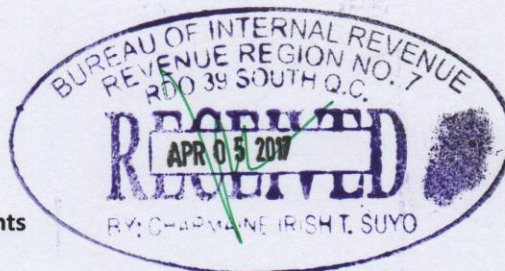




## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
THE LUSH COMPANY, INC.  
68 Data St., Brgy. Don Manuel  
Quezon City



### Report on the Audit of the Separate Financial Statements

#### *Opinion*

We have audited the separate financial statements of THE LUSH COMPANY, INC. (the "Company"), which comprise the separate statement of financial position as at December 31, 2016, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

#### *Basis for Opinion*

We conducted our audit in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to the audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Matter*

The separate financial statements of the Company as at and for the ten months ended December 31, 2015 were audited by another auditor, whose report dated April 8, 2016 expressed an unmodified opinion on those statements. The opinion of such auditor, however, does not include the restatement discussed in Note 4 to the separate financial statements.

#### *Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements*

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with PFRS, 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.







In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

*Auditors' Responsibilities for the Audit of the Separate Financial Statements*

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.







We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on the Supplementary Information Required under Revenue Regulations Nos. 15-2010 and 19-2011 of the Bureau of Internal Revenue**

Our audit was conducted for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The supplementary information on taxes and licenses and the schedule of taxable income and deductible expenses in Note 11 to the separate financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic separate financial statements. Such information is the responsibility of the management of THE LUSH COMPANY, INC. The information has been subjected to the auditing procedures applied in our audit of the basic separate financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic separate financial statements taken as a whole.

**REYES TACANDONG & Co.**



WILSON P. TEO

Partner

CPA Certificate No. 92765

Tax Identification No. 191-520-944-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 1614-A

Valid until March 1, 2020

BIR Accreditation No. 08-005144-014-2017

Valid until March 8, 2020

PTR No. 5908534

Issued January 3, 2017, Makati City

March 1, 2017

Makati City, Metro Manila







**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SEPARATE FINANCIAL STATEMENTS FOR FILING WITH THE  
BUREAU OF INTERNAL REVENUE**

The Stockholders and the Board of Directors  
THE LUSH COMPANY, INC.  
68 Data St., Brgy. Don Manuel  
Quezon City

We have audited the accompanying separate financial statements of THE LUSH COMPANY, INC. (the "Company") as at and for the year ended December 31, 2016, on which we have rendered our report dated March 1, 2017.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholder of the Company.

**REYES TACANDONG & Co.**

**WILSON P. TEO**  
Partner

CPA Certificate No. 92765  
Tax Identification No. 191-520-944-000  
BOA Accreditation No. 4782; Valid until December 31, 2018  
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March 1, 2017  
Makati City, Metro Manila





## THE LUSH COMPANY INC.

68 Data St. corner Cordillera St., Brgy. Don Manuel Quezon City, Philippines  
Tel: (63.2) 731.8886, (63.2) 330.2889 Mobile: +6396.7888.88  
Email: [info@fruitasgroup.com](mailto:info@fruitasgroup.com) / [www.fruitasgroup.com](http://www.fruitasgroup.com)

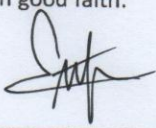
### "STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN"

The Management of THE LUSH COMPANY INC. (the "Company") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2016. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

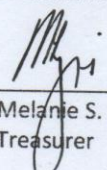
In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2016 and the accompanying Annual Income Tax Return are in accordance with the books and records of, complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards (i.e. Philippine Financial Reporting Standards, or those applicable to Non-Publicly Accountable Entities) and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) the Company has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Signature: \_\_\_\_\_

