
Deferred tax liability to be recovered within 12 months	1,627	1,037
	12,370	9,053
12p74		
<b>Deferred tax liabilities, net</b>	<b>8,850</b>	<b>5,732</b>

The gross movement on the deferred income tax account is as follows:

	Notes	2012	2011
At January 1		5,732	3,047
Exchange differences		(2,003)	(154)
Acquisition of subsidiary	35	1,953	-
Charged to profit or loss	29	379	2,635
Tax charged relating to components of other comprehensive income	29	491	224
Tax charged (credited) directly to equity	29	2,298	(20)
At December 31		8,850	5,732

12p81(g)(i)(ii) The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation	Fair value gains	Convertible bond	Other	Total
<b>Deferred tax liabilities:</b>					
<b>At January 1, 2011</b>	6,412	413	-	284	7109
12p81(g)(ii) Charged (credited) to profit or loss	1,786	-	-	799	2,585
12p81(a,b) Charged to other comprehensive income	-	435	-	-	435
Exchange difference	(100)	-	-	(54)	(154)
12p81(g)(i) <b>At December 31, 2011</b>	8,098	848	-	1,029	9,975
12p81(g)(ii) Charged (credited) to profit or loss	425	-	(193)	138	370
12p81(a,b) Charged (credited) to other comprehensive income	-	448	-	43	491
12p81(a) Charged directly to equity	-	-	2,328	-	2,328
Acquisition of subsidiary	553	1,375	-	275	2,203
Exchange difference	(333)	(600)	-	(350)	(1,285)
12p81(g)(i) <b>At December 31, 2012</b>	9,076	2,421	2,135	1,735	14,084

	Retirement benefit obligation	Provisions	Impairment losses	Tax losses	Other	Total	
<b>Deferred tax assets:</b>							
	<b>At January 1, 2011</b>	(428)	(962)	(732)	(1,072)	(373)	(3,567)
12p81(g)(ii)	Charged (credited) to profit or loss	-	181	-	-	(131)	50
12p81(a,b)	Charged (credited) to other comprehensive income	(211)	(35)	-	(460)	-	(706)
	Charged (credited) directly to equity	-	-	-	-	(20)	(20)
	Exchange difference	-	-	-	-	-	-
12p81(g)(i)	<b>At December 31, 2011</b>	(639)	(816)	(732)	(1,532)	(504)	(4,243)
12p81(g)(ii)	(Credited) charged to profit or loss	-	(538)	(322)	750	(131)	(241)
12p81(a,b)	Charged (credited) to other comprehensive income	-	-	-	-	-	-
12p81(a)	Charged (credited) directly to equity	-	-	-	-	(30)	(30)
	Exchange difference	(150)	(280)	(210)	-	(80)	(720)
12p81(g)(i)	<b>At December 31, 2012</b>	(879)	(1,479)	(1,139)	(882)	(921)	(5,300)

12p81(e) Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The details of net operating loss carryover (NOLCO) at December 31, which could be carried over as deduction from taxable income for three consecutive years following the year of incurrence, follow:

Year of incurrence	Year of expiry	Amount	Applied	Expired	Balance	
					2012	2011
2008	2011	4,295	-	(4,295)	-	4,295
2009	2012	1,000	-	-	1,000	1,000
		5,295	-	(4,295)	1,000	5,295
Tax rate					30%	30%
Unrecognized deferred income tax asset					300	1,588

12p81(e) The Group did not recognize deferred income tax assets in respect of the above losses as the Group does not expect that future taxable profits will be available against which the unused tax losses can be utilized.<sup>68/69</sup>

Deferred income tax liabilities of P3,141 (2011 - P2,016) have not been recognized for the withholding tax and other tax that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totaled P30,671 at December 31, 2012 (2011 - P23,294)

<sup>68</sup> PAS12,p81(e) requires disclosure of the amount (and expiry date, if any) of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets is recognized in the statement of financial position.

<sup>69</sup> PAS12p81(f) requires disclosure of temporary differences associated with investment in subsidiaries, branches, associates and interest in joint ventures, for which no deferred tax assets/liabilities have been recognized.

### **Note 13 - Investment in associates**

28p38 Details of investments in associates at December 31 follow:

	Note	2012	2011
At January 1		13,244	13,008
Share of profit		215	145
Exchange differences		(74)	105
Other equity movements: available-for-sale investments reserve	21	(12)	(14)
At December 31		13,373	13,244

28p37(b) The Group's share of the results of its principal associates, all of which are unlisted, and its share of the assets (including goodwill) and liabilities are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit (Loss)	% interest held
<b>2012</b>						
Alfa Limited	Cyprus	32,381	25,174	31,123	200	18
Beta S. A.	Greece	12,115	5,949	9,001	15	30
		44,496	31,123	40,124	215	
<b>2011</b>						
Alfa Limited	Cyprus	27,345	20,295	35,012	155	18
Beta S. A.	Greece	9,573	3,379	10,001	(10)	30
		36,918	23,674	45,013	145	

28p37(a) As at December 31, 2012, the fair value of the Group's interest in Beta S.A., which is listed on the Euro Money Stock Exchange, was P5,500 (2011 - P5,000) and the carrying amount of the Group's interest was P5,000 (2011 - P4,500).

28p37(c) Although the Group holds less than 20% of the equity shares of Alfa Limited, the Group exercises significant influence by virtue of its contractual right to appoint two directors to the board of directors of that company and has the power to participate in the financial and operating policy decisions of Alfa Limited.

### **Note 14 - Property, plant and equipment**

Details of property, plant and equipment at December 31 follow:

	Notes	Land & buildings	Vehicles & machinery	Furniture, fittings & equipment	Construction in progress	Total
<b>At January 1, 2011</b>						
Cost or revalued amount		39,664	71,072	20,025	-	130,761
Accumulated depreciation		(2,333)	(17,524)	(3,690)	-	(23,547)
<b>Net carrying amount</b>		37,331	53,548	16,335	-	107,214
<b>Year ended December 31, 2011</b>						
Opening net carrying amount		37,331	53,548	16,335	-	107,214
Exchange differences		(381)	(703)	(423)	-	(1,507)
Revaluation surplus	21	1,133	-	-	-	1,133
Additions		1,588	2,970	1,484	-	6,042
Disposals	32	-	(2,607)	(380)	-	(2,987)
Depreciation charge	23	(636)	(4,186)	(4,840)	-	(9,662)
<b>Closing net carrying amount</b>		39,035	49,022	12,176	-	100,233



and property, respectively, are included in profit or loss.

Vehicles and machinery include the following amounts where the Group is a lessee under a finance lease:

	2012	2011
Cost - capitalized finance leases	13,996	14,074
Accumulated depreciation	(5,150)	(3,926)
Net book value	8,846	10,148

17p35(d) The Group leases various vehicles and machinery under non-cancellable finance lease agreements. The lease terms are between three and 15 years, and ownership of the assets lie within the Group.

### **Note 15 - Intangible assets**

Details of intangible assets at December 31 follow:

	Goodwill	Trademarks and licenses	Contractual customer relationship	Internally generated software development costs	Total
38p118					
	<b>At January 1, 2010</b>				
38p118(c) Cost	12,546	8,301	-	1,455	22,202
PFRS3B67(d)(i) Accumulated amortization and impairment	-	(330)	-	(510)	(840)
	<b>Net carrying amount</b>	<b>12,546</b>	<b>7,971</b>	<b>-</b>	<b>945</b>
38p118(e)	<b>Year ended December 31, 2010</b>				
PFRS3B67(d)(vi) Opening net book value	12,546	7,971	-	945	21,462
38p118(e)(vii) Exchange differences	(546)	(306)	-	(45)	(897)
38p118(e)(i) Additions	-	700	-	-	700
38p118(e)(vi) Amortization charge	-	(365)	-	(200)	(565)
	<b>Closing net carrying amount</b>	<b>12,000</b>	<b>8,000</b>	<b>-</b>	<b>700</b>
	<b>At December 31, 2010</b>				
38p118(c) Cost	12,000	8,710	-	1,400	22,110
PFRS3B67(d)(vii) Accumulated amortization and impairment	-	(710)	-	(700)	(1,410)
	<b>Net carrying amount</b>	<b>12,000</b>	<b>8,000</b>	<b>-</b>	<b>700</b>
38p118(e)	<b>Year ended December 31, 2010</b>				
PFRS3B67(d)(vi) Opening net book value	12,000	8,000	-	700	19,600
38p118(e)(vii) Exchange differences	341	96	-	134	571
38p118(e)(i) Additions	-	684	-	2,366	3,050
PFRS3B67(d)(ii) Acquisition of subsidiary	4,501	3,000	1,000	-	8,501
PFRS3B67(d)(v) Impairment charge	(4,650)	-	-	(120)	(4,650)
38p118(e)(vi) Amortization charge	-	(402)	(278)	-	(680)
38p118(e)(ii) Transferred to disposal group classified as held for sale	-	(1,000)	-	(100)	(800)
	<b>Closing net carrying amount</b>	<b>12,192</b>	<b>10,378</b>	<b>722</b>	<b>2,980</b>

		Goodwill	Trademarks and licenses	Contractual customer relationship	Internally generated software development costs	Total
38p118						
	<b>At December 31, 2011</b>					
38p118(c)	Cost	16,842	11,480	1,000	3,800	33,122
PFRS3B67(d)(vii)	Accumulated amortization and impairment	(4,650)	(1,102)	(278)	(820)	(6,850)
	<b>Net carrying amount</b>	<b>12,192</b>	<b>10,378</b>	<b>722</b>	<b>2,980</b>	<b>26,272</b>

36p126(a)  
38p120 The carrying amount of the segment has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in 'cost of goods sold' in profit or loss.

38p118(d) Amortization of P40 (2011 - P100) is included in the 'cost of goods sold' in profit or loss; P680 (2011 - P365) in 'selling and marketing costs'; and P80 (2011 - P100) in administrative expenses.

23p Additions of internally generated software development cost includes P75 (2011 - nil) of interest capitalized at an average borrowing rate of 8.0%.

PFRS5p38 The trademark transferred to the disposal group classified as held for sale relates to the Shoes Limited trademark (part of the wholesale segment), which was previously recognized by the Group on the acquisition of the entity in 2006. A further net book amount of P100 transferred to the disposal group relates to **goodwill**. See Note 11 for further details regarding the disposal group held-for-sale.

#### *Impairment tests for goodwill*

36p134(d) Management reviews the business performance based on geography and type of business. It has identified the Philippines, US, China, Russia and Europe as the main geographies. There are both retail and wholesale segments in the Philippines and the US. In all other geographies, the Group has only wholesale business. Goodwill is monitored by the management at the operating segment level. The following is a summary of goodwill allocation for each operating segment:

36p134(a)	2012			2011		
	Wholesale	Retail	Total	Wholesale	Retail	Total
Philippines	6,250	1,051	7,301	5,970	120	6,090
US	325	2,501	2,826	125	30	155
Europe	1,609	-	1,609	705	-	705
Russia	100	-	100	4,750	-	4,750
China	146	-	146	100	-	100
All other segments	210	-	210	200	-	200
	<b>8,640</b>	<b>3,552</b>	<b>12,192</b>	<b>11,850</b>	<b>150</b>	<b>12,000</b>

PFRS8p43 During 2011, retail did not qualify as a separate segment. However, with the acquisition in 2012 of Flip Flops and Beyond Corporation (Note 35), retail qualifies as a separate reportable segment, and the comparative figures for 2011 have therefore been restated to be consistent.

36p130(e)  
36p134(c)  
36p134(d)(iii) The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the shoe business in which the CGU operates.

36p134(d)(i) The key assumptions<sup>71</sup> used for value-in-use calculations in 2012 and 2011 are as follows:

36p134(a)		Wholesale					Retail		Others
		Philippines	US	Europe	Russia	China	Philippines	US	
	<b>2012</b>								
36p134(d)	Gross margin <sup>1</sup>	60.0%	59.0%	60.0%	55.5%	47.0%	48.0%	46.0%	46.0%
36p134(d)(iv)	Growth rate <sup>2</sup>	1.8%	1.8%	1.8%	2.0%	3.0%	2.1%	2.3%	3.9%
36p134(d)(v)	Discount rate <sup>3</sup>	12.5%	12.0%	12.7%	13.8%	14.0%	14.5%	14.0%	14.8%
	<b>2011</b>								
36p134(d)	Gross margin <sup>1</sup>	62.5%	61.0%	62.5%	58.0%	49.0%	50.0%	50.8%	48.0%
36p134(d)(iv)	Growth rate <sup>2</sup>	2.0%	2.0%	2.0%	2.5%	3.5%	2.3%	2.5%	3.9%
36p134(d)(v)	Discount rate <sup>3</sup>	12.0%	11.5%	12.7%	13.5%	14.5%	13.0%	14.4%	13.0%

<sup>1</sup> Budgeted gross margin

<sup>2</sup> Weighted average growth rate used to extrapolate cash flows beyond the budget period

<sup>3</sup> Pre-tax discount rate applied to the cash flow projection

36p134(d)(ii) These assumptions have been used for the analysis of each CGU within the operating segment.

36p134(d)(ii) Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

36p130(a) The impairment charge arose in a wholesale CGU in Step-land (included in the Russian operating segment) following a decision in early 2011 to reduce the manufacturing output allocated to these operations. This was a result of a redefinition of the Group's allocation of manufacturing volumes across all CGUs in order to benefit from advantageous market conditions. Following this decision, the Group reassessed the depreciation policies of its property, plant and equipment in this country and estimated that their useful lives will not be affected. No class of asset other than goodwill was impaired. The pre-tax discount rate used in the previous years for the wholesale CGU in Step-land was 13.5%.

36p134(f) In European Wholesale, the recoverable amount calculated based on value in use exceeded carrying value by P205. A reduction in gross margin of 1.5%, a fall in growth rate to 1.6% or a rise in discount rate to 10.9% would remove the remaining headroom.

<sup>71</sup> Disclosure of long-term growth rates and discount rates is required. Other key assumptions are required to be disclosed and quantified where a reasonably possible change in the key assumption would remove any remaining headroom in the impairment calculation. Otherwise the additional disclosures are encouraged but not required.

**Note 16 - Trade and other payables**<sup>72</sup>

Trade and other payables at December 31 consist of:

	Notes	2012	2011
1Rp77 24p18			
Trade payables		8,983	9,495
Amounts due to related parties	33	3,202	1,195
Social security and other taxes		1,502	960
Other liabilities - contingent consideration	35	1,500	-
Accrued expenses		1,483	828
		16,670	12,478

**Note 17 - Borrowings**

Borrowings at December 31 consist of:

	Notes	2012	2011
<b>Current</b>			
Bank overdrafts	5	2,650	6,464
Collateralized borrowings		1,014	-
Bank borrowings	17(a)	3,368	4,598
Debentures and other loans		2,492	4,608
Finance lease liabilities	17(d)	2,192	2,588
		11,716	11,794
<b>Non-current</b>			
Bank borrowings	17(a)	32,193	40,244
Convertible bond	17(b)	42,822	-
Debentures and other loans		3,300	18,092
Redeemable preferred shares	17(c)	30,000	30,000
Finance lease liabilities	17(d)	6,806	8,010
		115,121	96,346
Total borrowings		126,837	114,604

PFRS7p31 (i) *Bank borrowings*

Bank borrowings mature until 2015 and bear average coupons of 7.5% annually (2011 - 7.4% annually).

PFRS7p14 Total borrowings include secured liabilities (bank and collateralized borrowings) of P37,680 (2011 - P51,306). Bank borrowings are secured by the land and buildings of the Group amounting to P40,000 (Note 17). Collateralized borrowings are secured by trade receivables (Note 9).

<sup>72</sup> For other current liabilities, per Revised SRC Rule 68, Part II, Annex 68-D, if material, state separately in amount the following in the notes:

- (a) dividends declared but not paid at reporting date;
- (b) acceptances payable;
- (c) liabilities under trust receipts;
- (d) portion of long-term debt due within one year;
- (e) deferred income; and
- (f) any other current liability in excess of 5% of total current liabilities.

PFRS7p31 The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates at the reporting dates are as follows:

	2012	2011
6 months or less	10,496	16,748
6-12 months	36,713	29,100
1-5 years	47,722	38,555
Over 5 years	31,906	30,201
	126,837	114,604

PFRS7p25, 29 The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2012	2011	2012	2011
Bank borrowings	32,193	40,244	32,590	39,960
Redeemable preferred shares	30,000	30,000	28,450	28,850
Debentures and other loans	3,300	18,092	3,240	17,730
Convertible bond	42,822	-	42,752	-
Finance lease liabilities	6,806	8,010	6,205	7,990
	115,121	96,346	113,237	94,530

PFRS7p29(a)  
PFRS7p25 The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 7.5% (2011 - 7.2%).

PFRS7p31  
PFRS7p34(c) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2012	2011
Philippine Peso	80,100	80,200
US Dollar	28,353	16,142
UK Pound	17,998	17,898
Other currencies	386	364
	126,837	114,604

DV7p50(a) The Group has the following undrawn borrowing facilities:

	2012	2011
Floating rate:		
Expiring within one year	6,150	4,100
Expiring beyond one year	14,000	8,400
Fixed rate:		
Expiring within one year	18,750	12,500
	38,900	25,000

The facilities expiring within one year are annual facilities subject to review at various dates during 2012. The other facilities have been arranged to help finance the proposed expansion of the Group's activities in the Philippines.

*(ii) Convertible bonds*

PFRS7p17  
1Rp79(b) The Group issued 500,000 5.0% convertible bonds at a par value of P50 million on January 2, 2011. The bonds mature five years from the issue date at their nominal value of P50 million or can be converted into shares at the holder's option at the rate of 33 shares per P5,000. The fair values of the liability component and the equity conversion component were determined at issuance of the bond.

32p28  
32p31  
176(b) The fair value of the liability component, included in non-current borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in other reserves (Note 21), net of income taxes.

The convertible bond recognized in the statement of financial position is calculated as follows:

	Notes	2012	2011
12AppBEx4			
Face value of convertible bond issued on January 2, 2012		50,000	-
Equity component		(7,761)	-
Liability component on initial recognition at January 2, 2012		42,239	-
Interest expense	28	3,083	-
Interest paid		(2,500)	-
Liability component at December 31, 2012		42,822	-

PFRS7p27 The fair value of the liability component of the convertible bond at December 31, 2012 amounted to P42,617 (2011 - nil). The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 7.5%.

32p32 Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 7.3% to the liability component.

*(iii) Redeemable preferred shares*

32p15  
32p18(a) The Group issued 30 million cumulative redeemable preferred shares with a par value of P1 per share on January 4, 2011. The shares are mandatorily redeemable at their par value on January 4, 2015, and pay dividends at 6.5% annually.

10p21 On February 1, 2013, the Group issued P6,777 6.5% US Dollar bonds to finance its expansion program and working capital requirements in the US. The bonds are repayable on December 31, 2016.

*(iv) Finance lease liabilities*

17p31(b) Lease liabilities are effectively secured as rights to the leased asset revert to the lessor in the event of default.