  
Lester C. Yu  
Chairman of the Board & President

Signature: \_\_\_\_\_

  
Melanie S. Legaspi  
Treasurer

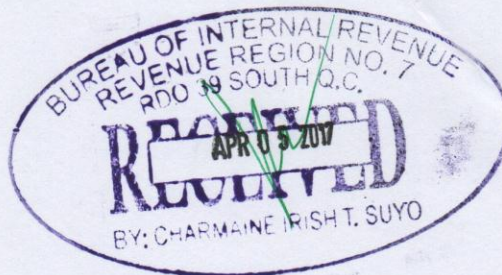




**THE LUSH COMPANY, INC.**  
**SEPARATE STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**  
**(With Comparative Figures for 2015)**

	Note	2016	2015 (As Restated - Note 4)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	₱70,838,214	₱30,758,614
Due from a related party	7	49,828,752	-
Other current asset		1,000	1,000
Total Current Assets		<b>120,667,966</b>	<b>30,759,614</b>
<b>Noncurrent Assets</b>			
Investments in subsidiaries	6	31,544,050	14,662,800
Deposits	6	-	7,506,250
Total Noncurrent Assets		<b>31,544,050</b>	<b>22,169,050</b>
		<b>₱152,212,016</b>	<b>₱52,928,664</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liability</b>			
Due to stockholders	7	₱19,383,042	₱19,482,050
<b>Equity</b>			
Capital stock		132,249,500	33,000,000
Retained earnings		579,474	446,614
Total Equity		<b>132,828,974</b>	<b>33,446,614</b>
		<b>₱152,212,016</b>	<b>₱52,928,664</b>

See accompanying Notes to Separate Financial Statements.



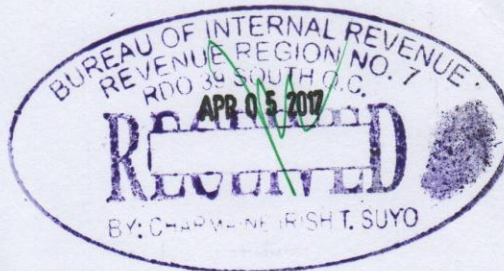


**THE LUSH COMPANY, INC.**  
**SEPARATE STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Figures for 2015)**

	Note	2016 (One Year)	2015 (Ten Months*) (As Restated - Note 4)
<b>INTEREST INCOME</b>	5	<b>₱888,700</b>	<b>₱482,014</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Taxes and licenses		505,840	35,000
Professional fees		250,000	-
Bank charges		-	350
Miscellaneous		-	50
		<b>755,840</b>	<b>35,400</b>
<b>NET INCOME</b>	8	<b>132,860</b>	<b>446,614</b>
<b>OTHER COMPREHENSIVE INCOME</b>		-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>₱132,860</b>	<b>₱446,614</b>

*See accompanying Notes to Separate Financial Statements.*

\* The Company was incorporated on February 18, 2015.





**THE LUSH COMPANY, INC.**  
**SEPARATE STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Figures for 2015)**

	Note	Number of Shares		2016	2015
		2016	2015	(One Year)	(Ten Months*) (As Restated - Note 4)
<b>CAPITAL STOCK - P1 par value</b>					
Authorized		500,000,000	500,000,000	₱500,000,000	₱500,000,000
Subscribed					
Balance at beginning of period		125,000,000	—	125,000,000	—
Additional subscription		7,250,000	125,000,000	7,250,000	125,000,000
Balance at end of period		132,250,000	125,000,000	132,250,000	125,000,000
Less subscriptions receivable					
Balance at beginning of period				92,000,000	—
Additional subscription				7,250,000	125,000,000
Collections				(99,249,500)	(33,000,000)
Balance at end of period				500	92,000,000
				132,249,500	33,000,000
<b>RETAINED EARNINGS</b>					
Balance at beginning of period, as previously reported				(15,263)	—
Prior period adjustment	4			461,877	—
Balance at beginning of period, as restated				446,614	—
Net income				132,860	446,614
Balance at end of period				579,474	446,614
				₱132,828,974	₱33,446,614

See accompanying Notes to Separate Financial Statements.

\* The Company was incorporated on February 18, 2015.