	2012	2011
Gross finance lease liabilities - minimum lease payments		
No later than 1 years	2,749	3,203
Later than 1 year and no later than 5 years	6,292	7,160
Later than 5 years	2,063	2,891
	11,104	13,254
Future finance charges on finance lease	(2,106)	(2,656)
Present value of finance lease liabilities	8,998	10,598

17p31(b) The present value of finance lease liabilities is as follows:

	2012	2011
No later than 1 year	2,192	2,588
Later than 1 year and no later than 5 years	4,900	5,287
Later than 5 years	1,906	2,723
	8,998	10,598

**Note 18 - Provisions for other liabilities and charges**

Provisions for other liabilities and charges at December 31 consist of:

	Environmental restoration	Restructuring	Legal claims	Profit- sharing & bonuses	Contingent liability arising on a business combination	Total	
1Rp78(d)							
37p84(a)	<b>At January 1, 2012</b>	842	-	828	1,000	-	2,670
37p84(b)	Charged to profit or loss						
	Additional provisions/fair value adjustment on acquisition of Flip Flops and Beyond Corporation	316	1,986	2,405	500	1,000	6,207
37p84(d)	Unused amounts reversed	(15)	-	(15)	(10)		(40)
37p84(e)	Unwinding of discount	40	-	-	-	4	44
37p84(c)	Used during year	(233)	(886)	(3,059)	(990)		(5,168)
	Exchange differences	(7)	-	(68)	-		(75)
PFRS5p38	Transferred to disposal group/ classified as held for sale	(96)	-	-	-		(96)
37p84(a)	<b>At December 31, 2012</b>	847	1,100	91	500	1,004	3,542

Analysis of total provisions:

	2012	2011	
1Rp69	Non-current	316	274
1Rp69	Current	3,226	2,396
		3,542	2,670

*(a) Environmental restoration*

37p85(a)-(c) The Group uses various chemicals in working with leather. A provision is recognized for the present value of costs to be incurred for the restoration of the manufacturing sites. It is expected that P531 will be used during 2012 and P320 during 2013. Total expected costs to be incurred are P880 (2011 - P760).

DV The provision transferred to the disposal group classified as held for sale amounts to P96 and relates to an environmental restoration provision for Shoes Limited (part of the Philippine wholesale segment). See Note 11 for further details regarding the disposal group held for sale.

*(b) Restructuring*

37p85(a)-(c) The reduction of the volumes assigned to manufacturing operations in Step-land will result in the reduction of a total of 155 jobs at two factories. An agreement has been reached with the local union representatives, which specifies the number of staff involved and the voluntary redundancy compensation package offered

by the Group, as well as amounts payable to those made redundant, before the financial year-end. The estimated staff restructuring costs to be incurred are P799 at December 31, 2012. Other direct costs attributable to the restructuring, including lease termination, are P1,187. These costs were fully provided for in 2011 (Note 18). The provision of P1,100 at December 31, 2012 is expected to be fully utilized during the first half of 2013.

36p130 A goodwill impairment charge of P4,650 was recognized in the cash-generating unit relating to Step-land as a result of this restructuring (Note 15).

*(c) Legal claims*

37p85(a)-(c) The amounts represent a provision for certain legal claims brought against the Group by customers of the US wholesale segment. The provision charge is recognized in profit or loss within 'administrative expenses'. The balance at December 31, 2012 is expected to be utilized in the first half of 2013. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at December 31, 2012.

*(d) Profit-sharing and bonuses*

19p8(c), 10 DV,37p85(a) The provision for profit-sharing and bonuses is payable within three months of finalization of the audited financial statements.

*(e) Recognized contingent liability*

PFRS3B64(g)  
PFRS3p57

A contingent liability of P1,000 has been recognized on the acquisition of Flip Flops and Beyond Corporation for a pending lawsuit in which the entity is a defendant. The claim has arisen from a customer alleging defects on products supplied to them. It is expected that the courts will have reached a decision on this case by the end of 2012. The potential undiscounted amount of all future payments that the Group could be required to make if there was an adverse decision related to the lawsuit is estimated to be between P500 and P1,500. As at December 31, 2012, there has been no change in the amount recognized (except for the unwinding of the discount of P4) for the liability at March 31, 2012, as there has been no change in the probability of the outcome of the lawsuit.

The selling shareholders of Flip Flops and Beyond Corporation have contractually agreed to indemnify the Company for the claim that may become payable in respect of the above-mentioned lawsuit. An indemnification asset of P1,000, equivalent to the fair value of the indemnified liability, has been recognized by the Group. The indemnification asset is deducted from consideration transferred for the business combination. As is the case with the indemnified liability, there has been no change in the amount recognized for the indemnification asset as at December 31, 2012, as there has been no change in the range of outcomes or assumptions used to develop the estimate of the liability.

**Note 19 - Retirement benefit obligations**

Retirement benefit obligations at December 31 consist of:

	2012	2011
<b>Statement of financial position obligations for:</b>	1,320	274
Pension benefits	3,225	1,532
Post-employment medical benefits	1,410	701
	4,635	2,233

		2012	2011
	<b>Charge to profit or loss for:</b>		
	Pension benefits	755	488
	Post-employment medical benefits	149	107
		904	595
19p120A(h)	Actuarial losses recognized in the statement of other comprehensive income in the year	-	705
19p120A(i)	Cumulative actuarial losses recognized in the statement of other comprehensive income	908	203

*(a) Pension benefits*

DV The Group operates defined benefit pension plans in the Philippines and the US based on employee pensionable remuneration and length of service. The majority of plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practice in each country, as is the nature of the relationship between the Group and the trustees (or equivalent) and their composition.

19p120A(d)(f) The amounts recognized in the statement of financial position are determined as follows:

		2012	2011
	Present value of funded obligations	6,155	2,943
	Fair value of plan assets	(5,991)	(2,797)
	Deficit of funded plans	164	146
	Present value of unfunded obligations	3,206	1,549
	Unrecognized past service cost	(145)	(163)
	Liability in the statement of financial position	3,225	1,532

19p120A(c) The movements in the defined benefit obligations for both funded and unfunded plans for the years ended December 31 are as follows:

	Note	2012	2011
<b>At January 1</b>		4,492	3,479
Current service cost		751	498
Interest cost		431	214
Employee contributions		55	30
Actuarial (gains) losses		(15)	495
Exchange differences		(61)	(330)
Past service cost		18	16
Benefits paid		(66)	(121)
Liabilities acquired in a business combination	35	3,691	-
Curtailments		65	-
Settlements		-	-
<b>At December 31</b>		9,361	4,492

19p120A(e) The movements in the fair value of plan assets for the years ended December 31 are as follows:

	Note	2012	2011
<b>At January 1</b>		2,797	2,264
Expected return on plan assets		510	240
Actuarial (losses) gains		(15)	(5)
Exchange differences		25	(22)
Employer contributions		908	411
Employee contributions		55	30
Benefits paid		(66)	(121)
Business combinations	35	1,777	-
<b>At December 31</b>		<b>5,991</b>	<b>2,797</b>

19p120A(g) The amounts recognized in profit or loss are as follows:

	Note	2012	2011	2010*
Current service cost		751	498	
Interest cost		431	214	
Expected return on plan assets		(510)	(240)	
Past service cost		18	16	
Losses on curtailment		65	-	
<b>Total, included in employee benefit expense</b>	<b>24</b>	<b>755</b>	<b>488</b>	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

19p120A(g) Of the total charge, P516 (2011 - P319) and P239 (2011 - P169) were included in 'cost of goods sold' and 'administrative expenses', respectively.

19p120A(m) The actual return on plan assets was P495 (2011 - P235).

19p120A(n) The principal actuarial assumptions used were as follows:

	2012	2011
Discount rate	7.0%	6.8%
Expected return on plan assets	8.5%	8.3%
Future salary increases	5.0%	4.5%
Future pension increases	3.0%	2.5%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

19p120A(n)(vi) The average life expectancy in years of a pensioner retiring at age 65 on the reporting date are as follows:

	2012	2011
Male	18.5	18.5
Female	22.0	22.0

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the reporting date are as follows:

	2012	2011
Male	19.5	19.5
Female	22.5	22.5

19p122(b) *(b) Post-employment medical benefits*

The Group operates a number of post-employment medical benefit schemes, principally in the Philippines. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes. The majority of these plans are unfunded.

19p120A(n) In addition to the assumptions set out above, the main actuarial assumption is a long-term increase in health costs of 8.0% a year (2011 - 7.6%).

19p120A(d)(f) The amounts recognized in the statement of financial position were determined as follows:

	2012	2011
Present value of funded obligations	705	340
Fair value of plan assets	(620)	(302)
Deficit of funded plans	85	38
Present value of unfunded obligations	1,325	663
Liability in the statement of financial position	1,410	701

19p120A(c) The movements in the defined benefit obligations are as follows:

	Note	2012	2011
<b>At January 1</b>		1,003	708
Current service cost		153	107
Interest cost		49	25
Employee contributions <sup>73</sup>		-	-
Actuarial (gains) losses		(2)	204
Exchange differences		25	(41)
Benefits paid <sup>60</sup>		-	-
Past service cost <sup>60</sup>		-	-
Liabilities acquired in a business combination	35	802	-
Curtailements <sup>60</sup>		-	-
Settlements <sup>60</sup>		-	-
<b>At December 31</b>		2,030	1,003

<sup>73</sup> PAS 19 requires disclosure of employee contributions, benefits paid, past service costs, settlements and curtailments as part of the reconciliation of the opening and closing balances of the present value of the defined benefit obligation. There is no such movement on the defined benefit obligation relating to pension plans in these financial statements, but the line item has been shown for illustrative purposes.

19p120A(e) The movements in the fair value of plan assets of the years ended December 31 are as follows:

	Note	2012	2011
<b>At January 1</b>		302	207
Expected return on plan assets		53	25
Actuarial (losses) gains		(2)	(1)
Exchange differences		5	(2)
Employer contributions by plan participants <sup>74</sup>		185	73
Employee contributions <sup>75</sup>		-	-
Benefits paid <sup>61</sup>		-	-
Assets acquired in a business combination	35	77	-
Settlements <sup>61</sup>		-	-
<b>At December 31</b>		<b>620</b>	<b>302</b>

19p120A(g) The amounts recognized in profit or loss were as follows:

	Note	2012	2011	2010*
Current service cost		153	107	
Interest cost		49	25	
Expected return on plan assets		(53)	(25)	
Total, included in employee benefit expense	24	149	107	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

19p120A(g) Of the total charge, P102 (2011 - P71) and P48 (2011 - P36) were included in 'cost of goods sold' and 'administrative expenses', respectively.

19p120A(m) The actual return on plan assets was P51 (2011 - P24).

19p120A(o) The effects of a 1% movement in the assumed medical cost trend rate were as follows:

	Increase	Decrease
Effect on the aggregate of the current service cost and interest cost	24	(20)
Effect on the defined benefit obligation	366	(313)

(c) Post-employment benefits (pension and medical)

19p120A(j) Plan assets are comprised as follows:

	2012		2011	
Equity instruments	3,256	49%	1,224	40%
Debt instruments	1,524	23%	571	18%
Property	1,047	16%	943	30%
Other	784	12%	361	12%
	<b>6,611</b>	<b>100%</b>	<b>3,099</b>	<b>100%</b>

<sup>74</sup> The gain or loss on curtailment is in principle the resulting change in surplus (or deficit) plus unrecognized past service cost attributable to the affected employees.

<sup>75</sup> PAS 19 requires the disclosure of employee contributions, benefits paid and settlements as part of the reconciliation of the opening and closing balances of plan assets. There is no such movement on the plan assets relating to post-employment medical benefits in these financial statements, but the line items have been shown for illustrative purposes.

- DV Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in equities, although the group also invests in property, bonds, hedge funds and cash. The group believes that equities offer the best returns over the long term with an acceptable level of risk. The majority of equities are in a globally diversified portfolio of international blue chip entities, with a target of 60% of equities held in the UK and Europe, 30% in the US and the remainder in emerging markets.
- 19p120A(k) Pension plan assets include the Company's common shares with a fair value of P136 (2011 - P126) and a building occupied by the Group with a fair value of P612 (2011 - P609).
- 19p120A(l) The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the reporting date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.
- 19p120A(q) Expected contributions to post-employment benefit plans for the year ending December 31, 2012 amounts to P1,150.
- DV The Group has agreed that it will aim to eliminate the deficit over the next nine years. Funding levels are monitored on an annual basis and the current agreed regular contribution rate is 14% of pensionable salaries in the UK and 12% in the US. The next triennial valuation is due to be completed as at 31 December 2013. The group considers that the contribution rates set at the last valuation date are sufficient to eliminate the deficit over the agreed period and that regular contributions, which are based on service costs, will not increase significantly.

An alternative method of valuation to the projected unit credit method is a buy-out valuation. This assumes that the entire post-employment benefit obligation will be settled by transferring all obligations to a suitable insurer. The group estimates the amount required to settle the post-employment benefit obligation at the end of the reporting period would be C15,500.

- 19p120A(p) The amounts for the current annual period and previous four annual periods are as follows:

	2012	2011	2010	2009	2008
<b>At December 31</b>					
Present value of defined benefit obligation	11,391	5,495	4,187	3,937	3,823
Fair value of plan assets	(6,611)	(3,099)	(2,471)	(2,222)	(2,102)
Deficit in the plan	4,780	2,396	1,716	1,715	1,721
Experience adjustment on plan liabilities	(17)	910	55	18	(32)
Experience adjustment on plan assets	(17)	-	(197)	(50)	(16)

#### **Note 20 - Share capital and share premium**

Details of share capital and share premium are as follows:

	Note	Number of shares (thousands)	Share capital	Share premium	Treasury shares	Total
1Rp79(a)(iv)						
<b>At January 1, 2011</b>		20,000	20,000	10,424	-	30,424
Employee share option scheme:						
1Rp106(d)(iii)						
Proceeds from shares issued		1,000	1,000	70	-	1,070
<b>At December 31, 2011</b>		21,000	21,000	10,494	-	32,316

	Note	Number of shares (thousands)	Share capital	Share premium	Treasury shares	Total
1Rp79(a)(iv)	<b>At January 1, 2012</b>	21,000	21,000	10,494	-	32,316
	Employee share option scheme:					
1Rp106(d)(iii)	Proceeds from shares issued	750	750	200	-	950
PFRS3pB64(f)(v)	Acquisition of subsidiary	35	3,550	6,450	-	10,000
1Rp79(a)(iv)	<b>At December 31, 2012</b>	25,300	25,300	17,144	-	42,444

1Rp79(a)(i-iii) As at December 31, 2012 and 2011, the total authorized number of common shares is 50 million shares with a par value of P1 per share. All issued shares are fully paid.

1Rp79(a) The Company acquired 875,000 of its own shares through purchases on the Philippine Stock Exchange on April 18, 2011. The total amount paid to acquire the shares, net of income tax, was P2,564. The shares are held as 'treasury shares' and presented as a deduction from equity. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.<sup>76</sup>

PFRS2p45(a) The Group issued 3,550,000 shares on March 1, 2011 (14.0% of the total share capital issued) to the shareholders of Flip Flops and Beyond Corporation as part of the purchase consideration for 70% of its ordinary share capital. The common shares issued have the same rights as the other shares in issue. The fair value of the shares issued amounted to P10,050 (P2.83 per share). The related transaction costs amounting to P50 have been netted off with the deemed proceeds.

<sup>76</sup> For entities reporting under the Revised SRC Rule 68, as amended on October 20, 2011, Part II Annex 68-D requires a summarized discussion of the company's track record of registration of securities under the SRC by indicating the number of shares registered, issue/offer price, date of approval or date when the registration statement covering such securities was rendered effective by the Commission, and the number of holders of such securities as at year-end.





## **Note 22 - Retained earnings**

Details of retained earnings at December 31 follows:

1Rp106(d)	<b>At January 1, 2011</b>	48,470
	Profit for the year	15,512
1Rp106(d)	Dividends paid relating to 2009	(15,736)
PFRS2p50	Value of employee services <sup>78</sup>	822
16p41	Depreciation transfer on land and buildings net of tax	87
12p68C	Tax credit relating to share option scheme	20
19p93A	Actuarial loss on post employment benefit obligations net of tax	(494)
1Rp106(d)	<b>At December 31, 2011</b>	48,681
	Profit for the year	30,617
1Rp106(d)	Dividends relating to 2011	(10,102)
PFRS2p50	Value of employee services	690
16p41	Depreciation transfer on land and buildings net of tax	100
12p68C	Tax credit relating to share option scheme	30
19p93A	Actuarial loss on post employment benefit obligations net of tax	-
12p81(ab)	Impact of change in Euravian tax rate on deferred tax	(10)
	<b>At December 31, 2012</b>	70,006

## **Note 23 - Expenses by nature**<sup>79</sup>

The components of expenses for the years ended December 31 are:

	<b>Notes</b>	<b>2012</b>	<b>2011</b>	<b>2010*</b>
1Rp104	Raw materials and consumables used	53,302	31,845	
1Rp104	Employee benefit expense	24	40,090	15,492
1Rp104	Depreciation, amortization and impairment charges	14, 15	23,204	10,227
1Rp104	Advertising costs		12,759	6,662
1Rp104	Operating lease payments	14	10,604	8,500
1Rp104	Transportation expenses		8,584	6,236
1Rp104	Changes in inventories of finished goods and work in progress		6,950	(2,300)
1Rp104	Other expenses		2,791	1,659
	<b>Total cost of sales, selling, marketing and distribution costs and administrative expenses</b>	<b>158,284</b>	<b>78,321</b>	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

<sup>78</sup> The credit entry to equity in respect of the PFRS 2 charge should be recorded in accordance with local Company law and practice. This may be a specific reserve, retained earnings or share capital.

<sup>79</sup> For entities reporting under the Revised SRC Rule 68, Part II Annex 68-D requires separate disclosure of expenditures with material amount or that which constitutes 5% or more of the revenue of the registrant.

## **Note 24 - Employee benefit expense**

The components of employee benefit expense for the years ended December 31 are:

	Notes	2012	2011	2010*
19p142	Wages and salaries, including restructuring costs P799 (2011 - nil) and termination benefits P1,600 (2011 - nil)	18	28,363	10,041
	Social security costs		9,369	3,802
PFRS2p51(a)	Share options granted to directors and employees		690	822
19p46	Pension costs - defined contribution plans	19	756	232
19p120A(g)	Pension costs - defined benefit plans	19	755	496
19p120A(g)	Other post-employment benefits	19	149	107
			40,082	15,500

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

## **Note 25 - Share-based payment**

**PFRS2p45(a)** Share options are granted to directors and to selected employees. The exercise price of the granted options is equal to the market price of the shares less 15% on the date of the grant. Options are conditional on the employee completing one year's service (the vesting period). The options are exercisable starting three years from the grant date, subject to the Group achieving its target growth in earnings per share over the period of inflation plus 4%; the options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2012		2011		2010*	
	Average exercise price in Peso per share option	Options ('000)	Average exercise price in Peso per share option	Options ('000)	Average exercise price in Peso per share option	Options ('000)
PFRS2p45(b)(i)	<b>At January 1</b>	1.73	4,744	1.29	4,150	
PFRS2p45(b)(ii)	Granted	2.95	964	2.38	1,827	
PFRS2p45(b)(iii)	Forfeited	2.30	(125)	2.00	(200)	
PFRS2p45(b)(iv)	Exercised	1.28	(750)	1.08	(1,000)	
PFRS2p45(b)(v)	Lapsed	-	-	0.80	(33)	
PFRS2p45(b)(vi)	<b>At December 31</b>	2.03	4,833	1.73	4,744	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

PFRS2p45(b)(vii), PFRS2p45(c) Out of the 4,833,000 outstanding options (2011 - 4,744,000 options), 1,875,000 options (2011 - 1,400,000) were exercisable. Options exercised in 2011 resulted in 750 thousand shares (2011 - 1,000 thousand shares) being issued at a weighted average price of P1.28 each (2011 - P1.08 each). The related weighted average price at the time of exercise was P2.85 (2011 - P2.65) per share. The related transaction costs amounting to P10 (2011 - P10) have been netted off with the proceeds received.

PFRS2p45(d) Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant-vest	Expiry date - July 1	Exercise price per share in Peso	Shares		
			2012	2011	2010*
2006-9	2011	1.10	-	500	
2007-10	2012	1.20	800	900	
2008-11	2013	1.35	1,075	1,250	
2009-12	2014	2.00	217	267	
2010-13	2015	2.38	1,777	1,827	
2011-14	2016	2.95	964	-	
			4,833	4,744	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

PFRS2p46  
PFRS2p47(a) The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was P0.86 per option (2011 - P0.66). The significant inputs into the model were weighted average share price of P3.47 (2011 - P2.80) at the grant date, exercise price shown above, volatility of 30% (2011 - 27%), dividend yield of 4.3% (2011 - 3.5%), an expected option life of three years (2011 - 3 years) and an annual risk-free interest rate of 5% (2011 - 4%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

33p71(c)  
10p21, 22(f) On January 1, 2012, 1,200 thousand share options were granted to directors and employees with an exercise price set at the market share prices less 15% on that date of P3.20 per share (share price: P3.68) (expiry date: July 1, 2017).

#### **Note 26 - Other income<sup>80</sup>**

Other income for the year ended December 31 consist of:

	Note	2012	2011	2010*
Investment income				
Gain on re-measuring to fair value the existing interest in Flip Flops and Beyond Corporation on acquisition of control	35	850	-	
18p35(b)(v) Dividend income on available-for-sale financial assets		1,100	883	
18p35(b)(v) Dividend income on financial assets at fair value through profit or loss		800	310	
		2,750	1,193	
Insurance reimbursement		-	66	
		2,750	1,259	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

The insurance reimbursement relates to the excess of insurance proceeds over the carrying values of goods damaged.

<sup>80</sup> For entities reporting under the Revised SRC Rule Part II, for other income: (i) disclose separately in the notes the items and nature of each material other income including a disclosure on whether or not it is a result of a related party transaction; (ii) gain or loss on sale of asset – state separately gain or loss from sale of each class of asset; (iii) miscellaneous income – state separately any material amounts of miscellaneous income indicating clearly that nature of the transactions out of which the items arose.

**Note 27 - Other gains (losses), net**

Other gains/losses for the year ended December 31 consist of:

	2012	2011	2010*
PFRS7p20(a)(i) Financial assets at fair value through profit or loss:			
Fair value losses	(508)	(238)	
Fair value gains	593	-	
PFRS7p20(a)(i) Forward exchange contracts:			
Held for trading	86	88	
21p52(a) Net foreign exchange (losses) gains	(277)	200	
PFRS7p24(a) Ineffectiveness on fair value hedges	(1)	(1)	
PFRS7p24(b) Ineffectiveness on cash flow hedges	17	14	
	(90)	63	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

**Note 28 - Finance income and costs**

The components of income and costs for the years ended December 31 are:

	2012	2011	2010*
<b>Finance costs</b>			
PFRS7p20(b) Interest expense:			
Bank borrowings	(5,317)	(10,646)	
Dividend on redeemable preferred shares	(1,950)	(1,950)	
Convertible bond	(3,083)	-	
Finance lease liabilities	(550)	(648)	
37p84(e) Provisions: unwinding of discount	(44)	(37)	
21p52(a) Net foreign exchange gains on financing activities	2,594	996	
Fair value gains on financial instruments:			
PFRS7p23(d) Interest rate swaps: cash flow hedges, transfer from equity	102	88	
PFRS7p24(a)(i) Interest rate swaps: fair value hedges	16	31	
PFRS7p24(a)(ii) Fair value adjustment of bank borrowings attributable to interest rate risk	(16)	(31)	
	(8,248)	(12,197)	
Less: amounts capitalized on qualifying assets	75	-	
Total finance cost	(8,173)	(12,197)	
<b>Finance income</b>			
PFRS7p20(b) Interest income on short-term bank deposits	550	489	
PFRS7p20(b) Interest income on available-for-sale financial assets	963	984	
PFRS7p20(b) Interest income on loans on related parties	217	136	
Total finance income	1,730	1,609	
<b>Net finance costs</b>	<b>(6,443)</b>	<b>(10,588)</b>	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

## **Note 29 - Income tax expense**

Current and deferred tax at December 31 are as follows:

	Note	2012	2011	2010*
<b>Current tax</b>				
12p80(a)	Current tax on profits for the year	14,082	6,035	
12p80(b)	Adjustments in respect of prior years	150	-	
		14,232	6,035	
<b>Deferred tax</b>				
12p80(c)	Origination and reversal of temporary differences	476	2,635	
12p80(d)	Impact of change in the Euravian tax rate	(97)	-	
	12	379	2,635	
		14,611	8,670	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

12p81(c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2012	2011	2010*
Profit before tax	47,676	24,918	
Tax calculated at domestic tax rates applicable to profits in the respective countries	15,453	7,475	
Tax effects of:			
Associates results reported net of tax	57	(44)	
Income not subject to tax	(1,072)	(212)	
Expenses not deductible for tax purposes	1,540	1,104	
Utilization of previously unrecognized tax losses	(1,450)	-	
Tax losses for which no deferred income tax asset was recognized	30	347	
Re-measurement of deferred tax - change in Euravian tax rate	(97)	-	
Adjustment in respect of prior years	150	-	
Tax charge	14,611	8,670	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

12p81(d) The weighted average applicable tax rate was 33% (2011 - 30%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries which was partially offset by the impact of the reduction in the Euravian tax rates (see below).

During the year, as a result of the change in the Euravian corporation tax rate from 30% to 28% that was substantively enacted on June 26, 2011 and that will be effective from April 1, 2012, the relevant deferred tax balances have been remeasured. Deferred tax expected to reverse in the year to 31 December 2011 has been measured using the effective rate that will apply in Euravia for the period (28.5%).



### **Note 30 - Earnings per share**

#### *(a) Basic*

	2012	2011	2010*
33p70(a)			
Profit attributable to equity holders of the Company			
From continuing operations	30,517	15,392	
From discontinued operations	100	120	
	30,617	15,512	
33p70(b)			
Weighted average number of common shares in issue (thousands)	23,454	20,500	
<b>Basic earnings per share (Peso per share)</b>	<b>1.32</b>	<b>0.76</b>	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

#### *(b) Diluted*

	2012	2011	2010*
33p70(a)			
<b>Earnings</b>			
Profit from continuing operations attributable to equity holders of the Company	30,517	15,392	
Interest expense on convertible debt (net of tax)	2,158	-	
Profit used to determine diluted earnings per share	32,675	15,392	
Profit from discontinued operations attributable to equity holders of the Company	100	120	
	32,775	15,512	
33p70(b)			
<b>Weighted average number of common shares</b>			
Weighted average number of common shares in issue (thousands)	23,454	20,500	
Adjustments for:			
Assumed conversion of convertible debt (thousands)	3,030	-	
Share options (thousands)	1,213	1,329	
	27,697	21,829	
<b>Diluted earnings per share (Peso per share)</b>	<b>1.20</b>	<b>0.72</b>	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

### **Note 31 - Dividends per share**

1Rp107  
1Rp137(a)  
10p12

The dividends paid in 2012 and 2011 were P10,102 (P0.48 per share) and P15,736 (P0.78 per share), respectively. A dividend in respect of the year ended December 31, 2012 of P0.51 per share, amounting to a total dividend of P12,945, is to be proposed at the Annual General Meeting on April 30, 2013. These financial statements do not reflect this dividend payable.

### **Note 32 - Cash generated from operations**

Cash generated from operations at December 31 is as follows:

	<b>Notes</b>	<b>2012</b>	<b>2011</b>	<b>2010*</b>
7p18(b), 7p20				
Profit before income tax including discontinued operations		47,843	25,118	
Adjustments for:				
Depreciation	14	17,754	9,662	
Amortization	15	800	565	
Goodwill impairment charge	15	4,650	-	
(Gain) loss on sale of property, plant and equipment		(17)	8	
Share-based payment and increase in retirement benefit obligations	19, 25	509	1,470	
Fair value gains on derivative financial instruments	27	(86)	(88)	
Fair value (gains) losses on financial assets at fair value through profit or loss	27	(85)	238	
Dividend income on available-for-sale securities	26	(1,100)	(883)	
Dividend income on financial assets at fair value through profit or loss	26	(800)	(310)	
Provision for restructuring cost		1,100	-	
Inventory write-down	10	3,117	-	
Finance costs	28	6,443	10,588	
Share of profit from associates	13	(215)	(145)	
Foreign exchange losses (gains) in operating activities	27	277	(200)	
Gains on revaluation of existing investments	35	(850)	-	
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):				
Inventories		(9,194)	(966)	
Trade and other receivables		(1,893)	(3,039)	
Other financial assets at fair value through profit or loss		(3,747)	(858)	
Trade and other payables		7,245	543	
Cash generated from operations		56,234	41,776	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	<b>Note</b>	<b>2012</b>	<b>2011</b>	<b>2010*</b>
Net book value	14	6,337	2,987	
Profit (loss) on sale of property, plant and equipment		17	(8)	
Proceeds from sale of property, plant and equipment		6,354	2,979	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

#### *Non-cash transactions*

7p43 The principal non-cash transaction was the issue of shares as consideration for the acquisition discussed in Note 35.

### **Note 33 - Related party transactions**

24Rp18,19,24 The following transactions were carried out with related parties:

24Rp18(a) (a) *Sales of goods and services*<sup>81</sup>

	2012	2011	2010*
Sales of goods:			
Associates	1,002	204	
Associates of Grand Feet Supreme Holdings, Inc.	121	87	
Sales of services:			
Ultimate parent (legal and administration services)	67	127	
Close family members of the ultimate controlling party (design services)	100	104	
	1,290	522	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

Goods are sold based on the price lists in force and terms that would be available to third parties. Sales of services are negotiated with related parties on a cost-plus basis, allowing a margin ranging from 15% to 30% (2011 - 10% to 18%).

24Rp18(a) (b) *Purchases of goods and services*

	2012	2011	2010*
Purchases of goods:			
Associates	3,054	3,058	
Purchases of services:			
Entity controlled by key management personnel	83	70	
Immediate parent (management services)	295	268	
	3,432	3,396	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

24Rp23 Goods and services are bought from associates and an entity controlled by key management personnel on normal commercial terms and conditions. The entity controlled by key management personnel is a firm belonging to Mr. Chamois, a non-executive director of the Company. Management services are bought from the immediate parent on a cost-plus basis, allowing a margin ranging from 15% to 30% (2011 - 10% to 24%).

<sup>81</sup> Management should disclose that related-party transactions were made on an arm's length basis only when such terms can be substantiated (PAS24(R)p21).

24Rp17 (c) *Key management compensation*<sup>82</sup>

Key management includes directors (executive and non-executive), members of the Executive Committee, the Company Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services is shown below:

	2012	2011	2010*
24Rp17(a) Salaries and other short-term employee benefits	2,200	1,890	
24Rp17(d) Termination benefits	1,600	-	
24Rp17(b) Post-employment benefits	123	85	
24Rp17(c) Other long-term benefits	26	22	
24Rp17(e) Share-based payments	150	107	
	4,099	2,104	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

24Rp18(b), 1p77 (iv) *Year-end balances arising from sales/purchases of goods/services*

	Note	2012	2011
<b>Receivables from related parties</b>			
Associates		26	32
Associates of Grand Feet Supreme Holdings, Inc.		24	8
Ultimate parent		50	40
Close family members of key management personnel		4	6
	9	104	86
<b>Payables to related parties</b>			
Immediate parent		200	190
Associates		2,902	1,005
Entity controlled by key management personnel		100	-
	16	3,202	1,195

The receivables from related parties arise mainly from sale transactions and are due two months after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2011 - nil).

The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase. The payables bear no interest.

<sup>82</sup> The standard defines "key management personnel" are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Each entity will have to determine up to what level this term will cover, so long as the responsibilities enumerated in PAS 24 are met. The position or designation need not be identified nor the officer named in the disclosure. Only the totals of each category are required to be disclosed. Our local SEC does not know of any exemptions in the required disclosures. While paragraphs 29 and 30 of the Framework for PFRS contain definitions of materiality, the term is normally defined as one where the omission or misstatement is likely to influence the economic decisions of users. Please note the categories of compensation to be disclosed. If there are no such categories, the same should be stated.

24Rp18(b) (v) Loans to related parties

	2012	2011	2010*
<b>Loans to directors and key management of the Company (and their families)</b>			
At January 1	196	168	
Loans advanced during year	343	62	
Loan repayments received	(49)	(34)	
Interest charged	30	16	
Interest received	(30)	(16)	
At December 31	490	196	
<b>Loans to associates</b>			
At January 1	1,192	1,206	
Loans advanced during year	1,000	50	
Loan repayments received	(14)	(64)	
Interest charged	187	120	
Interest received	(187)	(120)	
At December 31	2,178	1,192	
<b>Total loans to related parties</b>			
At January 1	1,388	1,374	
Loans advanced during year	1,343	112	
Loan repayments received	(63)	(98)	
Interest charged	217	136	
Interest received	(217)	(136)	
At December 31	2,668	1,388	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

24Rp18(b)(i) The loans advanced to directors have the following terms and conditions:

Name of key management	Amount of loan	Term	Interest rate
<b>2012</b>			
Mr Leather	173	Repayable monthly over 2 years	6.3%
Mr Shine	170	Repayable monthly over 2 years	6.3%
<b>2011</b>			
Mr Kiwi	20	Repayable monthly over 2 years	6.5%
Mr Shine	42	Repayable monthly over 1 year	6.5%

PFRS7p15 Certain loans to associates during the year amounting to P1,500 (2011 - P500) are collateralized by shares in listed companies. The fair value of these shares was P65 at the reporting date (2011 - P590).

The loans to associates are due on January 1, 2012 and carry interest at 7% (2011 - 8%). The fair values and the effective tax rates of loans to associates are disclosed in Note 9.

24Rp18(c) No provision has been required in 2012 and 2011 for the loans made to key management personnel and associates.

### **Note 34 - Segment information**

- PFRS8p22(a) The strategic steering committee is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the strategic steering committee for purposes of allocating resources and assessing performance.
- PFRS8p22(a-b) The committee considers the business from both a geographic and product perspective. Geographically, management considers the performance in the Philippines, US, China, Russia and Europe. From a product perspective, management separately considers the wholesale and retail activities in these geographies. The Group only has retail activities in the Philippines and US. The wholesale segments derive their revenue primarily from the manufacture and wholesale sale of the Group's own brand of shoes, Footsy Tootsy. The Philippine and US retail segments derive their revenue from retail sales of shoe and leather goods including the Group's own brand and other major retail shoe brands.
- PFRS8p22(a) Although the China segment does not meet the quantitative thresholds required by PFRS 8 for reportable segments, management has concluded that this segment should be reported, as it is closely monitored by the strategic steering committee as a potential growth region and is expected to materially contribute to Group revenue in the future.
- PFRS8p18 During 2011, US retail did not qualify as a reportable operating segment. However, with the acquisition in 2012 of Flip Flops and Beyond Corporation (see Note 35), retail qualifies as a reportable operating segment; the comparatives have been restated.
- PFRS8p16 All other segments primarily relate to the sale of design services and goods transportation services to other shoe manufacturers in the Philippines and Europe and wholesale shoe revenue from the Central American region. These activities are excluded from the reportable operating segments, as these activities are not reviewed by the strategic steering committee.
- PFRS8p27(b)  
PFRS8p28 The strategic steering committee assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes discontinued operations and the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. The measure also excludes the effects of equity-settled share-based payments and unrealized gains/losses on financial instruments. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

PFRS8p28(a) The segment information provided to the committee for the reportable segments is as follows:

(a) *Revenue*

	2012			2011		
	Segment revenue	Inter-segment revenue	Revenue from external customers	Segment revenue	Inter-segment revenue	Revenue from external customers
Philippine wholesale	46,638	(11,403)	35,235	57,284	(11,457)	45,827
Philippine retail	43,257	-	43,257	1,682	-	1,682
US wholesale	28,820	(7,364)	21,456	33,990	(6,798)	27,192
US retail	42,672	-	42,672	2,390	-	2,390
Russia	26,273	(5,255)	21,018	8,778	(1,756)	7,022
China	5,818	(1,164)	4,654	3,209	(642)	2,567
Europe	40,273	(8,055)	32,218	26,223	(5,245)	20,978
All other segments	13,155	(2,631)	10,524	5,724	(1,022)	4,702
	246,906	(35,872)	211,034	139,280	(26,920)	112,360

PFRS8p27(a) **Sales between segments are carried out at arm's length.** The revenue from external parties reported to the strategic steering committee is measured in a manner consistent with that in profit or loss.

**(b) EBITDA**

	2012	2011
	Adjusted EBITDA	Adjusted EBITDA
Philippine wholesale	17,298	17,183
Philippine retail	9,550	800
US wholesale	9,146	10,369
US retail	9,686	1,298
Russia wholesale	12,322	3,471
China wholesale	2,323	1,506
Europe wholesale	16,003	10,755
All other segments	3,504	1,682
Sub-total	79,832	47,064
Depreciation	(17,754)	(9,662)
Amortization	(800)	(565)
Restructuring costs	(1,986)	-
Legal expenses	(737)	(855)
Goodwill impairment	(4,650)	-
Unrealized financial instrument gains	102	101
Share options granted to directors and employees	(690)	(822)
Finance costs - net	(6,443)	(10,588)
Other	802	245
Profit before tax and discontinued operations	47,676	24,918

PFRS8p23 **(c) Other profit and loss disclosures<sup>83</sup>**

	2012					2011			
	Depreciation and amortization	Goodwill impairment	Restructuring costs	Income tax expense	Share of profit from associates	Depreciation and amortization	Income tax expense	Share of profit from associates	
Philippine wholesale	(3,226)	-	-	(2,550)	200	(3,801)	(2,772)	155	
Philippine retail	(3,830)	-	-	(2,780)	-	(201)	(650)	-	
US wholesale	(1,894)	-	-	(1,395)	-	(2,448)	(1,407)	-	
US retail	(3,789)	-	-	(3,040)	-	(199)	(489)	-	
Russia	(2,454)	(4,650)	(1,986)	(1,591)	-	(453)	(509)	-	
China	(386)	-	-	(365)	-	(286)	(150)	-	
Europe	(2,706)	-	-	(2,490)	-	(2,701)	(2,201)	-	
All other segments	(269)	-	-	(400)	15	(138)	(492)	(1)	
	(18,554)	(4,650)	(1,986)	(14,611)	215	(10,227)	(8,670)	145	

<sup>83</sup> PFRS 8 paragraph 23 requires disclosures of interest revenue and expense even if not included in the measure of segment profit and loss. This disclosure has not been included in the illustrative because these balances are not allocated to the segments.

PFRS8p23(i) See Note 15 for details of the impairment of goodwill of P4,650 in the Russian operating segment in 2011 relating to the decision to reduce manufacturing output. There has been no further impact on the measurement of the Group's assets and liabilities. There was no impairment charge or restructuring costs recognized in 2012.

PFRS8p27(f) Due to the European operations utilizing excess capacity in certain Russian assets that are geographically close to the European region, a portion of the depreciation charge of P197 (2011 - P50) relating to the Russian assets has been allocated to the European segment to take account of this.