**THE LUSH COMPANY, INC.**  
**SEPARATE STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Figures for 2015)**

	Note	2016 (One Year)	2015 (Ten Months*) (As Restated - Note 4)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income		P132,860	P446,614
Adjustment for interest income	5	(888,700)	(482,014)
Operating loss before working capital changes		(755,840)	(35,400)
Increase in other current assets		-	(1,000)
Net cash used for operations		(755,840)	(36,400)
Interest received		888,700	482,014
Net cash provided by operating activities		132,860	445,614
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Advances to a related party		(49,828,752)	-
Investments in subsidiaries	6	(9,375,000)	(14,662,800)
Deposits	6	-	(7,506,250)
Cash used in investing activities		(59,203,752)	(22,169,050)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from stock subscription		99,249,500	33,000,000
Increase (decrease) in due to stockholders		(99,008)	19,482,050
Net cash provided by financing activities		99,150,492	52,482,050
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>40,079,600</b>	<b>30,758,614</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>30,758,614</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>P70,838,214</b>	<b>P30,758,614</b>
<b>NONCASH INVESTING ACTIVITY</b>			
Reclassification of deposits to investments in subsidiaries	6	P7,506,250	P-

See accompanying Notes to Separate Financial Statements.

\* The Company was incorporated on February 18, 2015.



**THE LUSH COMPANY, INC.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Figures for 2015)**

**1. Corporate Information**

The Lush Company, Inc. (the "Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on February 18, 2015. The Company's primary purpose is to invest in, hold, own, purchase, acquire, lease, contract, operate, improve, develop, manage, grant, sell, exchange, or otherwise, dispose of real and personal properties of every kind and description, including shares of stock, bonds, and other securities or evidence of indebtedness of any other corporation, association, form or entity, domestic or foreign, where necessary or appropriate and to possess and exercise in respect thereof of all the rights, powers and privileges of ownership.

The Company has investments in the following subsidiaries as at December 31, 2016 (and 2015):

Name of Subsidiary	Principal Activities	Ownership Interest		Principal Place of Business
		2016	2015	
Negril Trading, Inc. (NTI)	Production, processing and distribution of goods	99%	95%	Mandaluyong City
Buko ni Frutas Inc. (BNFI)	Trading of goods	92%	—	Quezon city
Fruitasgroup Incorporated (FGI)	Trading of goods	75%	—	Quezon city

The Company's registered principal office and business address is 68 Data St., Brgy. Don Manuel, Quezon City.

The separate financial statements of the Company were approved and authorized for issuance by the Board of Directors (BOD) on March 1, 2017.

**2. Summary of Significant Accounting and Reporting Policies**

**Basis of Preparation and Statement of Compliance**

The separate financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including SEC pronouncements. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine interpretations from International Financial Reporting Interpretations Committee.

The Company adopted PFRS for the first time in 2016. The Company was reporting under Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs) in 2015. The Company availed of the exemption from the mandatory adoption of PFRS for SMEs on the basis that the Company has a concrete plan to conduct an initial public offering in 2017.

Comparative presentation and disclosures have been provided as required by PFRS.

The change in financial reporting framework has no significant impact on the amounts and disclosures in the separate financial statements of the Company. Additional disclosures in the notes to separate financial statements have been made, as applicable.



### **Bases of Measurement**

The separate financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso, the Company's functional currency. All amounts are rounded to the nearest Peso unless otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange of assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company uses market observable data to the extent possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 10 to the separate financial statements.

### **Adoption of New and Amended PFRS**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Company adopted effective for annual periods beginning on or after January 1, 2016:

- Amendments to PFRS 10, IFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28 - *Investment Entities: Applying the Consolidation Exception* – The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
- Amendments to PAS 1, *Presentation of Separate Financial Statements: Disclosure Initiative* – The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* – The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their financial statements.



The adoption of the foregoing new and amended PFRS did not have any material effect on the separate financial statements of the Company. Additional disclosures have been included in the notes to separate financial statements, as applicable.

**New and Amended PFRS Not Yet Adopted**

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2016 and have not been applied in preparing the separate financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

Effective for annual periods beginning on or after January 1, 2018 –

- PFRS 9, *Financial Instruments* - This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement*, (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the separate financial statements of the Company. Additional disclosures will be included in the separate financial statements, as applicable.