(d) *Assets*<sup>84</sup>

PFRS8p28(c)	2012			2011		
	Total assets	Investments in associates	Additions to non-current assets	Total assets	Investments in associates	Additions to non-current assets
Philippine wholesale	46,957	7,207	-	43,320	7,050	-
Philippine retail	46,197	-	35,543	9,580	-	47
US wholesale	27,313	-	-	32,967	-	-
US retail	45,529	-	39,817	8,550	-	46
Russia	22,659	-	-	5,067	-	-
China	6,226	-	11,380	20,899	-	2,971
Europe	42,636	-	-	36,450	-	-
All other segments	22,184	6,166	1,500	49,270	6,194	3,678
	259,701	13,373	88,240	206,103	13,244	6,742
Unallocated						
Deferred tax	3,520			3,321		
Available-for-sale financial assets	19,370			14,910		
Financial assets at fair value through profit or loss	11,820			7,972		
Derivative financial Instruments	1,464			1,196		
Assets of disposal group classified as held for sale	3,333			-		
Total assets per statement of financial position	299,208			233,502		

PFRS8p27(c) The amounts provided to the strategic steering committee with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Investment in shares (classified as available-for-sale financial assets or financial assets at fair value through profit or loss) held by the Group are not considered to be segment assets but rather are managed by the treasury function. The Group's interest-bearing liabilities are not considered to be segment liabilities but rather are managed by the treasury function.

<sup>84</sup> The measure of assets has been disclosed for each reportable segment as is regularly provided to the chief operating decision-maker. If the chief operating decision-maker reviews a measure of liabilities, this should also be disclosed.

(e) *Entity-wide information*

Breakdown of the revenue from all services is as follows:

	2012	2011
<b>Analysis of revenue by category</b>		
Sales of goods	202,884	104,495
Revenue from services	8,000	7,800
Royalty income	150	65
	211,034	112,360

PFRS8p33(a) The Group is domiciled in the Philippines. The result of its revenue from external customers in the Philippines is P50,697 (2011 - P48,951), and the total of revenue from external customers from other countries is P160,337 (2011 - P63,409). The breakdown of the major components of the total of revenue from external customers from other countries is disclosed above.

PFRS8p33(b) The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in the Philippines is P49,696 (2011 - P39,567), and the total of these non-current assets located in other countries is P146,762 (2011 - P93,299).

PFRS8p34 Revenues of approximately P32,023 (2011 - P28,034) are derived from a single external customer. These revenues are attributable to the US retail and wholesale segments.

**Note 35 - Business combinations**

PFRS3B64(a-d) On June 30, 2011, the Group acquired 15% of the share capital of Flip Flops and Beyond Corporation for P1,150. On March 1, 2012, the Group acquired further 55% of the share capital and obtained the control of Flip Flops and Beyond Corporation, a shoe and leather goods retailer operating in the US and most western European countries.

PFRS3B64(e) As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economies of scale. The goodwill of P7,360 arising from the acquisition is attributable to acquired customer base and economies of scale expected from combining the operations of the Group and Flip Flops and Beyond Corporation. None of the goodwill recognized is expected to be deductible for income tax purposes.

PFRS3B64(k) The following table summarizes the consideration paid for Flip Flops and Beyond Corporation, the fair value of assets acquired, liabilities assumed, and the non-controlling interest at the acquisition date.

<b>Consideration at March 1, 2012</b>		
PFRS3B64(f)(i)	Cash	4,050
PFRS3B64(f)(iv)	Equity instruments (3.55 million common shares)	10,000
PFRS3B64(f)(iii)	Contingent consideration	1,000
	Total consideration transferred	15,050
PFRS3B64(g)(i)	Indemnification asset	(1,000)
PFRS3B64(p)(i)	Fair value of equity interest in Flip Flops and Beyond Corporation held before the business combination	2,000
PFRS3B64(f)	Total consideration	16,050

PFRS3B64(i)	<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
	Cash and cash equivalents	300
	Property, plant and equipment	67,784
	Trademarks (included in intangibles)	2,500
	Licenses (included in intangibles)	1,500
	Available-for-sale financial assets	473
	Inventories	459
PFRS3B64(h)(i)	Trade and other receivables	585
	Trade and other payables	(11,409)
	Retirement benefit obligations	
	Pensions	(1,914)
	Other post-retirement obligations	(725)
	Borrowings	(40,509)
PFRS3B64(j)	Contingent liability	(1,000)
	Deferred tax liabilities	(1,953)
	<hr/>	
	Total identifiable net assets	16,091
PFRS3B64(o)(i)	Non-controlling interest	(4,542)
	Goodwill	4,501
	<hr/>	
	Total	16,050

PFRS3B64(m) Acquisition-related costs of P200 have been charged to administrative expenses in profit or loss for the year ended December 31, 2012.

PFRS3B64(f)(iv) The fair value of the 3,550 thousand common shares issued as part of the consideration paid for Flip Flops and Beyond Corporation (P10,050) was based on the published share price on March 1, 2012. Issuance costs totaling P50 have been netted against the deemed proceeds.

PFRS3B64(f)(iii) The contingent consideration arrangement requires the Group to pay the former owners of Flip Flops and Beyond Corporation 5% of the average profit of Flip Flops and Beyond Corporation for three years from 2012 to 2014, in excess of P7,500, up to a maximum undiscounted amount of P2,500.

PFRS3B64(g) The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between P0 and P2,500.

The fair value of the contingent consideration arrangement of P1,000 was estimated by applying the income approach. The fair value estimates are based on a discount rate of 8% and assumed probability-adjusted profit in Flip Flops and Beyond Corporation of P10,000 to P20,000.

PFRS3B67(b) As at December 31, 2012, there was an increase of P500 recognized in profit or loss for the contingent consideration arrangement, as the assumed probability-adjusted profit in Flip Flops and Beyond Corporation was recalculated to be approximately P20,000 to P30,000.

PFRS3B64(h) The fair value of trade and other receivables is P585 and includes trade receivables with a fair value of P510. The gross contractual amount for trade receivables due is P960, of which P450 is expected to be uncollectible.

PFRS3B67(a) The fair value of the acquired identifiable intangible assets of P4,000 (including trademarks and licenses) is provisional pending receipt of the final valuations for those assets.

PFRS3B64(j) A contingent liability of P1,000 has been recognized for a pending lawsuit in which Flip Flops and Beyond Corporation is a defendant. The claim has arisen from a customer alleging defects on products supplied to them. It is expected that the courts will have reached a decision on this case by the end of 2012. The

PFRS3B67(c)  
37p84, 85

potential undiscounted amount of all future payments that the Group could be required to make if there was an adverse decision related to the lawsuit is estimated to be between P500 and P1,500. As at December 31, 2012, there has been no change in the amount recognized (except for unwinding of the discount of P4) for the liability at March 1, 2012, as there has been no change in the range of outcomes or assumptions used to develop the estimates.

- PFRS3B64(g), PFRS3p57 The selling shareholders of Flip Flops and Beyond Corporation have contractually agreed to indemnify Moonwalk Corporation for the claim that may become payable in respect of the above-mentioned lawsuit. An indemnification asset of P1,000, equivalent to the fair value of the indemnified liability, has been recognized by the Group. The indemnification asset is deducted from consideration transferred for the business combination. As is the case with the indemnified liability, there has been no change in the amount recognized for the indemnification asset as at December 31, 2012, as there has been no change in the range of outcomes or assumptions used to develop the estimate of the liability.
- PFRS3B64(o) The fair value of the non-controlling interest in Flip Flops and Beyond Corporation, an unlisted company, was estimated by using the purchase price paid for acquisition of 55% stake in Flip Flops and Beyond Corporation. This purchase price was adjusted for the lack of control and lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in Flip Flops and Beyond Corporation.
- PFRS3B64(p)(ii) The Group recognized a gain of P850 as a result of measuring at fair value its 15% equity interest in Flip Flops and Beyond Corporation held before the business combination. The gain is included in other income in the Group's consolidated statement of comprehensive income for the year ended December 31, 2012.
- PFRS3B64(q)(i) The revenue included in the consolidated statement of comprehensive income since March 1, 2012 contributed by Flip Flops and Beyond Corporation was P44,709. Flip Flops and Beyond Corporation also contributed profit of P12,762 over the same period.
- PFRS3B64(q)(ii) Had Flip Flops and Beyond Corporation been consolidated from January 1, 2012, the consolidated statement of income would show revenue of P220,345 and profit of P33,126.

### **Note 36 - Transactions with non-controlling interests**

#### *(a) Acquisition of additional interest in a subsidiary*

On April 21, 2012, the Company acquired the remaining 5% of the issued shares of XYZ Group for a purchase consideration of P800. The Group now holds 100% of the equity share capital of XYZ Group. The carrying amount of the non-controlling interests in XYZ Group on the date of acquisition was P300. The Group derecognized non-controlling interests of P300 and recorded an increase in equity attributable to owners of the parent of P200. The effect of changes in the ownership interest of XYZ Group on the equity attributable to owners of the Company during the year is summarized as follows:

	2012	2011
Carrying amount of non-controlling interests acquired	300	-
Consideration paid to non-controlling interests	(1,100)	-
Excess of consideration paid recognized in parent's equity	(800)	-

#### *(b) Disposal of interest in a subsidiary without loss of control*

On September 5, 2012, the Company disposed of a 10% interest out of the 80% interest held in Red Limited at a consideration of P700. The carrying amount of the non-controlling interests in Red Limited on the date of disposal was P2,000 (representing 20% interest). This resulted in an increase in non-controlling interests of P1,000 and a decrease in equity attributable to owners of the parent of P300. The effect of changes in the ownership interest of Red Limited on the equity attributable to owners of the Company during the year is

summarized as follows:

	2012	2011
Carrying amount of non-controlling interests disposed of	(1,000)	-
Consideration received from non-controlling interests	1,000	-
Gain on disposal recorded within parent's equity	100	-

There were no transactions with non-controlling interests in 2012.

27p41(e) (c) *Effects of transactions with non-controlling interests on the equity attributable to owners of the parent for the year ended December 31, 2012*

	2012
Changes in equity attributable to shareholders of the Company arising from:	
Acquisition of additional interests in subsidiary	(800)
Disposal of interests in a subsidiary without loss of control	100
Net effect in equity	(700)

**Note 37 - Commitments and contingencies**

*(a) Capital commitments*

Capital expenditure contracted for at December 31 but not yet incurred are as follows:

	2012	2011	2010*
16p74(c) Property, plant and equipment	3,593	3,667	
38p122(e) Intangible assets	460	474	
	4,053	4,141	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

*(b) Operating lease commitments - Group Company is the lessee*

17p35(d) The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between five and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.<sup>85</sup>

17p35(d) The Group also leases various plant and machinery under cancellable operating lease agreements. The Group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to profit or loss during the year is disclosed in Note 23.

<sup>85</sup> Disclose terms of agreements, escalation clauses, renewal rights, any restrictions imposed and other agreements. (PAS17p35)

17p35(a) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012	2011	2010*
No later than 1 year	11,664	10,604	
Later than 1 year and no later than 5 years	45,651	45,651	
Later than 5 years	15,710	27,374	
	73,025	83,629	

\* Please note that the comparative figures for the year 2010 were not presented in these illustrative financial statements.

37p86 (c) *Contingencies*

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for (Note 18).

In respect of the acquisition of Flip Flops and Beyond Corporation on March 1, 2012 (Note 35), additional consideration of up to P1,500 may be payable in cash if the acquired operations achieve certain sales targets. No additional payments are anticipated at the date of these financial statements.

**Note 38 - Events after the reporting period**

10p21 (a) *Business combinations*  
PFRS3B64(a-d)

The Group acquired 100% of the share capital of Fly High & Co, a group of companies specializing in the manufacture of shoes for extreme sports, for a cash consideration of P5,950 on February 1, 2013.

Details of net assets acquired and goodwill are as follows:

	2012
PFRS3B64(f,i) Purchase consideration:	
7p40(b) Cash paid	5,800
Direct cost relating to the acquisition charged to profit or loss	150
7p40(a) Total purchase consideration	5,950
Fair value of assets acquired (see below)	(5,145)
Goodwill	805

PFRS3B64(e) The above goodwill is attributable to Fly High & Co.'s strong position and profitability in trading in the niche market for extreme-sports equipment.

PFRS3B64(i) The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	195	195
Property, plant and equipment	29,056	28,234
Trademarks	1,000	-
Licenses	700	-
Customer list	1,000	-
Customer relationships	850	-
Favorable lease agreements	800	-
Inventories	995	495
Receivables	855	855
Payables	(9,646)	(9,646)
Pensions	(1,425)	(1,300)
Borrowings	(19,259)	(19,259)
Net deferred tax assets	24	519
<b>Net assets acquired</b>	<b>5,145</b>	<b>93</b>

*(b) Associates*

10p21 The Group acquired 40% of the share capital of Boardwalk & Company, a group of companies specializing in the manufacture of Boardwalk shoes, for a cash consideration of P2,050 on January 25, 2013.

Details of net assets acquired and goodwill are as follows:

	2012
PFRS3B64(f,i) 7p40(b)	Purchase consideration:
	Cash paid 2,050
	Direct cost relating to the acquisition charged to profit or loss 70
7p40(a)	Total purchase consideration 2,120
	Fair value of assets acquired (see below) (2,000)
	Goodwill 120

28p23(a) The goodwill is attributable to Boardwalk & Company's strong position and profitability in trading in the market of Boardwalk shoes and to its workforce, which cannot be separately recognized as an intangible asset.

The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

	Fair value	Acquiree's carrying amount
Contractual customer relationship	380	-
Property, plant and equipment	3,200	2,400
Inventory	500	500
Cash	220	220
Trade creditors	(420)	(350)
Borrowings	(1,880)	(1,420)
Net assets acquired	2,000	1,350

*(c) Equity transactions*

10p21  
33p71(e)  
10p22(f)

On January 1, 2013, 1,200 thousand share options were granted to directors and employees with an exercise price set at the market share prices less 15% on that date of P3.13 per share (share price: P3.68) (expiry date: December 31, 2017).

The Company re-issued 500,000 treasury shares for a total consideration of P1, 500 on January 15, 2013.

*(d) Borrowings*

10p21

On February 1, 2013, the Group issued P6,777 6.5% US Dollar bonds to finance its expansion program and working capital requirements in the US. The bonds are repayable on December 31, 2017.

**Note 39 - Supplementary information required by the Bureau of Internal Revenue<sup>86</sup>**

The following information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

*(a) Supplementary information required by Revenue Regulation No. 15-2010*

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by Philippine Financial Reporting Standards.

Below is the additional information required by RR No. 15-2010. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

*(i) Output value-added tax (VAT)*

Output VAT declared for the year ended December 31, 2012 and the revenues upon which the same was based consist of:

	2012		2011	
	Gross amount of revenues	Output VAT	Gross amount of revenues	Output VAT
Subject to 12% VAT				
Sale of goods	xxxxx	xxxxx	xxxxx	xxxxx
Sale of services	xxxxx	xxxxx	xxxxx	xxxxx
Sale of property/equipment	xxxxx	xxxxx	xxxxx	xxxxx
Lease of property/equipment	xxxxx	xxxxx	xxxxx	xxxxx
Sale/lease of intangible property	xxxxx	xxxxx	xxxxx	xxxxx
Premiums (Non-life)	xxxxx	xxxxx	xxxxx	xxxxx
Storage and warehousing	xxxxx	xxxxx	xxxxx	xxxxx
	xxxxx	xxxxx	xxxxx	xxxxx
Zero-rated				
Sale of goods	xxxxx	-	xxxxx	-
Sale of services	xxxxx	-	xxxxx	-
Sale of property/equipment	xxxxx	-	xxxxx	-
	xxxxx	-	xxxxx	-
Exempt				
Sale of goods	xxxxx	-	xxxxx	-
Sale of services	xxxxx	-	xxxxx	-
Sale of property/equipment	xxxxx	-	xxxxx	-
	xxxxx	-	xxxxx	-
Total	xxxxx	xxxxx	xxxxx	xxxxx

<sup>86</sup> PSA 700 paragraph 46 provides that "if supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether such supplementary information is clearly differentiated from the audited financial statements." Differentiation could be achieved by removing any cross-references from the financial statements to the supplementary information (PSA 700 paragraph A50).

[To disclose legal basis for zero-rated sales/receipts and/or exempt sales/receipts, if any, e.g. "Zero-rated sales are sales of goods to PEZA-registered entities pursuant to (specify legal basis).]

[To disclose amount of gross sales / service income if different from gross receipts e.g. "The gross revenues shown above are based on gross receipts of the Company for VAT purposes while gross revenues in the statements of total comprehensive income are measured in accordance with the policy in Note 2.X."]

(ii) Input VAT

Movements in input VAT for the years ended December 31 follow:

	2012	2011
Beginning balance	XXXXX	XXXXX
Add: Current year's domestic purchases/payments for:		
Goods for resale	XXXXX	XXXXX
Goods other than for resale or manufacture	XXXXX	XXXXX
Capital goods subject to amortization	XXXXX	XXXXX
Capital goods not subject to amortization	XXXXX	XXXXX
Services lodged under cost of goods sold	XXXXX	XXXXX
Services lodged under other accounts	XXXXX	XXXXX
Less: Claims for tax credit/refund and other adjustments	(XXXXX)	(XXXXX)
Ending balance	XXXXX	XXXXX

(iii) Importations

The total landed cost of imports and the amount of custom duties and tariff fees paid and accrued for the years ended December 31 follow:

	2012	2011
Landed cost of imports	XXXXX	XXXXX
Customs duties and tariff fees		
Amount paid	XXXXX	XXXXX
Amount accrued	XXXXX	XXXXX
Total	XXXXX	XXXXX

(iv) Excise tax

Excise taxes paid and accrued for the years ended December 31 consist of:

	2012			2011		
	Paid	Accrued	Total	Paid	Accrued	Total
Petroleum products	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
Tobacco products	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
Mineral products	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
Alcohol products	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
Automobiles and non-essential goods	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX

(v) Documentary stamp tax

Documentary stamp taxes paid and accrued for the years ended December 31 consist of:

	2012			2011		
	Paid	Accrued	Total	Paid	Accrued	Total
Sales, agreements to sell, memoranda of sales, deliveries or transfer of shares or certificates of stock with par value	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Deed of sale and conveyance of real property	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Life insurance policies	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Foreign bills of exchange and letters of credit	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Original issuance of debt instruments	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Others	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx

(vi) All other local and national taxes

All other local and national taxes paid and accrued for the years ended December 31 consist of:

	2012			2011		
	Paid	Accrued	Total	Paid	Accrued	Total
Gross receipts tax	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Premium tax (Life)	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Municipal taxes	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Real property tax	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Mayor's permit	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Community tax	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Others	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx

The above local and national taxes are lodged under Taxes and licenses account in operating expenses except for real property tax which is charged to Cost of sales. **[To modify based on the line items upon which the above taxes have been charged]**

(vii) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2012 consist of:

	2012			2011		
	Paid	Accrued	Total	Paid	Accrued	Total
Creditable withholding tax	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Withholding tax on compensation	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Expanded withholding tax	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Fringe benefit tax	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Final withholding tax	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx

(viii) Tax assessments

The Company received the following Final Assessment Notices (FAN):

Year	2012	2011
2009	XXXXX	XXXXX
2008	XXXXX	XXXXX

Taxable year 2009 is currently under investigation by the BIR. **[To disclose open tax years; tax years under audit]** The Company is contesting the above tax assessments. Management, based on consultation with the Company's legal counsel, believes that the final settlement, if any, would not adversely affect the Company's financial position or results of operations.

(ix) Tax cases

The outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR at December 31, 2012 consist of:

Court or Body outside BIR	Year	Nature	Amount
Court of Tax Appeals	2006	xx	XXXXX
Local government unit	2007	xx	XXXXX

The Company is contesting the above tax cases. Management, based on consultation with the Company's legal counsel, believes that the final settlement, if any, would not adversely affect the Company's financial position or results of operations. **[With respect to the local government unit, indicate whether the Company is a litigant or complainant for the tax cases]**

(b) Supplementary information required by Revenue Regulation No. 19-2011

RR No. 19-2011 prescribes the new BIR forms that should be used for income tax filing covering and starting with the calendar year 2011 and modifies Revenue Memorandum Circular No. 57-2011. In the Guidelines and Instructions Section of the new BIR Form 1702 (version November 2011), a required attachment to the income tax returns is an Account Information Form and/or Financial Statements that include in the Notes to Financial Statements schedules of sales/receipts/fees, cost of sales/services, non-operating and taxable other income, itemized deductions (if the taxpayer did not avail of the Optional Standard Deduction or OSD), taxes and licenses and other information prescribed to be disclosed in the Notes to the Financial statements.

The Company's schedules for the year ended December 31, 2012 follow:

(i) Sales/receipts/fees

	Special rate		Regular rate	
	Creditable tax withheld	Taxable amount	Creditable tax withheld	Taxable amount
Sale of goods/properties				
Sale of services				
Lease of properties				
Subtotal				
Less: sales returns/discounts				
Net sales/revenues/receipts/fees				

Disclosure option:

The Company's sales subject to the regular rate of 30% is the same as shown in Note XX to the financial statements.

(ii) Cost of sales/services

*Cost of sales:*

	Special rate	Regular rate
Merchandise/finished goods inventory, beginning		
Add: Purchases of merchandise/cost of goods manufactured		
Total goods available for sale		
Less: merchandise/finished goods inventory, ending		
Cost of sales		

Disclosure option:

The computation of the Company's cost of sales is the same as shown in Note XX to the financial statements. The Company's cost of sales are subject to the regular tax rate of 30%.

*Cost of services:*

Direct charges	Special rate	Regular rate
Salaries, wages and benefits		
Materials, supplies and facilities		
Depreciation		
Rental		
Outside services		
Others		
Total cost of services		

Disclosure option:

The details of the Company's direct charges which are subject to the regular tax rate of 30% are the same as shown in Note XX to the financial statements, except for salaries, wages and benefits due to a non-deductible portion of the Company's unamortized past service cost amounting to PXXX.

(iii) Non-operating and taxable other income

Nature of income	Special rate		Regular rate	
	Creditable tax withheld	Taxable amount	Creditable tax withheld	Taxable amount

(iv) Itemized deductions

Nature of expense/deduction	Exempt	Taxable	
		Special rate	Regular rate
Salaries and allowances			
Fringe benefits			
Rental			
Professional fees			
Director's fees			
Management and consultancy fee			
Security services			
Janitorial and messengerial services			
Tolling fees			
Other outside services			
Advertising			
Commissions			
Repairs and maintenance – labor			
Repairs and maintenance – materials/supplies			
Research and development			
Office supplies			
Royalties			
Interest			
SSS, GSIS, Philhealth, HDMF and other contributions			
Insurance			
Representation and entertainment			
Transportation and travel			
Fuel and Oil			
Communication, light and water			
Taxes and licenses			
Losses			
Bad debts			
Depreciation			
Amortization of intangibles			
Depletion			
Charitable institutions			
Amortization of pension trust contribution			
Miscellaneous			
Others			
Sub-total			
Allowance of NOLCO			
Total expenses			

**If not applicable:**

This schedule is not applicable as the Company has availed of the Optional Standard Deduction.

**Disclosure option:**

The Company's itemized deductions which are subject to the regular tax rate of 30% are the same as shown in Note XX to the financial statements, except for salaries and allowances due to a non-deductible portion of the Company's unamortized past service cost amounting to PXXX.

*Note: If exception relates to two or more items, a table can also be presented.*

(v) Taxes and licenses

Nature/type of taxes and licenses	Supporting document	Amount

**Disclosure option:**

The details of the Company's taxes and licenses are presented in section (a) of this note.

---

***Section 2***  
***Appendices***

Compiled by Isla Lipana & Co.

## **Appendix I - Standards, interpretations and amendments**

### **A. Standards, amendments and interpretations effective up to January 1, 2012**

The illustrative corporate consolidated financial statements used all applicable standards, interpretations and amendments in force on or before January 1, 2012. These are applied as the basis of the accounting policies in the preparation of the audited financial statements as at December 31, 2012. Below is the list<sup>87</sup> of standards, interpretations and amendments effective up to January 1, 2012:

<b>Standards, amendments and interpretations effective up to January 1, 2012</b>	<b>Effective date</b>
<b>Philippine Financial Reporting Standards (PFRS)</b>	
PFRS 1, First-time Adoption of Philippine Financial Reporting Standards	1/1/2005
PFRS 1 (Revised), First-time Adoption of Philippine Financial Reporting Standards	7/1/2009
PFRS 2, Share-based Payment	1/1/2005
PFRS 3, Business Combinations	1/1/2005
PFRS 3 (Revised), Business Combinations	7/1/2009
PFRS 4, Insurance Contracts	1/1/2005
PFRS 5, Non-Current Assets Held for Sale and Discontinued Operations	1/1/2005
PFRS 6, Exploration for and Evaluation of Mineral Resources	1/1/2005
PFRS 7, Financial Instruments: Disclosures	1/1/2007
PFRS 8, Operating Segments	1/1/2009
<b>Philippine Accounting Standards (PAS)</b>	
PAS 1 (Revised), Presentation of Financial Statements	1/1/2009
PAS 2, Inventories	1/1/2005
PAS 7, Statement of Cash Flows	1/1/2005
PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors	1/1/2005
PAS 10, Events after the Reporting Period	1/1/2005
PAS 11, Construction Contracts	1/1/2005
PAS 12, Income Taxes	1/1/2005
PAS 14, Segment Reporting	1/1/2005
PAS 16, Property, Plant and Equipment	1/1/2005
PAS 17, Leases	1/1/2005
PAS 18, Revenue	1/1/2005
PAS 19, Employee Benefits	1/1/2005
PAS 20, Accounting for Government Grants and Disclosure of Government Assistance	1/1/2005
PAS 21, The Effects of Changes in Foreign Exchange Rates	1/1/2005
PAS 23 (Revised), Borrowing Costs	1/1/2009
PAS 24 (Revised), Related Party Disclosures	1/1/2011
PAS 26, Accounting and Reporting by Retirement Benefits Plans	1/1/2005
PAS 27, Consolidated and Separate Financial Statements	1/1/2005
PAS 27 (Revised), Consolidated and Separate Financial Statements	7/1/2009
PAS 28, Investments in Associates	1/1/2005
PAS 31, Interests in Joint Ventures	1/1/2005

<sup>87</sup> The list of standards, interpretations and amendments consist of all standards applicable as at January 1, 2012 whether relevant or not to the Consolidated Financial Statements of Moonwalk Corporations and its subsidiaries.

## Appendix I – Standards, Interpretations and Amendments

<b>Standards, amendments and interpretations effective up to January 1, 2012</b>	<b>Effective date</b>
PAS 32 (Revised), Financial Instruments: Presentation	1/1/2007
PAS 33, Earnings per Share	1/1/2005
PAS 36, Impairment of Assets	1/1/2005
PAS 37, Provisions, Contingent Liabilities and Contingent Assets	1/1/2005
PAS 38, Intangible Assets	1/1/2005
PAS 39, Financial Instruments: Recognition and Measurement	1/1/2005
PAS 40, Investment Property	1/1/2005
PAS 41, Agriculture	1/1/2005
<b><i>Philippine Interpretations - IFRIC</i></b>	
Philippine Interpretation IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities	1/1/2005
Philippine Interpretation IFRIC 2, Members' Shares in Cooperative Entities and Similar Instruments	1/1/2005
Philippine Interpretation IFRIC 4, Determining whether an Arrangement Contains a Lease	1/1/2006
Philippine Interpretation IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1/1/2006
Philippine Interpretation IFRIC 6, Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment	12/1/2005
Philippine Interpretation IFRIC 7, Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies	3/1/2006
Philippine Interpretation IFRIC 8, Scope of PFRS 2	5/1/2006
Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives	6/1/2006
Philippine Interpretation IFRIC 10, Interim Financial Reporting and Impairment	11/1/2006
Philippine Interpretation IFRIC 11, PFRS 2-Group and Treasury Share Transactions	3/1/2007
Philippine Interpretation IFRIC 12, Service Concession Arrangements	1/1/2008
Philippine Interpretation IFRIC 13, Customer Loyalty Programs	7/1/2008
Philippine Interpretation IFRIC 14, PAS 19, the Limit on a Defined Asset, Minimum Funding Requirements and their Interaction	1/1/2008
Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operations	10/1/2008
Philippine Interpretation IFRIC 17, Distribution of Non-cash Assets to Owners	7/1/2009
Philippine Interpretation IFRIC 18, Transfers of Assets from Customers	7/1/2009
Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments	7/1/2010
<b><i>Philippine Interpretations - SIC</i></b>	
Philippine Interpretation SIC-7, Introduction of the Euro	1/1/2005
Philippine Interpretation SIC-10, Government Assistance-No Specific Relation to Operating Activities	1/1/2005
Philippine Interpretation SIC-12, Consolidation - Special Purpose Entities	1/1/2005
Philippine Interpretation SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers	1/1/2005
Philippine Interpretation SIC-15, Operating Lease - Incentives	1/1/2005
Philippine Interpretation SIC-21, Income Taxes - Recovery of Revalued Non-Depreciable Assets	1/1/2005
Philippine Interpretation SIC-25, Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	1/1/2005
Philippine Interpretation SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease	1/1/2005
Philippine Interpretation SIC-29, Disclosure - Service Concession Arrangements	1/1/2005
Philippine Interpretation SIC-31, Revenue, Barter Transactions Involving Advertising Services	1/1/2005
Philippine Interpretation SIC-32, Intangible Assets - Website Costs	1/1/2005

Appendix I – Standards, Interpretations and Amendments

<b>Standards, amendments and interpretations effective up to January 1, 2012</b>	<b>Effective date</b>
<b>Amendments to PFRS, PAS and Philippine Interpretations</b>	
Amendments to PFRS 1 and PAS 27: Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate	1/1/2009
Amendments to PFRS 1: Additional Exemptions for First-time Adopters	1/1/2010
Amendments to PFRS 2: Vesting Conditions and Cancellation	1/1/2009
Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	1/1/2010
Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	1/1/2006
Amendments to PFRS 7: Transition	1/1/2007
Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	7/1/2008
Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	7/1/2008
Amendments to PFRS 7: Improving Disclosures about Financial Instruments	1/1/2009
Amendment to PAS 1: Capital Disclosures	1/1/2007
Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	1/1/2009
Amendment to PAS 32: Classification of Rights Issues	2/1/2010
Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	1/1/2006
Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	1/1/2005
Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1/1/2006
Amendments to PAS 39: The Fair Value Option	1/1/2006
Amendments to PAS 39: Eligible Hedged Items	7/1/2009
Amendments to Philippine Interpretation - IFRIC 9 and PAS 39: Embedded Derivatives	6/30/2009
Amendment to Philippine Interpretation IFRIC 14, PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1/1/2011
Amendment to PFRS 1, First-time Adoption of PFRS - Fixed Dates and Hyperinflation	7/1/2011
Amendment to PFRS 7, Financial Instruments: Disclosures - Derecognition	7/1/2011
Amendment to PAS 12, Income Taxes - Deferred Tax	1/1/2012

## ***B. Standards, amendments and interpretations effective on or after January 1, 2012***

### **List of standards, amendments and interpretations effective as at January 1, 2012:**

- *PAS 12 (Amendment), Income Taxes - Deferred Tax* (effective January 1, 2012). PAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in PAS 40, Investment Property. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendments also incorporate into PAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- *PFRS 1 (Amendment), First-time Adoption of PFRS - Fixed Dates and Hyperinflation* (effective July 1, 2011). These amendments include two changes to PFRS 1, First-time adoption of PFRS. The first replaces references to a fixed date of January 1, 2004 with 'the date of transition to PFRS', thus eliminating the need for entities adopting PFRS for the first time to restate derecognition transactions that occurred before the date of transition to PFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with PFRS after a period when the entity was unable to comply with PFRS because its functional currency was subject to severe hyperinflation.
- *PFRS 7 (Amendment), Financial Instruments: Disclosures - Derecognition* (effective July 1, 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets.

### **List of standards, amendments and interpretations issued but not yet effective as at January 1, 2012:**

- *PAS 1 (Amendment), Financial Statement Presentation - Other Comprehensive Income* (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.
- *PAS 19 (Amendment), Employee Benefits* (effective January 1, 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. They would also require recognition of all actuarial gains and losses in other comprehensive income as they occur and of all past service costs in profit or loss. The amendments replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).
- *PAS 27 (Revised), Separate Financial Statements* (effective January 1, 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of PAS 27 have been included in the new PFRS 10.
- *PAS 28 (Revised), Investments in Associates and Joint Ventures* (effective January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of PFRS 11.

- *PAS 32 (Amendment), Financial Instruments: Presentation - Asset and Liability Offsetting* (effective January 1, 2014). These amendments are to the application guidance in PAS 32, *Financial Instruments: Presentation*, and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- *PFRS 1 (Amendment), First-time Adoption of PFRS - Government Loans* (effective January 1, 2013). This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to PFRS. It also adds an exception to the retrospective application of PFRS, which provides the same relief to first-time adopters granted to existing preparers of PFRS financial statements when the requirement was incorporated into PAS 20 in 2008.
- *PFRS 7 (Amendment), Financial Instruments: Disclosures - Asset and Liability Offsetting* (effective January 1, 2013). This amendment includes new disclosures to facilitate comparison between those entities that prepare PFRS financial statements to those that prepare financial statements in accordance with US GAAP.
- *PFRS 9, Financial Instruments* (effective January 1, 2015). This new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of PAS 39 that relate to the classification and measurement of financial instruments. PFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.
- *PFRS 10, Consolidated Financial Statements* (effective January 1, 2013). This new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- *PFRS 11, Joint Arrangements* (effective January 1, 2013). This new standard is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.
- *PFRS 12, Disclosures of Interests in Other Entities* (effective January 1, 2013). This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- *Amendments to PFRS 10, 11 and 12 - Transition Guidance* (effective January 1, 2013). These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.
- *PFRS 13, Fair Value Measurement* (effective January 1, 2013). This new standard aims to improve consistency and reduce complexity by providing a clarified definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The

requirements, which are largely aligned with IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within PFRS or US GAAP.

- *Philippine Interpretation IFRIC 15, Agreement for the Construction of Real Estate.* This interpretation clarifies whether PAS 18, Revenue or PAS 11, Construction Contracts, should be applied to particular transactions. It is likely that PAS 18 will be applied to a wider range of transactions. The mandatory application of this interpretation has been deferred indefinitely by the SEC.
- *Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine* (effective January 1, 2013). This interpretation clarifies the requirements for accounting for stripping costs ((the process of removing waste from a surface mine in order to gain access to mineral ore deposits) in the production phase of a surface mine. The interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

### **2011 Improvements to PFRS (effective for annual periods on or after January 1, 2013)**

The following are the relevant amendments to PFRS which contains amendments that result in changes in accounting, presentation, recognition and measurement. It also includes amendments that are terminology or editorial changes only which have either minimal or no effect on accounting. These amendments are part of the IASB's annual improvements project published in May 2012.

- *PFRS 1 (Amendment), First-time Adoption of PFRS.* The amendment clarifies that an entity may apply PFRS 1 more than once under certain circumstances.
- *PFRS 1 (Amendment), First-time Adoption of PFRS.* The amendment clarifies that an entity can choose to adopt PAS 23, Borrowing Costs, either from its date of transition or from an earlier date.
- *PAS 1 (Amendment), Presentation of Financial Statements* and consequential amendment to *PFRS 1, First-time Adoption of PFRS.* The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either: (i) as required by PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors; or (ii) voluntarily.

The consequential amendment to PFRS 1 clarifies that a first-time adopter should provide the supporting notes for all statements presented.

- *PAS 16 (Amendment), Property, Plant and Equipment.* The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.
- *PAS 32 (Amendment), Financial Instruments: Presentation.* The amendment clarifies the treatment of income tax relating to distributions and transaction costs.
- *PAS 34 (Amendment), Interim Financial Reporting.* The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements.

***Appendix II - Alternative presentation methods***

- Consolidated statement of total comprehensive income - single statement
- Consolidated statement of income by nature of expense
- Consolidated statement of cash flows - direct method

Compiled by Isla Lipana & Co.

**Consolidated statements of total comprehensive income - single statement, by function of expense**

As an alternative to the presentation of the Group's income and expense recognized in a period in two statements, the Group is allowed presentation in a single statement of total comprehensive income (PAS 1R, paragraph 81a).

1Rp10(a),  
1Rp81(a) **Consolidated statements of total comprehensive income  
For the years ended December 31, 2012 and 2011**

	Notes	2012	2011
1Rp82(a), 1Rp103	Sales <sup>88</sup>	211,034	112,360
1Rp103, 1p99	Cost of goods sold	(77,366)	(46,682)
1Rp103	<b>Gross profit</b>	133,668	65,678
1Rp103, 1p99	Distribution costs	(52,529)	(21,213)
1Rp103, 1p99	Administrative expenses	(29,895)	(10,426)
1Rp85, 1Rp103	Other income	2,750	1,259
1Rp85,	Other gains (losses), net	(90)	63
	<b>Operating profit</b>	53,904	35,361
1Rp85	Finance income	1,730	1,609
1Rp82(b)	Finance costs	(8,173)	(12,197)
1Rp85	Finance costs, net <sup>89</sup>	(6,443)	(10,558)
1Rp82(c)	Share of profit (loss) of associates	215	145
1Rp103	<b>Profit before income tax</b>	47,676	24,918
1Rp82(d), 12p77	Income tax expense	(14,611)	(8,670)
1p85, PFRS5p33(a)	Profit for the year from continuing operations	33,065	16,248
	Discontinued operations:		
	Profit for the year from discontinued operations (attributable to the equity holders of the Company)	100	120
1Rp82(f)	<b>Profit for the year</b>	33,165	16,368
1Rp82(g), 91(b)	<b>Other comprehensive income</b> <sup>90</sup>		
16p77(f)	Gains on revaluation of land and buildings	755	912
PFRS7p20(a)(ii)	Available-for-sale financial assets	362	62
28p39, 1p82(h)	Share of other comprehensive income of associates	(86)	91
1p82(g), 19p93A	Actuarial loss on retirement benefit obligations	-	(494)
12p80(d)	Impact of changes in tax rate on deferred tax	(10)	-
1p82(g), PFRS7p23(c)	Cash flow hedges	(64)	(3)
1p82(g)	Net investment hedge	(45)	40
1p82(g)	Currency translation differences	2,413	(1,111)
PFRS3p59, 1Rp91(b)	Reclassification of revaluation of previously held interest in the Group	(850)	-
	Other comprehensive income for the year, net of tax	2,603	194
1Rp82(i)	<b>Total comprehensive income for the year</b>	35,768	16,562

<sup>88</sup> The SEC requires that deductions from gross sales (discounts, returns, VAT and allowances and rebates) be shown together with the amounts in the notes to FS. A general statement that says that "Revenue is shown net of value added tax, returns, rebates and allowances..." is not acceptable to the SEC.

<sup>89</sup> The gross amount of finance cost should be presented on the face of the statement of income. Interest income arising from investing activities should be classified as part of other income.

<sup>90</sup> Alternatively, the related tax components of other comprehensive income items could be presented as an additional line item in other comprehensive income (1Rp91(b)).