### **Financial Assets and Liabilities**

Financial assets and liabilities are accounted for as follows:

a. Recognition

Financial assets and liabilities are recognized in the separate statements of financial position when the Company becomes a party to the contractual provisions of a financial instrument. Financial instruments are initially measured at fair value which includes transaction costs directly attributable to the acquisition (e.g. fees, commissions, transfer taxes, etc.). However, transaction costs related to the acquisition of financial instruments classified as fair value through profit or loss (FVPL) are recognized immediately in profit or loss. The Company uses trade date accounting to account for financial instruments.

*"Day 1" Difference.* The best evidence of the fair value of a financial instrument at initial recognition is its transaction price unless the transaction price differs from its fair value. The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Company determines fair value by using a valuation technique whose variables include data from observable markets. The difference between the transaction price and the fair value (a "day 1" difference) is recognized in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where the valuation model uses unobservable data, the difference between the transaction price and the model value is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "day 1" difference.

b. Classification

The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) held-to-maturity (HTM) investments, (c) loans and receivables and (d) available-for-sale (AFS) financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Company's intention at acquisition or issuance date.

As at December 31, 2016 (and 2015), the Company does not have financial assets and liabilities at FVPL, HTM investments and AFS financial assets.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than those held for trading or classified as AFS financial assets. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization and losses arising from impairment are recognized in profit or loss.

The Company's cash and cash equivalents and due from a related party are classified under this category.



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

*Other Financial Liabilities at Amortized Cost.* Financial liabilities are classified in this category if these are not held for trading or not designated as FVPL upon the inception of the liability. These include liabilities arising from operations or through borrowing.

Other financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

The Company's due to stockholders is classified under this category.

c. Impairment of Financial Assets

The Company 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 deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have 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 the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the customer is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial Assets Carried at Amortized Cost.* For financial assets carried at amortized cost, such as loans and receivables, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial assets, whether significant or not, it includes the financial assets in a portfolio with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of financial asset's carrying amount over its net realizable value, normally based on the present value of the estimated future cash flows from the financial asset. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Any impairment loss determined is recognized in profit or loss.



The carrying amount of an impaired financial asset is reduced to its net realizable value through the use of an allowance account. For an impaired financial asset, interest income continues to be recognized using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

d. Derecognition

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

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

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

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of the new liability, and the difference in the carrying amount is recognized in profit or loss.

e. Offsetting

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

**Investments in Subsidiaries**

Investments in subsidiaries are accounted for under the cost method less any allowance for impairment losses. The Company recognizes income when its right to receive the dividends is established. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.



A subsidiary is an entity in which the Company has control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

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

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

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

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

#### **Impairment of Nonfinancial Assets**

The carrying amounts of nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and when the carrying amounts exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of the fair value less cost to sell or value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an orderly transaction between market participants less the cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

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



### **Equity**

*Capital Stock.* Capital stock is measured at par value for all shares issued. Unpaid subscriptions are recognized as a reduction from subscribed capital shares.

*Retained Earnings.* Retained earnings represent the cumulative balance of net income.

### **Revenue Recognition**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be measured reliably.

*Interest Income.* Interest income is recognized as it accrues, using the effective interest method.

### **Expense Recognition**

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

*General and Administrative Expenses.* General and administrative expenses constitute cost of administering the business and are expensed as incurred.

### **Income Taxes**

*Current Tax.* Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

Deferred tax is recognized in profit or loss except to the extent that it relates to items directly recognized in other comprehensive income.

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



#### **Related Party Relationships and Transactions**

Related party transactions consist of transfers of resources, services or obligations between the Company and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals who, owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

#### **Provisions**

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

#### **Contingencies**

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

#### **Events after the Reporting Date**

Events after the reporting date that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the separate financial statements. Post year-end events that are not adjusting events are disclosed in the notes to separate financial statements when material.