Appendix II - Alternative presentation methods  
(All amounts in thousand Philippine Peso unless otherwise stated)

1Rp10(a),  
1Rp81(a) **Consolidated statements of total comprehensive income**  
**For the years ended December 31, 2012 and 2011**

	Notes	2012	2011
1Rp83(a)	<b>Profit for the year attributable to:</b>		
1Rp83(a)(ii)	28	29,767	15,512
1Rp83(a)(i)	28	2,548	856
		32,315	16,368
1Rp83(b)	<b>Total comprehensive income attributable to:</b>		
1Rp83(b)(ii)		32,968	15,746
1Rp83(b)(i)		2,800	816
		35,768	16,562
	<b>Total comprehensive income attributable to owners of the parent arises from:</b>		
		32,868	15,626
PFRS5p33(d)		100	120
		32,968	15,746
	<b>Earnings per share from continuing and discontinued operations to the equity holders of the Company during the year:</b>		
	<b>Basic earnings per share</b>		
33p66	34	1.26	0.75
33p68		0.01	0.01
		1.27	0.76
	<b>Diluted earnings per share</b>		
33p66	34	1.15	0.71
33p68		0.01	0.01
		1.16	0.72

The notes on pages 1 to \_\_\_ are an integral part of these consolidated financial statements.

### **Consolidated statements of income - by nature of expense**

As an alternative to the presentation of costs by function shown in the above Illustrative Corporate Financial Statements, the Group is permitted to present the analysis of costs using the nature of expenditure format (PAS 1, paragraph 91) on the face of the statement of income:

1Rp10(b), 1Rp81(b), 1Rp84 **Consolidated statements of total comprehensive income**  
**For the years ended December 31, 2012 and 2011**

	Notes	2012	2011
1Rp82(a), 1Rp102 Sales <sup>91</sup>		211,034	112,360
1Rp102 Changes in inventories of finished goods and work in progress		(6,950)	2,300
1Rp102 Raw materials and consumables used		(53,302)	(31,845)
1Rp102 Employee benefit expense	24	(40,082)	(15,492)
1Rp102 Depreciation, amortization and impairment charges	13, 14	(23,204)	(10,227)
Transportation expense		(8,584)	(6,236)
Advertising costs		(12,759)	(6,662)
Occupancy costs of retail outlets		(10,604)	(8,500)
1Rp85 Other expenses		(424)	1,322
<b>Operating profit</b>		<b>53,443</b>	<b>35,361</b>
1Rp85 Finance income		1,730	1,609
1Rp82(b) Finance costs		(8,173)	(12,197)
1Rp85 Finance costs, net <sup>92</sup>	26	(6,443)	(10,558)
1Rp82(c) Share of (loss)/profit of associates	12	(174)	145
1Rp103 <b>Profit before income tax</b>		<b>46,826</b>	<b>24,918</b>
1Rp82(d), 12p77 Income tax expense	27	(14,611)	(8,670)
<b>Profit for the year before discontinued operations</b>		<b>32,215</b>	<b>16,248</b>
<b>Discontinued operations:</b>			
Profit for the year from discontinued operations		100	120
1Rp82(f) <b>Profit for the year</b>		<b>32,315</b>	<b>16,368</b>
1Rp83(a) <b>Profit for the year attributable to:</b>			
1Rp83(a)(ii) Owners of the parent	28	29,767	15,512
1Rp83(a)(i) Non-controlling interest	28	2,548	856
		<b>32,315</b>	<b>16,368</b>
<b>Earnings per share from continuing and discontinued operations to the equity holders of the Company during the year:</b>			
<b>Basic earnings per share</b>			
33p66 From continuing operations	34	1.26	0.75
33p68 From discontinued operations		0.01	0.01
		<b>1.27</b>	<b>0.76</b>
<b>Diluted earnings per share</b>			
33p66 From continuing operations	34	1.15	0.71
33p68 From discontinued operations		0.01	0.01
		<b>1.16</b>	<b>0.72</b>

The notes on pages 1 to \_\_\_ are an integral part of these consolidated financial statements

<sup>91</sup> The SEC requires that deductions from gross sales (discounts, returns, VAT and allowances and rebates) be shown together with the amounts in the notes to FS. A general statement that says that "Revenue is shown net of value added tax, returns, rebates and allowances..." is not acceptable to the SEC.

<sup>92</sup> The gross amount of finance cost should be presented on the face of the statement of income. Interest income arising from investing activities should be classified as part of other income.



---

### **Appendix III - Accounting policies and disclosures not covered in the Illustrative PFRS Consolidated Financial Statements**

- (A) Investment property
- (B) Construction contracts
- (C) Leases: Accounting by lessor
- (D) Investments in subsidiaries
- (E) Investments: Held-to-maturity financial assets
- (F) Government grants
- (G) Joint ventures
- (H) Oil and gas exploration assets
- (I) Revenue recognition: Multiple-element arrangements
- (J) Employee benefits
- (K) Retained earnings in excess of paid-up capital
- (L) Prepayments
- (M) Biological assets
- (N) Customer loyalty programmes
- (O) Put option arrangements
- (P) Foreign currency translations: Disposal of foreign operation and partial disposal
- (Q) Share-based payments: Modification and cancellation
- (R) PFRS for SMEs

## (A) Investment property

40p5 Investment property is defined as property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the common course of business.

### Accounting policies

#### (a) Basis of preparation<sup>93</sup>

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

1Rp119 (b) Investment property

40p75(a)(d) Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are recorded in profit or loss as part of other income.

40p6, 25 Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

### Consolidated statements of financial position (extracts)

	2012	2011
<b>ASSETS</b>		
1Rp60 <b>Non-current assets</b>		
1Rp54(a) Property, plant and equipment	155,341	98,670
1Rp54(b) Net deferred tax assets	24	519

### Note - Investment property

Movements in investment property at December 31 follow:

	2012	2011
40p76 Beginning of the year	15,690	16,043
Exchange differences	748	(1,396)
40p76(d) Fair value gains (included in other gains/(losses) - net)	1,670	1,043
End of the year	18,108	15,690

<sup>93</sup> This should be appropriately amended if the cost method is applied. PAS40, par79(e) requires a disclosure of the fair value of the investment property even if the Group applies cost method. In exceptional cases wherein the Group cannot determine the fair value of the investment property reliably, it shall disclose (a) description of the investment property; (b) explanation of why fair value cannot be determined reliably; (c) if possible, the range of estimates within which fair value is highly likely to lie.

The following amounts have been recognized in profit or loss:

	2012	2011
40p75(f)(i) Rental income	770	620
40p75(f)(ii) Direct operating expenses <sup>94</sup> arising from investment properties that generate rental income	640)	(550)
40p75(f)(ii) Direct operating expenses that did not generate rental income	(40)	(20)

### **Note - Capital commitments**

Capital expenditures contracted for at the reporting date but not recognized in the financial statements are as follows:

	2012	2011
16p74(c) Property, plant and equipment	3,593	3,667
40p75(h) Investment property	290	295
40p75(h) Investment property - repairs and maintenance: Contractual obligations for future repairs and maintenance of investment property	140	130

## **(B) Construction contracts**

### **Accounting policies**

11p3 A construction contract is defined by PAS 11 as a contract specifically negotiated for the construction of an asset or combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

11p22 When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract by reference to the stage of completion. Contract costs are recognized as expenses by reference to the stage of completion of the contract activity at the end of the accounting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.<sup>95</sup>

<sup>94</sup> Including repair and maintenance.

<sup>95</sup> Disclose the appropriate method used.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

**Consolidated statements of financial position (extracts)**

	Note	2012	2011
1Rp60			
<b>Current assets</b>			
1Rp54(h)	11	23,303	20,374
1Rp54(g)	13	24,885	18,481
1Rp60			
<b>Current liabilities</b>			
1Rp54(k)	17	18,667	13,629

**Consolidated statements of income (extracts)**

	2012	2011
1Rp82-83		
11p39(a)	58,115	39,212
11p16	(54,729)	(37,084)
1Rp103	3,386	2,128
1Rp103	(386)	(128)
1Rp103	(500)	(400)

**Note - Trade and other receivables (extract)**

Trade and other receivables at December 31 consist of:

	2012	2011
PFRS7p36, 17p78(b)	11,983	9,391
	2,202	1,195
	855	900
11p42(a)	142	355
	2,002	960
1Rp77, 24p18		
1Rp77, 24p18	1,483	828
	18,667	13,629

**Note - Trade and other payables (extract)**

	2012	2011
1Rp77	10,983	9,495
24p17(a)	2,202	1,195
11p42(b)	997	1,255
11p40(b)	2,002	960
	1,483	828
	17,667	13,733

**Note - Construction contracts**

Details of construction contracts at December 31 follows:

	2012	2011
1Rp78(c) The aggregate costs incurred and recognized profits (less recognized losses) to date	69,804	56,028
Less: Progress billings	(69,585)	(56,383)
Net balance sheet position for ongoing contracts	219	(355)

**(C) Leases: Accounting by lessor**

17p4 A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

**Accounting policies**

1p119 When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Additional disclosure is required of the following for a lease:

- (a) Reconciliation between the gross investment in the lease and the present value of the minimum lease payments receivable at the end of the reporting period. An entity discloses the gross investment in the lease and the present value of the minimum lease payments receivable at the end of the reporting periods:
  - (i) not later than one year;
  - (ii) later than one year and not later than five years;
  - (iii) later than five years.
- (b) Unearned finance income
- (c) The unguaranteed residual values accruing to the benefit of the lessor
- (d) The accumulated allowance for uncollectible minimum lease payments receivable.
- (e) Contingent rents recognized as income in the period.
- (f) A general description of the lessor's material leasing arrangements.

The method for allocating gross earnings to accounting periods is referred to as the 'actuarial method'. The actuarial method allocated rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

17p49 When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset.

17p50 Lease income is recognized over the term of the lease on a straight-line basis.

**Note - Property, plant and equipment (extracts)**

The category of vehicles and equipment includes vehicles leased by the Group to third parties under operating leases with the following carrying amounts:

17p57	2012	2011
Cost	70,234	-
Accumulated depreciation at January 1	(14,818)	-
Depreciation charge for the year	(5,058)	-
Net book value	50,358	-

**Note - Trade and other receivables (extracts)**

Trade and other receivables at December 31 consist of:

1Rp78(b)	2012	2011
<b>Non-current receivables</b>		
Finance leases - gross receivables	1,810	630
Unearned finance income	(222)	(98)
	1,588	532

1Rp78(b)	2012	2011
<b>Current receivables</b>		
Finance leases - gross receivables	1,336	316
Unearned finance income	(300)	(98)
	1,036	218

1Rp78(b)	2012	2011
Gross receivables from finance leases:		
Not later than 1 year	1,336	316
Later than 1 year and not later than 5 years	1,810	630
Later than 5 years	-	-
	3,146	946
17p47(b) Unearned future finance income on finance leases	(522)	(196)
Net investment in finance leases	2,624	750

The net investment in finance leases may be analyzed as follows:

1Rp78(a) 17p47(a),	2012	2011
No later than 1 year	1,036	218
Later than 1 year and no later than 5 years	1,588	532
Later than 5 years	-	-
	2,624	750

**Note - Operating leases**

17p56(a) **Operating lease commitments - Group as lessor**

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2012	2011
No later than 1 year	12,920	12,920
Later than 1 year and no later than 5 years	41,800	41,800
Later than 5 years	840	10,840
	55,560	65,560

17p56(b) Contingent-based rents recognized in profit or loss were P235 (2011 - P40).

17p56(c) The Company leases vehicles under various agreements, which terminate between 2012 and 2017. The agreements do not include an extension option.

**(D) Investments in subsidiaries**

**Accounting policies**

1Rp119  
27p41 Investment in shares of stock of subsidiaries is accounted for using the cost method. Under this method, investments are recognized at cost and income from investment is recognized in profit or loss only to the extent that the investor receives distribution from accumulated profits of the investee arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

**Note - Investments in subsidiaries**

Investment in subsidiaries at December 31 consists of:

	% of ownership	2012	2011
FootLoose Corporation	100	10,000	10,000
Havana Land Incorporated	100	500	500
		10,500	10,500

FootLoose Corporation, engaged in the development of rubber shoes and sneakers; and Havana Incorporated engaged in real estate, were organized in September 2001 and December 2000, respectively.

**(E) Investments: held-to-maturity financial assets**

**Accounting policies**

*Held-to-maturity financial assets*

1Rp119  
39p9 Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

**Consolidated statements of financial position (extracts)**

	2012	2011
1Rp60	<b>Non-current assets</b>	
1Rp54(d)	Held-to-maturity financial assets	3,999
		1,099

**Note - Held-to-maturity financial assets**

Held-to-maturity financial assets at December 31 consists of:

	2012	2011
	<b>Listed securities:</b>	
PFRS7p27A	Debentures with fixed interest of 5% and maturity date of 15 June 2012 - Currency zone countries	4,018
		984
PFRS7p27A	Debentures with fixed interest of 5.5% and maturity date of 15 June 2010 - US	-
		160
	Allowance for impairment	(19)
		(45)
		3,999
		1,099

The movement in held to maturity financial assets is summarized as follows:

	2012	2011
	<b>At January 1</b>	
	1,009	390
	Exchange differences	81
		56
	Addition	3,093
		888
	Disposals	(165)
		(280)
	Provision for impairment	(19)
		(45)
	<b>At December 31</b>	3,999
		1,009
1Rp61	Less: non-current portion	(3,999)
		(1,009)
	<b>Current portion</b>	-
		-

Movement on the provision for impairment of held-to-maturity financial asset are as follows:

	2012	2011
	<b>At January 1</b>	
	45	30
	Provision for impairment	-
		16
	Receivable written-off during the year as uncollectible	-
		-
	Unused amounts reversed	(26)
		(3)
	Reversal of discount (note 29)	-
		2
		19
		45

PFRS7p12(b) The Group has not reclassified any financial assets measured at amortized cost rather than fair value during the year (2011 - nil).

PFRS7p20(a) (iii) There were no gains or losses realized on the disposal of held to maturity financial assets in 2012 and 2011, as all the financial assets were disposed of at their redemption date.

The fair value of held to maturity financial assets is based on quoted market bid prices (2011 - P3,901; 2010 - P976).

Held-to-maturity financial assets are denominated in the following currencies:

	2012	2011
Currency	2,190	990
US Dollar	1,809	109
	3,999	1,099

PFRS7p36(a) The maximum exposure to credit risk at the reporting date is the carrying amount of held to maturity financial assets.

## **(F) Government grants**

### **Accounting policies**

#### *Government grants<sup>96</sup>*

20p39(a) Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

20p12 Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight line basis over the expected lives of the related assets.

#### **Note - Other gains (losses)**

20p39(b) The Group obtained and recognized as income a government grant of P10,000 (2011 - nil) to compensate for losses caused by flooding incurred in the previous year. The Group is obliged not to reduce its average number of employees over the next three years under the terms of this government grant.

20p39(c)

The Group benefits from government assistance for promoting in international markets products made in the Philippines; such assistance includes marketing research and similar services provided by various Philippine government agencies free of charge.

## **(G) Joint ventures**

### **Accounting policies**

#### **1Rp119 2.2 Consolidation**

##### *31p57 (c) Joint ventures*

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognizes the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognize its share of profits or losses from the joint venture that results from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

<sup>96</sup> To be appropriately amended if the alternative method is used.

**Note - Interest in joint venture**

31p56 The Group has a 50% interest in a joint venture, Sandals & Step-In Company which provides products and services to the industrial designs and construction industry. The following amounts represent the Group's 50% share of the assets and liabilities, and sales and results of the joint venture. They are included in the statement of financial position and statement of income:

	2012	2011
<b>Assets:</b>		
Non-current assets	2,730	2,124
Current assets	803	717
	3,533	2,841
<b>Liabilities:</b>		
Long-term liabilities	1,114	1,104
Current liabilities	355	375
	1,469	1,479
<b>Net assets</b>	<b>2,064</b>	<b>1,362</b>
Income	5,276	5,618
Expenses	(3,754)	(4,009)
<b>Profit after income tax</b>	<b>1,522</b>	<b>1,609</b>
<b>Proportionate interest in joint venture's commitments</b>	<b>90</b>	<b>92</b>

31p55(b)

31p54 There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

**(H) Oil and gas exploration assets**

**Accounting policies**

PFRS6p23,  
24(a)

Oil and natural gas exploration and evaluation expenditures are accounted for using the successful efforts method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalized until the determination of reserves is evaluated. If the commercial discovery has not been achieved, these costs are charged to expense.

Capitalization is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No depreciation and/or amortization is charged during the exploration and evaluation phase.

**(a) Development tangible and intangible assets**

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within tangible and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets. No depreciation and/or amortization is charged during the exploration and evaluation phase.

**(b) Oil and gas production assets**

Oil and gas properties are aggregated exploration and evaluation tangible assets and development expenditures associated with the production of proved reserves.

**(c) Depreciation /amortization**

Oil and gas properties/intangible assets are depreciated/amortized using the unit-of-production method. Unit-of-production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

**(d) Impairment - exploration and evaluation assets**

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate impairment. An impairment loss is recognized for the amount by which the exploration and evaluation assets' carrying amount exceed their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

**(e) Impairment - proved oil and gas properties and intangible assets**

Proved oil and gas properties and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

**Note - Property, plant and equipment (extracts)<sup>97</sup>**

	Capitalized exploration and evaluation expenditure	Capitalized development expenditure	Subtotal - assets under construction	Production assets	Other business and corporate assets	Total
<b>At January 1, 2012</b>						
Cost	218	12,450	12,668	58,720	3,951	75,339
Accumulated amortization and impairment	(33)	-	(33)	(5,100)	(77)	(5,210)
Net book value	185	12,450	12,635	53,620	3,874	70,129
<b>Year ended December 31, 2012</b>						
Opening net book value	185	12,450	12,635	53,620	3,874	70,129
Exchange differences	17	346	363	1,182	325	1,870
Acquisitions	-	386	386	125	4	515
Additions	45	1,526	1,571	5,530	95	7,196
Transfers	(9)	(958)	(967)	1,712	-	745
Disposals	(12)	(1,687)	(1,699)	-	-	(1,699)
Depreciation charge	-	-	-	(725)	(42)	(767)

<sup>97</sup> For the purpose of this appendix, comparatives for the year ended December 31, 2010 are not disclosed, as required by PAS 1 (Revised).

Appendix III - Other Illustrative Disclosures  
(All amounts in thousand Philippine Peso unless otherwise stated)

Impairment charge	(7)	(36)	(43)	(250)	(3)	(296)
Closing net book value	219	12,027	12,246	61,194	4,253	77,693
<b>At December 31, 2012</b>						
Cost	264	12,027	12,291	67,019	4,330	83,640
Accumulated amortization and impairment	(45)	-	(45)	(5,825)	(77)	(5,947)
Net book value	219	12,027	12,246	61,194	4,253	77,693

**Note - Intangible assets (extracts)**

	Exploratio n and evaluation	Development	Subtotal - intangible assets in progress	Production	Goodwill	Other	Total
<b>At January 1, 2012</b>							
Cost	5,192	750	5,942	3,412	9,475	545	19,374
Accumulated amortization and impairment	(924)	-	(924)	(852)	(75)	(19)	(1,870)
Net book value	4,268	750	5,018	2,560	9,400	526	17,504
<b>Year ended December 31, 2012</b>							
Opening net book value	4,268	750	5,018	2,560	9,400	526	17,504
Exchange differences	152	8	160	195	423	28	806
Acquisitions	26	32	58	5	-	5	68
Additions	381	8	389	15	-	86	490
Transfers	(548)	548	0	-	-	-	-
Transfers to production	-	(850)	(850)	105	-	-	(745)
Disposals	-	(28)	(28)	(15)	-	-	(43)
Amortization charge	-	-	-	(98)	-	(42)	(140)
Impairment charge	(45)	-	(45)	-	(175)	(5)	(225)
Closing net book value	4,234	468	4,702	2,767	9,648	598	17,715
<b>At December 31, 2012</b>							
Cost	5,203	468	5,671	3,717	9,898	659	19,945
Accumulated amortization and impairment	(969)	-	(969)	(950)	(250)	(61)	(2,230)
Net book value	4,234	468	4,702	2,767	9,648	598	17,715

Assets and liabilities related to the exploration and evaluation of mineral resources other than those presented above are as follows:

	2012	2011
Receivables from joint venture partners	25	22
Payable to subcontractors and operators	32	34

Exploration and evaluation activities have led to total expenses of P59 million (2011 - P57 million), of which P52 million (2011 - P43 million) are impairment charges.