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### **3. Significant Accounting Judgments and Estimates**

The preparation of the Company's separate financial statements requires management to make judgments and estimates that affect the amounts reported in the separate financial statements and accompanying notes. The judgments and estimates used in the separate financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

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



The following are the significant judgments and estimates made by the Company:

*Determining if Control Exists over an Investee Company.* The Company has determined that it has control over its subsidiaries (see Note 6) by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual agreements
- The Company's voting rights and potential voting rights

*Assessing Impairment of Nonfinancial Assets.* The Company assesses impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results and significant changes in the manner of use of the acquired assets or the strategy for overall business.

There were no provisions for impairment loss recognized in 2016 (and 2015).

*Assessing Recognition of Deferred Tax Assets.* The carrying amounts of deferred tax assets at each reporting date are reviewed and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenue and expenses.

Deferred tax asset on NOLCO amounting to ₱237,372 as at December 31, 2016 (₱10,620 as at December 31, 2015) was not recognized in the separate statement of financial position since management expects that it is not probable that sufficient taxable income may be available in the future against which the deferred tax asset can be utilized (see Note 8).

#### 4. Prior Period Adjustment

The separate financial statements as at and for the year ended December 31, 2015 have been restated to reflect the following adjustment:

	Assets	Liabilities	Equity		Net Income (Loss)
			Capital Stock	Retained Earnings (Deficit)	
<b>As previously reported</b>	₱52,466,787	₱19,482,050	₱33,000,000	(₱15,263)	(₱15,263)
<b>Prior period adjustment:</b>					
Record interest income from cash equivalents	461,877	—	—	461,877	461,877
<b>As restated</b>	<b>₱52,928,664</b>	<b>₱19,482,050</b>	<b>₱33,000,000</b>	<b>₱446,614</b>	<b>₱446,614</b>



## 5. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash in banks	P39,516,027	P296,737
Cash equivalents	31,322,187	30,461,877
	<b>P70,838,214</b>	<b>P30,758,614</b>

Cash in banks earn interest at prevailing bank deposit rates.

Cash equivalents consist of short-term deposits. Short-term deposits are time deposits made for varying periods not exceeding three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing deposit rates.

Interest income earned amounted to P888,700 in 2016 (P482,014 in 2015).

## 6. Investments in Subsidiaries

This account consists of investments in the following subsidiaries:

	2016	2015
At cost:		
NTI	P31,687,800	P14,662,800
BNFI	13,000,000	-
FGI	37,500,000	-
	<b>82,187,800</b>	14,662,800
Less subscriptions payable:		
NTI	12,768,750	-
BNFI	9,750,000	-
FGI	28,125,000	-
	<b>50,643,750</b>	-
	<b>P31,544,050</b>	<b>P14,662,800</b>

*NTI.* In June 2015, the Company acquired 40,966 shares of NTI representing 95% equity interest for P14,622,800 from the former stockholders.

In October 2015, the Company subscribed to additional 170,250 shares of NTI at P100. The Company paid P4.3 million of the total subscription price which was presented as "Deposits" in the 2015 separate statement of financial position pending SEC approval of the increase in authorized capital stock of NTI.

*BNFI.* In September 2015, the Company subscribed to 130,000 shares of BNFI at P100 representing 92% equity interest. The Company paid P3.2 million of the total subscription price which was presented as "Deposits" in the 2015 separate statement of financial position pending SEC approval of the increase in authorized capital stock of BNFI.

*FGI.* In May 2016, the Company subscribed to 375,000 shares of FGI at P100 representing 75% equity interest. The Company paid P9.4 million of the total subscription price.



In May 2016 and November 2016, the SEC approved the application for the increase in authorized capital stock of BNFI and NTI, respectively. Accordingly, the deposits aggregating ₱7.5 million as at December 31, 2015 were applied against the subscribed capital stock in 2016.