In 2012, the disposal of a 16.67% interest in an offshore exploration stage 'Field X' resulted in post-tax profits on sale of P3 million (2011 - nil).

Cash payments of P415 million (2011 - P395 million) have been incurred related to exploration and

evaluation activities. The cash proceeds due to the disposal of the interest in Field X were P8 million (2011 - nil).

## **(I) Revenue recognition: multiple element arrangements**

### **Accounting policies**

The Group offers certain arrangements whereby a customer can purchase a personal computer together with a two-year servicing agreement. When such multiple element arrangements exist, the amount of revenue allocated to each element is based upon the relative fair values of the various elements. The fair values of each element are determined based on the current market price of each of the elements when sold separately. The revenue relating to the computer is recognized when risks and rewards of the computer are transferred to the customer which occurs on delivery. Revenue relating to the service element is recognized on a straight-line basis over the service period.

## **(J) Employee benefits**

Included below is the illustrative disclosure for post-employment benefits using the option in PAS 19 to recognize actuarial gains and losses using the corridor approach.

### **Accounting policies**

#### **1Rp119 (a) Pension obligations**

19p27  
19p25  
19p7  
19p120A(b) Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plans typically define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

19p79  
19p80, 64 The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

19p92-93  
19p120A(a) Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the fair value of plan assets or 10% of the present value of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

19p96 Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

19p44 For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

1Rp119 (b) Other post-employment obligations

19p120A(b)  
19p120A(a) Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the fair value of plan assets or 10% of the present value of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

**Note - Retirement benefit obligations**

The table below outlines where the Group's post-employment amounts and activity are included in the financial statements.

	2012	2011
<b>Statement of financial position obligations for:</b>		
Pension benefits	3,225	1,532
Post-employment medical benefits	1,440	701
	4,635	2,333
<b>Income statement charge for:</b>		
Pension benefits	755	488
Post-employment medical benefits	149	107
	904	595

(a) Defined benefit pension plans

19p120A  
(d)(f) The amounts recognized in the statement of financial position are determined as follows:

	2012	2011
Present value of funded obligations	6,155	2,943
Fair value of plan assets	(5,991)	(2,797)
	164	146
Present value of unfunded obligations	3,206	1,549
Unrecognized past service cost	(145)	(163)
Liability in the statement of financial position	3,225	1,532

19p120A(g) The amounts recognized in profit or loss are as follows:

	2012	2011
Current service cost	751	498
Interest cost	431	214
Expected return on plan assets	(510)	(240)
Past service cost	18	16
Loss on curtailment	65	-
Total, included in staff costs (Note 26)	755	488

19p120A(g) Of the total charge, P521 (2011 - P324) and P241 (2011 - P172) were included in 'cost of goods sold' and 'administrative expenses' respectively.

Appendix III - Other Illustrative Disclosures  
(All amounts in thousand Philippine Peso unless otherwise stated)

19p120A(m) The actual return on plan assets was P495 (2011 - P235).

19p120A(c) The movement in the defined benefit obligation over the year is as follows:

	2012	2011
At January 1	4,492	3,479
Current service cost	751	498
Interest cost	431	214
Contributions by plan participants	55	30
Actuarial gains/(losses)	(15)	495
Exchange differences	(43)	(103)
Benefits paid	(66)	(121)
Liabilities acquired in a business combination (Note 37)	3,691	-
Curtailments	65	-
Settlements <sup>98</sup>	-	-
At December 31	9,361	4,492

19p120A(e) The movement in the fair value of plan assets of the year is as follows:

	2012	2011
At January 1	2,797	2,264
Expected return on plan assets	510	240
Actuarial gains/(losses)	(15)	(5)
Exchange differences	25	(22)
Employer contributions	908	411
Employee contributions	55	30
Benefits paid	(66)	(121)
Business combinations (Note 37)	1,777	-
At December 31	5,991	2,797

19p120A(n) The principal actuarial assumptions used were as follows:

	2012	2011
Discount rate	7.0%	6.8%
Expected return on plan assets	8.5%	8.3%
Future salary increases	5.0%	4.5%
Future pension increases	3.0%	2.5%

19p120A(n)(v  
i) Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 65 is as follows:

	2012	2011
Male	18.5	18.5
Female	22.0	22.0

<sup>98</sup> In practice, were these balances zero, these lines could be omitted. They have been included to highlight the required information

Appendix III - Other Illustrative Disclosures  
(All amounts in thousand Philippine Peso unless otherwise stated)

19p122(b) (b) *Post-employment medical benefits*

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

19p120A(n) In addition to the assumptions set out above, the main actuarial assumption is a long-term increase in health costs of 8.0% a year (2011 - 7.6%)

19p120A(d)(f) The amounts recognized in the statement of financial position were determined as follows:

	2012	2011
Present value of funded obligations	705	340
Fair value of plan assets	(620)	(302)
	85	38
Present value of unfunded obligations	1,325	663
Liability in the statement of financial position	1,410	701

19p120A(g) The amounts recognized in profit or loss were as follows:

	2012	2011
Current service cost	153	107
Interest cost	49	25
Expected return on plan assets	(53)	(25)
Total, included in staff costs (Note 26)	149	107

19p120A(g) Of the total charge, P102 (2011 - P71) and P48 (2008 - P36) respectively were included in 'cost of goods sold' and 'administrative expenses'.

19p120A(m) The actual return on plan assets was P51 (2011 - P24).

19p120A(c) Movement in the defined benefit obligation:

	2012	2011
At January 1	1,003	708
Current service cost	153	107
Interest cost	49	25
Contributions by plan participants	-	-
Actuarial gains (losses)	(2)	204
Exchange differences	25	(41)
Benefits paid	-	-
Liabilities acquired in a business combination (Note 37)	802	-
Curtailments	-	-
Settlements	-	-
At December 31	2,030	1,003

Appendix III - Other Illustrative Disclosures  
(All amounts in thousand Philippine Peso unless otherwise stated)

19p120A(e) The movement in the fair value of plan assets of the year is as follows:

	2012	2011
At January 1	302	207
Expected return on plan assets	53	25
Actuarial gains (losses)	(2)	(1)
Exchange differences	5	(2)
Employer contributions	185	73
Employee contributions	-	-
Benefits paid <sup>7</sup>	-	-
Business combinations	77	-
At December 31	620	302

19p120A(o) The effect of a 1% movement in the assumed medical cost trend rate:

	Increase	Decrease
- Effect on the aggregate of the current service cost and interest cost	24	(20)
- Effect on the defined benefit obligation	366	(313)

(c) *Post-employment benefits (pension and medical)*

19p120A(j) Plan assets are comprised of the following:

	2012		2011	
Equity	3,256	49%	1,595	51%
Debt	2,571	39%	855	28%
Other	784	12%	649	21%
	6,611	100%	3,099	100%

19p120A(k) Pension plan assets include the Company's common shares with a fair value of P136 (2010 - P126) and a building occupied by the Group with a fair value of P612 (2010 - P609).

19p120A(l) The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the reporting date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

19p120(q) Expected contributions to post employment benefit plans for the year ending December 31, 2012 are P1,150.

	2012	2011	2010	2009	2008
As at December 31					
Present value of defined benefit obligation	11,391	5,495	4,187	3,937	3,823
Fair value of plan assets	6,611	3,099	2,471	2,222	2,102
Deficit in the plan	4,780	2,396	1,716	1,715	1,721
Experience adjustments on plan liabilities	(25)	125	55	18	32
Experience adjustments on plan assets	(17)	(0)	(197)	(50)	(16)

## **(K) Retained earnings in excess of paid up capital**

### **Note - Retained earnings**

Under the Corporation Code of the Philippines (the Code), stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-up capital stock except when justified by any of the reasons mentioned in the Code. In addition, pursuant to Bureau of Internal Revenue (BIR) Regulations No. 2-2001 (RR 2-2001), a tax equal to 10% of any improperly accumulated taxable income of corporations is imposed, except when a Corporation falls under any of the exempt corporations specified in RR 2-2001, such as publicly-held corporation or companies registered under special economic zones which enjoys special tax rates.<sup>99</sup>

At December 31, 2012, the Company's retained earnings exceed its paid up capital of Pxxxx by Pxxxx. In a resolution by the Company's Board of Directors on DATE, the Company has been given authority to use its excess surplus profits to reduce its loans instead of paying dividends to the shareholders and to fund additional capital expenditures during the first quarter of 2010.

## **(L) Prepayments**

### **Accounting policies**

Prepayments are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

## **(M) Biological assets**

### **Note 1 - General information**

1p138(b),  
41p46(a) The Group is engaged in the business of farming sheep primarily for sale to meat processors. The Group is also engaged in the business of growing and managing palm oil plantations for the sale of palm oil. The Group earns ancillary income from various agricultural produce, such as wool.

### **Note 2 - Accounting policies**

#### **Basis of preparation**

1p117(a) The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments at fair value through profit or loss) and certain biological assets.

1p119 **Biological assets**

41p41, p47 Biological assets comprise sheep and palm oil plantations.

<sup>99</sup> Enumerated in Section 4 of the Memorandum Circular are the justifications for the accumulation of profits in excess of 100% of the paid-in capital which should be indicated in the notes to financial statements to the extent applicable:

- a. when justified by definite corporate expansion projects or programs approved by the board of directors; or
- b. when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not yet been secured; or
- c. when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies. (Section 43(par. 2), Corp. Code)

Sheep are measured at fair value less cost to sell, based on market prices at auction of livestock of similar age, breed and genetic merit with adjustments, where necessary, to reflect the differences.

The fair value of oil palms excludes the land upon which the trees are planted or the fixed assets utilized in the upkeep of planted areas. The biological process starts with preparation of land for planting seedlings and ends with the harvesting of crops in the form of fresh fruit bunches (“FFB”). Thereafter, crude palm oil and palm kernel oil is extracted from FFB. Consistently with this process, the fair value of oil palms is determined using a discounted cash flow model, by reference to the estimated FFB crop harvest over the full remaining productive life of the trees of up to 20 years, applying an estimated produce value for transfer to the manufacturing process and allowing for upkeep, harvesting costs and an appropriate allocation of overheads. The estimated produce value is derived from a long term forecast of crude palm oil prices to determine the present value of expected future cash flows over the next 20 years. The estimated FFB crop harvest used to derive the fair value is derived by applying palm oil yield to plantation size.

41p54(a-b) Costs to sell include the incremental selling costs, including auctioneers’ fees and commission paid to brokers and dealers.

Changes in fair value of livestock and palm oil plantations are recognized in profit or loss.

Farming costs such as feeding, labour costs, pasture maintenance, veterinary services and sheering are expensed as incurred. The cost of purchase of sheep plus transportation charges is capitalized as part of biological assets.

**Note 3 - Estimates and judgments - biological assets**

40p47 In measuring the fair value of sheep and palm oil plantations various management estimates and judgments are required:

*(a) Sheep*

Estimates and judgments in determining the fair value of sheep relate to the market prices, average weight and quality of animals and mortality rates.

Market price of sheep is obtained from the weekly auctions at the local market. The quality of livestock sold at the local market is considered to approximate the Group’s breeding and slaughter livestock.

The sheep grow at different rates and there can be a considerable spread in the quality and weight of animals and that affects the price achieved. An average weight is assumed for the slaughter sheep livestock that are not yet at marketable weight.

*(b) Palm oil plantations*

Estimates and judgments in determining the fair value of palm oil plantations relate to determining the palm oil yield, the long term crude palm oil price, palm kernel oil price and the discount rates.

**Consolidated statement of total comprehensive income (extract)**

	Note	2012	2011
REVENUE	4	26,240	27,548
41p40 Change in fair value of biological assets	5	23,480	19,028
Cost of sales of livestock and palm oil	5	23,180	(24,348)

**Consolidated statement of financial position (extract)**

1p68		Note	2012	2011
	ASSETS			
1p51	NON-CURRENT ASSETS			
1p68(a)	Property, plant and equipment		155,341	98,670
1p54(f)	Biological assets	5	37,500	25,940
1p51	CURRENT ASSETS			
1p54(f)	Biological assets	5	4,300	5,760

**Note - Revenue (extract)**

	Note	2012	2011
Sale of livestock and palm oil	5	23,740	25,198
Sale of wool		2,500	2,350
Total revenue		26,240	27,548

**Note - Biological assets**

		2012	2011
41p50	At January 1	31,700	32,420
41p50 (b)	Increase due to purchases	10,280	4,600
41p50 (a)	Livestock losses	(480)	(350)
41p50 (a)	Change in fair value due to biological transformation	21,950	17,930
41p50 (a)	Change in fair value of livestock due to price changes	1,530	1,448
	Transfer of harvested FFB to inventory	(18,450)	(19,450)
41p50 (c)	Decrease due to sales	(4,730)	(4,898)
	At December 31	41,800	31,700
41p43, p45	Sheep – at fair value less cost to sell:		
	Mature	4,300	5,760
	Immature	8,200	5,690
		12,500	11,450
	Palm oil plantation		
	Mature - at fair value less cost to sell	29,300	20,250
		29,300	20,250
	At December 31	41,800	31,700

As at December 31, the Group had 6,500 sheep and 2,600,000 hectares of palm oil plantations (2011: 5,397 sheep and 2,170,000 hectares of palm oil plantations). During the year, the Group sold 3,123 sheep (2011: 4,098 sheep) and 550,000 kgs of palm oil (2011: 545,000 kgs of palm oil).

Sheep for slaughter are classified as immature until they are ready for slaughter.

Selling expenses of C560 (2011: C850) were incurred during the year.

Livestock are classified as current assets if they are to be sold within one year. Harvested FFB are transferred to inventory at fair value when harvested.

**Note - Financial risk management strategies**

The Group is exposed to risks arising from environmental and climactic changes, commodity prices and financing risks.

The Group's geographic spread of farms allows a high degree of mitigation against adverse climactic conditions such as droughts and floods and disease outbreaks. The Group has strong environmental policies and procedures in place to comply with environmental and other laws.

The Group is exposed to risks arising from fluctuations in the price and sales volume of sheep. Where possible, the Group enters into supply contracts for sheep to ensure sales volumes can be met by meat processing companies. The Group has long-term contracts in place for supply of palm oil to its major customers.

The seasonal nature of the sheep farming business requires a high level of cash flow in the second half of the year. The Group actively manages the working capital requirements and has secured sufficient credit facilities sufficient to meet the cash flow requirements.

**Note - Commitments**

The Group has entered into a contract to acquire 250 breeding sheep at December 31, 2012 for C1,250 (2011: nil).

**(N) Customer loyal programmes**

**Note - Accounting policy**

The Group operates a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. The reward points are recognized as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale such that the reward points are initially recognized as deferred income at their fair value. Revenue from the reward points is recognized when the points are redeemed. Breakage is recognized as reward points are redeemed based upon expected redemption rates. Reward points expire 12 months after the initial sale.

**Note - Current liabilities - other liabilities**

	2012	2011
Deferred revenue: customer loyalty programme	395	370

**(O) Put option arrangements**

The potential cash payments related to put options issued by the group over the equity of subsidiary companies are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of shares in the subsidiary. The amount that may become payable under the option on exercise is initially recognized at fair value within borrowings with a corresponding charge directly to equity. The charge to equity is recognized separately as written put options over non-controlling interests, adjacent to non-controlling interests in the net assets of consolidated subsidiaries.

The Group recognizes the cost of writing such put options, determined as the excess of the fair value of the option over any consideration received, as a financing cost. Such options are subsequently measured at amortized cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable. The charge arising is recorded as a financing cost. In the event that the option expires unexercised, the liability is derecognized with a corresponding adjustment to equity.

### **(P) Foreign currency translations: disposal of foreign operation and partial disposal**

21p48, 48A-C

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### **(Q) Share-based payments: modification and cancellation**

If the terms of an equity-settled award are modified, at a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

If an equity award is cancelled by forfeiture, when the vesting conditions (other than market conditions) have not been met, any expense not yet recognized for that award, as at the date of forfeiture, is treated as if it had never been recognized. At the same time, any expense previously recognized on such cancelled equity awards are reversed from the accounts effective as at the date of forfeiture.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## **(R) PFRS for SMEs**

Included below is the illustrative disclosure for entities that are qualified SMEs but opted to avail of the exemption from the Mandatory adoption PFRS for SMEs as permitted by the SEC.

### **Note - Basis of preparation (extracts)**

The consolidated financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs). They have been prepared under the historical cost convention.

Based on the ([total assets] [and] [total liabilities]) of the Company as at December 31, 2011, it is qualified as SME.

The SEC issued a Notice on October 11, 2010 allowing SMEs exemption from the mandatory adoption of PFRS for SMEs if any of the criteria indicated in the Notice is met by the SME. Based on the exemption criteria, the Company elected for such an exemption [state exemption availed\*].

\*Exemption criteria are as follows:

1. It is a subsidiary of a parent company reporting under full Philippine Financial Reporting Standards ("full PFRS");
2. It is a subsidiary of a foreign parent company that will be moving towards International Financial Reporting Standards ("IFRS") pursuant to the foreign country's published convergence plan;
3. It is a subsidiary of a foreign parent company that has been applying the standards of a non-publicly accountable entity for local reporting purposes, and is considering moving to full PFRS instead of the PFRS for SMEs in order to align its policies with the expected move to full IFRS by its foreign parent company pursuant to its country's published convergence plan;
4. It has short-term projections that show that it will breach the quantitative thresholds set in the criteria for an SME, and the breach is expected to be significant and continuing due to its long-term effect on the company's asset or liability size;
5. It is part of a group, either as a significant joint venture or an associate, that is reporting under full PFRS;
6. It is a branch office of a foreign company reporting under full IFRS;
7. It has concrete plans to conduct an initial public offering within the next two (2) years;
8. It has a subsidiary that is mandated to report under full PFRS; or
9. It has been preparing financial statements using full PFRS and has decided to liquidate its assets.

---

## **Appendix IV - Illustrative Independent Auditor's Reports**

- Supplemental written statement of an auditor on the financial statements of an entity filing under Revised SRC Rule 68, Part I Section 3B(v) (formerly SRC Rule 68 Section 3d)
- Written statement indicating that partners of the auditing firm are independent from the client (Section 8-A of BIR Revenue Regulation No. V-1)
- Auditor's report on the additional components of the financial statements as required by Revised SRC Rule 68, as amended on October 20, 2011, Part I Section 4 and Part II Section 6
  - Option 1: The Additional Components are covered by a legal matter paragraph in the Independent Auditor's Report
  - Option 2A: Separate report of auditor on each Additional Component **(this is the preferred option for non-listed and non-public entities)**
  - Option 2B: Separate report of auditor on each Additional Component **(this is the preferred option for listed and public entities)**

---

**Supplemental written statement of auditor on the financial statements of an entity filing under Rule 68**

(Revised SRC Rule 68, Part I Section 3B(v))

Statements Required by Rule 68, Section 3B(v),  
Securities Regulation Code (SRC),  
As Amended on October 20, 2011

To the Board of Directors and Shareholders of  
Moonwalk Corporation  
99C Saudi Arabia St., Shoe Expo and Trading Center  
Paranaque City

We have audited the financial statements of Moonwalk Corporation as at and for the year ended December 31, 2012, on which we have rendered the attached report dated Month DD, YYYY.

In compliance with SRC Rule 68 and based on the certification received from the Company's corporate secretary and the results of our work done, as at December 31, 2010, the said Company has \_\_\_ ( ) shareholder(s) each owning one hundred (100) or more shares.

**Isla Lipana & Co.**

[Partner's manual signature]

Signing partner's name<sup>100</sup>

Partner

CPA Cert. No. XXXXX

P.T.R. No. XXXXXXX, issued on [date], Makati City

SEC A.N. (individual) as general auditors XXXXX, Category A; effective until [date]<sup>101</sup>

SEC A.N. (firm) as general auditors 0009-FR-3; effective until [date]

TIN XXXXXXX

BIR A.N. XXXXXXXXXXX, issued on [date]; effective until [date]

BOA/PRC Reg. No. 0142, effective until [date]

Makati City

Date

---

<sup>100</sup> FOR ALL REPORTS SUBMITTED TO THE SEC AND THE BIR and Reports provided for Listed Companies and Secondary Licensees to be printed in their Annual Report, SRC Rule 68 requires that the certifying partner sign his/her own signature and shall indicate that he/she is signing for the Firm, the name of which is printed in the report. Likewise, the auditor's report shall be dated, shall state the signing accountant's License, Tax Identification and PTR numbers, and registration with BoA/PRC. All Assurance Partners shall indicate their respective individual SEC accreditation number, as well as that of the firm, irrespective of whether or not the report relates to the financial statements of public companies to avoid the hassle of identifying which reports are for public companies.

<sup>101</sup> Revised SRC Rule 68, Part I, Section 3.B requires that the auditor's report of regulated entities shall indicate the signing auditor/partner's accreditation number, category and expiration of accreditation in addition to TIN, BOA No., and License No. To ensure compliance of above requirement, our firm position is to provide the category in all our auditor's reports.

---

**Written statement indicating that partners of the auditing firm are independent from the client**

(Section 8-A of BIR Revenue Regulation No. V-1)

Statement Required by Section 8-A, Revenue Regulations No. V-1

To the Board of Directors and Shareholders of  
Moonwalk Corporation  
99C Saudi Arabia St., Shoe Expo and Trading Center  
Paranaque City

None of the partners of the firm have any financial interest in the Company or any family relationships with its president, manager, or principal shareholder.

The supplementary information on taxes and licenses is presented in Note XX to the financial statements.

**Isla Lipana & Co.**

[Partner's manual signature]

Signing partner's name<sup>102</sup>

Partner

CPA Cert. No. XXXXX

P.T.R. No. XXXXXXX, issued on [date], Makati City

SEC A.N. (individual) as general auditors XXXXX, Category A; effective until [date]<sup>103</sup>

SEC A.N. (firm) as general auditors 0009-FR-3; effective until [date]

TIN XXXXXXX

BIR A.N. XXXXXXXXXXX, issued on [date]; effective until [date]

BOA/PRC Reg. No. 0142, effective until [date]

Makati City

Date

---

<sup>102</sup> FOR ALL REPORTS SUBMITTED TO THE SEC AND THE BIR and Reports provided for Listed Companies and Secondary Licensees to be printed in their Annual Report, SRC Rule 68 requires that the certifying partner sign his/her own signature and shall indicate that he/she is signing for the Firm, the name of which is printed in the report. Likewise, the auditor's report shall be dated, shall state the signing accountant's License, Tax Identification and PTR numbers, and registration with BoA/PRC. All Assurance Partners shall indicate their respective individual SEC accreditation number, as well as that of the firm, irrespective of whether or not the report relates to the financial statements of public companies to avoid the hassle of identifying which reports are for public companies.

<sup>103</sup> Revised SRC Rule 68, Part I, Section 3.B requires that the auditor's report of regulated entities shall indicate the signing auditor/partner's accreditation number, category and expiration of accreditation in addition to TIN, BOA No., and License No. To ensure compliance of above requirement, our firm position is to provide the category in all our auditor's reports.

---

## ***Auditor's report on the additional components of the financial statements***

(Revised SRC Rule 68, Part II Section 6D)

### **Option 1: The Additional Components are covered by a legal matter paragraph in the Independent Auditor's Report**

#### ***Report on Securities and Exchange Commission Requirements***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information shown in the *[state the complete description of the applicable schedules]*<sup>104</sup> as additional component(s) required by Part I, Section 4 of Rule 68 of the Securities Regulation Code, and Schedules A, B, C, D, E, F, G, and H, as required by Part II, Section 6 of Rule 68 of the Securities Regulation Code *[Part II requirements are applicable only for listed and public entities]*, are presented for purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Rule 68 of the Securities Regulation Code.

---

<sup>104</sup> Additional components of the financial statements, referred to as "Other documents to be filed with the financial statements" in Part I Section 4 of the Amended SRC Rule 68, to be covered by an auditor's report are the following:

- (1) Schedule of Receipts and Disbursements of Non-stock and Non-profit Organizations (Part 1, 4A);
- (2) Reconciliation of Retained Earnings Available for Dividend Declaration (Part 1, 4C);
- (3) A map of the conglomerate or group of companies within which the reporting entity belongs (for listed companies and investment houses) (Part 1, 4H);
- (4) Schedule of Philippine Financial Reporting Standards effective as at December 31, 201X (for large and/or publicly-accountable entities) (Part 1, 4J); and
- (5) Supplementary schedules required by Annex 68-E (for issuers of securities to the public).

The auditor's report may be in the form of: (a) "Report on other legal and regulatory matters" paragraph in the Independent Auditor's Report (Scenario 1 above); OR (b) a separate Auditor's Report on each component (Scenario 2 in the following page).

## ***Auditor's report on the additional components of the financial statements***

(Revised SRC Rule 68, Part II Section 6D)

### **Option 2A: Separate report of auditor on each Additional Component (this is the preferred option for non-listed and non-public entities)**

Statements Required by Rule 68, Part I Section 4,  
Securities Regulation Code (SRC),  
As Amended on October 20, 2011

To the Board of Directors and Shareholders of  
Moonwalk Corporation  
99C Saudi Arabia St., Shoe Expo and Trading Center  
Paranaque City

We have audited the financial statements of [name of company] as at and for the year ended December 31, 2012, on which we have rendered the attached report dated [date of auditor's report]. The supplementary information shown in the *[state the complete description of the applicable schedules]*<sup>105</sup>, as additional component(s) required by Part I, Section 4 of Rule 68 of the Securities Regulation Code, is presented for purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Part I, Section 4 of Rule 68 of the Securities Regulation Code.

#### **Isla Lipana & Co.**

[Partner's manual signature]

Signing partner's name<sup>106</sup>

Partner

CPA Cert. No. XXXXX

P.T.R. No. XXXXXXX, issued on [date], Makati City

SEC A.N. (individual) as general auditors XXXXX, Category A; effective until [date]<sup>107</sup>

SEC A.N. (firm) as general auditors 0009-FR-3; effective until [date]

TIN XXXXXXX

BIR A.N. XXXXXXXXXXX, issued on [date]; effective until [date]

BOA/PRC Reg. No. 0142, effective until [date]

Makati City

Date

<sup>105</sup> See footnote in Option 1 (Footnote # 104).

<sup>106</sup> FOR ALL REPORTS SUBMITTED TO THE SEC AND THE BIR and Reports provided for Listed Companies and Secondary Licensees to be printed in their Annual Report, SRC Rule 68 requires that the certifying partner sign his/her own signature and shall indicate that he/she is signing for the Firm, the name of which is printed in the report. Likewise, the auditor's report shall be dated, shall state the signing accountant's License, Tax Identification and PTR numbers, and registration with BoA/PRC. All Assurance Partners shall indicate their respective individual SEC accreditation number, as well as that of the firm, irrespective of whether or not the report relates to the financial statements of public companies to avoid the hassle of identifying which reports are for public companies.

<sup>107</sup> Revised SRC Rule 68, Part I, Section 3.B requires that the auditor's report of regulated entities shall indicate the signing auditor/partner's accreditation number, category and expiration of accreditation in addition to TIN, BOA No., and License No. To ensure compliance of above requirement, our firm position is to provide the category in all our auditor's reports.

## ***Auditor's report on the additional components of the financial statements***

(Revised SRC Rule 68, Part II Section 6D)

### **Option 2B: Separate report of auditor on each Additional Component (this is the preferred option for listed and public entities)**

Statements Required by Rule 68,  
Securities Regulation Code (SRC),  
As Amended on October 20, 2011

To the Board of Directors and Shareholders of  
Moonwalk Corporation  
99C Saudi Arabia St., Shoe Expo and Trading Center  
Paranaque City

We have audited the financial statements of [name of company] as at and for the year ended December 31, 2012, on which we have rendered the attached report dated [date of auditor's report]. The supplementary information shown in the [state the complete description of the applicable schedules]<sup>108</sup>, as additional component(s) required by Part I, Section 4 of Rule 68 of the Securities Regulation Code, and Schedules A, B, C, D, E, F, G, and H, as required by Part II, Section 6 of Rule 68 of the Securities Regulation Code [Part II requirements are applicable only for listed and public entities], are presented for purposes of filing with the Securities and Exchange Commission and are not a required part of the basic financial statements. Such supplementary information are the responsibility of management and have been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information have been prepared in accordance with Rule 68 of the Securities Regulation Code.

#### **Isla Lipana & Co.**

[Partner's manual signature]

Signing partner's name<sup>109</sup>

Partner

CPA Cert. No. XXXXX

P.T.R. No. XXXXXXX, issued on [date], Makati City

SEC A.N. (individual) as general auditors XXXXX, Category A; effective until [date]<sup>110</sup>

SEC A.N. (firm) as general auditors 0009-FR-3; effective until [date]

TIN XXXXXXX

BIR A.N. XXXXXXXXXXXX, issued on [date]; effective until [date]

BOA/PRC Reg. No. 0142, effective until [date]

Makati City

Date

<sup>108</sup> See footnote in Option 1 (Footnote # 104).

<sup>109</sup> FOR ALL REPORTS SUBMITTED TO THE SEC AND THE BIR and Reports provided for Listed Companies and Secondary Licensees to be printed in their Annual Report, SRC Rule 68 requires that the certifying partner sign his/her own signature and shall indicate that he/she is signing for the Firm, the name of which is printed in the report. Likewise, the auditor's report shall be dated, shall state the signing accountant's License, Tax Identification and PTR numbers, and registration with BoA/PRC. All Assurance Partners shall indicate their respective individual SEC accreditation number, as well as that of the firm, irrespective of whether or not the report relates to the financial statements of public companies to avoid the hassle of identifying which reports are for public companies.

<sup>110</sup> Revised SRC Rule 68, Part I, Section 3.B requires that the auditor's report of regulated entities shall indicate the signing auditor/partner's accreditation number, category and expiration of accreditation in addition to TIN, BOA No., and License No. To ensure compliance of above requirement, our firm position is to provide the category in all our auditor's reports.

## ***Illustrative additional component of the financial statements***

### Schedule of Philippine Financial Reporting Standards Effective as at December 31, 2012

The following table summarizes the effective standards and interpretations as at December 31, 2012:

<b>Standards and Interpretations</b>	<b>Adopted/ Not Adopted/ Not Applicable</b>
<b>Standards</b>	
<i>PAS 1, Presentation of Financial Statements</i>	
<i>PAS 2, Inventories</i>	
<i>PAS 7, Cash Flow Statements</i>	
<i>PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors</i>	
<i>PAS 10, Events After the Reporting Period</i>	
<i>PAS 11, Construction Contracts</i>	
<i>PAS 12, Income Taxes</i>	
<i>PAS 16, Property, Plant and Equipment</i>	
<i>PAS 17, Leases</i>	
<i>PAS 18, Revenues</i>	
<i>PAS 19, Employee Benefits*</i>	
<i>PAS 20, Accounting for Government Grants and Disclosure of Government Assistance</i>	
<i>PAS 21, The Effects of Changes in Foreign Exchange Rates*</i>	
<i>PAS 23, Borrowing Costs</i>	
<i>PAS 24, Related Party Disclosures</i>	
<i>PAS 26, Accounting and Reporting by Retirement Benefit Plans</i>	
<i>PAS 27, Consolidated and Separate Financial Statements*</i>	
<i>PAS 28, Investments in Associates</i>	
<i>PAS 29, Financial Reporting in Hyperinflationary Economies</i>	
<i>PAS 31, Interests in Joint Ventures</i>	
<i>PAS 32, Financial Instruments: Presentation</i>	
<i>PAS 33, Earnings per Share</i>	
<i>PAS 34, Interim Financial Reporting</i>	
<i>PAS 36, Impairment of Assets*</i>	
<i>PAS 37, Provisions, Contingent Liabilities and Contingent Assets</i>	
<i>PAS 38, Intangible Assets*</i>	
<i>PAS 39, Financial Instruments: Recognition and Measurement</i>	
<i>PAS 40, Investment Property</i>	
<i>PAS 41, Agriculture</i>	

**Standards and Interpretations**

---

**Standards, continued**

- PFRS 1, First-time Adoption of Philippine Financial Reporting Standards\**
- PFRS 2, Share-based Payment*
- PFRS 3, Business Combinations\**
- PFRS 4, Insurance Contracts*
- PFRS 5, Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 6, Exploration for and Evaluation of Mineral Resources*
- PFRS 7, Financial Instruments: Disclosures*
- PFRS 8, Operating Segments*

**Interpretations**

- IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities*
  - IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments*
  - IFRIC 4, Determining whether an Arrangement contains a Lease\**
  - IFRIC 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
  - IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*
  - IFRIC 7, Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies*
  - IFRIC 9, Reassessment of Embedded Derivatives*
  - IFRIC 10, Interim Financial Reporting and Impairment*
  - IFRIC 12, Service Concession Arrangements*
  - IFRIC 13, Customer Loyalty Programmes*
  - IFRIC 14, PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
  - IFRIC 16, Hedges of a Net Investment in a Foreign Operation*
  - IFRIC 17, Distributions of Non-Cash Assets to Owners*
  - IFRIC 18, Transfers of Assets from Customers*
  - IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*
-

---

---

<b>Standards and Interpretations</b>	<b>Adopted/ Not Adopted/ Not Applicable</b>
--------------------------------------	---

---

**Interpretations, continued**

*SIC 7, Introduction of the Euro*

*SIC 10, Government Assistance - No Specific Relation to Operating Activities*

*SIC 12, Consolidation - Special Purpose Entities*

*SIC 13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers\**

*SIC 15, Operating Leases - Incentives\**

*SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets*

*SIC 25, Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*

*SIC 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease\**

*SIC 29, Service Concession Arrangements: Disclosures*

*SIC 31, Revenue - Barter Transactions Involving Advertising Services*

*SIC 32, Intangible Assets - Web Site Costs*

---

The standards and interpretations marked with an asterisk (\*) do not have a significant impact on the Company's financial statements.

The standards and interpretations that are labeled as "Not Applicable" are already effective as at December 31, 2012 but will never be relevant/applicable to the Company or are currently not relevant to the Company because it has currently no related transactions.

## **Appendix V - Non-PFRS financial reporting framework**

Under the Philippine Financial Reporting Standards issued by the Financial Reporting Standards Council, there are two frameworks for financial reporting:

- (i) Philippine Financial Reporting Standards (PFRS) (or full PFRS), and
- (ii) Philippine Financial Reporting Standards for Small and Medium-sized entities (PFRS for SMEs) which is applied by entities that qualify as SMEs.

The primary regulators of certain entities gave transition relief or exemptions in the application of full PFRS. These include banks, pre-need companies, and mining companies which are exempted by the Securities and Exchange Commission (SEC) from applying certain provisions of specified PFRS.<sup>111</sup> These also include insurance companies which were allowed by the Insurance Commission (IC) to defer application of certain PFRS.

Micro entities (entities with total assets or total liabilities of less than P3 million) were excluded from the SEC definition of an SME and, as such, are not required to apply the PFRS for SMEs. Under the Revised SRC Rule 68, as amended on October 20, 2011, Part I Section 2A(iii), micro entities have the option to use as their financial reporting framework either the income tax basis, accounting standards in effect as at December 31, 2004, or PFRS for SMEs.<sup>112</sup>

PAS 1 (Revised), *Presentation of Financial Statements*, paragraph 16, states that “An entity shall not describe the financial statements as complying with PFRS unless they comply with all the requirements of PFRS.”

Below are illustrative wordings for the independent auditor’s report and basis of preparation for entities using non-PFRS financial reporting framework.

### **Sample Independent Auditor’s Report**

- *Entity given transition relief or exemption by a regulator*

#### *Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable financial reporting framework for entities that are given relief from certain requirements of Philippine Financial Reporting Standards as described in Note X, 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.

<sup>111</sup> The SEC allowed the following transitional relief or exemptions in the application of PFRS:

- Certain exchange offers of the Bureau of Treasury of eligible government securities to new government bonds were exempted from the tainting provision of PAS 39 (SEC Notice dated January 19, 2006).
- Pre-need companies were allowed to submit their 2006 financial statements based on the existing Pre-need Uniform Chart of Accounts (PNUCA) whereby revenues and financial liabilities arising from education and pension plans were accounted for in accordance with the existing acceptable practices of the industry (SEC Notice dated March 5, 2007). (On December 3, 2009, the Pre-need Code of the Philippines was signed into law transferring the jurisdiction over the pre-need companies from the SEC to the Insurance Commission (IC). The IC has released the Implementing Rules and Regulations (IRR) of the Pre-need Code on March 8, 2010. Among other things, the IC has the authority to prescribe accounting rules and regulations applicable for pre-need companies, as well as the format of and details to be shown in financial statements of those companies.)
- Pre-2005 hedging contracts of mining companies were exempted from the fair value requirements of PAS 39 (SEC Notice dated November 30, 2006).

<sup>112</sup> Provided, however, that the financial statements should at least consist of the Statement of Management’s Responsibility, Auditor’s Report, Statement of Financial Position, Statement of Income and Notes to the Financial Statements, all of which cover the two-year comparative periods, if applicable.

- 
- *Micro entities that apply an acceptable basis of accounting other than the PFRS for SMEs*

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the the cash basis of accounting (or income tax basis of accounting) as described in Note X, 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.

**Sample disclosure for Basis of Preparation**

PIC Q&A No. 2010-02 provides illustrative disclosures for the basis of presentation of financial statements under non-PFRS financial reporting frameworks, as follows:

- *Entity given transition relief or exemption by a regulator*

"...The financial statements have been prepared in accordance with the applicable financial reporting framework for entities that are given relief from certain requirements of Philippine Financial Reporting Standards as described in Note X."

- *Micro entities that apply an acceptable basis of accounting other than the PFRS for SMEs*

"...The financial statements have been prepared in accordance with the cash basis of accounting (or income tax basis of accounting) whereby revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred."

---

# ***www.pwc.com/ph***

Compiled by Isla Lipana & Co.

PwC helps organizations and individuals create the value they're looking for. We're a network of firms in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at [www.pwc.com](http://www.pwc.com).

"PwC" is the brand under which member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide services. Together, these firms form the PwC network. Each firm in the network is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way.

© 2012 Isla Lipana & Co. All rights reserved. Isla Lipana & Co. is the Philippine member firm of PwC. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate and legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.