The summarized financial information of the Company's subsidiaries as at and for the year ended December 31, 2016 (and 2015) follows:

<b>2016</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Net income</b>
NTI	<b>₱66,416,245</b>	<b>₱19,946,919</b>	<b>₱46,469,326</b>	<b>₱14,835,773</b>
BNFI	<b>65,200,210</b>	<b>19,204,155</b>	<b>45,996,055</b>	<b>32,505,107</b>
FGI	<b>81,299,983</b>	<b>30,652,947</b>	<b>50,647,036</b>	<b>34,457,413</b>
<b>2015</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Net income</b>
NTI	<b>₱49,438,318</b>	<b>₱21,735,315</b>	<b>₱27,703,003</b>	<b>₱3,436,347</b>

## 7. Related Party Transactions

In the normal course of business, the Company has transactions with related parties as follows:

<b>Related Party</b>	<b>Nature</b>	<b>Amount of Transaction</b>		<b>Outstanding Balance</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Due from a related party</b>					
Lush Enterprises Corporation (LEC)*	Working capital requirements and payment of Company expenses	<b>₱49,828,752</b>	<b>₱-</b>	<b>₱49,828,752</b>	<b>₱-</b>
<b>Due to stockholders</b>					
	Advances	<b>₱-</b>	<b>₱19,482,050</b>	<b>₱19,383,042</b>	<b>₱19,482,050</b>

\*Company under common management.

### Terms and Conditions of Transactions with Related Parties

Outstanding balances are unsecured, non-interest bearing and due on demand. There have been no guarantees provided for any of the aforementioned related party receivables and payables. An assessment is undertaken each financial year through examining financial position of the related party and the market in which the related party operates.

### Compensation of Key Management Personnel

The Company has no key management personnel compensation. The accounting and administrative functions of the Company are handled by employees of LEC at no cost to the Company.

## 8. Income Tax

In 2016 (and 2015), the Company is in net taxable loss position and has no current income tax. The Company will be subject to minimum corporate income tax starting 2019.

Deferred tax asset on NOLCO amounting to ₱237,372 as at December 31, 2016 (₱10,620 as at December 31, 2015) was not recognized in the separate statement of financial position since management expects that it is not probable that sufficient taxable income may be available in the future against which the deferred tax asset can be utilized within the period allowed by the tax regulations.



The details of the Company's NOLCO, which can be claimed as deduction from future taxable income, follow:

Year Incurred	Expiry Date	Amount
2016	2019	₱755,840
2015	2018	35,400
		₱791,240

The reconciliation of provision for income tax computed at statutory tax rate and effective rate is shown below:

	2016	2015 (As restated - see Note 4)
Income tax at statutory rate	₱39,858	₱133,984
Change in unrecognized deferred tax asset	226,752	10,620
Tax effect of interest income already subjected to a final tax	(266,610)	(144,604)
	₱-	₱-

#### 9. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist of cash and cash equivalents, due from a related party and due to stockholders.

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Company's BOD reviews and approves policies for managing each of these risks as summarized below.

##### Credit Risk

Credit risk is the risk that the counterparty fails to fulfill its obligations to the Company.

The gross maximum exposure to credit risk for the components of the Company's separate statement of financial position before taking into consideration collateral and other credit enhancements amounted to ₱120.7 million as at December 31, 2016 (₱30.8 million as at December 31, 2015) for cash and cash equivalents and due from a related party.

As at December 31, 2016 (and 2015), the amount of cash and cash equivalents and due from a related party are neither past due nor impaired and were classified as High Grade. The credit quality of such loans and receivables is managed by the Company using the internal credit quality ratings as follows:

*High Grade.* Pertains to counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies, government agencies and individual buyers. Credit quality was determined based on the credit standing of the counterparty.

*Standard Grade.* Other financial assets not belonging to high grade financial assets are included in this category.



Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments. It may result from either the inability to sell assets quickly at fair values or failure to collect from counterparty.

The Company's objective is to maintain a balance between continuity of funding and flexibility through related party advances and aims to manage liquidity as follows:

- a. To ensure that adequate funding is available at all times;
- b. To meet commitments as they arise without incurring unnecessary costs; and
- c. To be able to assess funding when needed at the least possible cost.

The Company's due to stockholders amounting to ₱19.4 million as at December 31, 2016 (₱19.5 million as at December 31, 2015) is due and demandable.

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit standing and stable capital ratios in order to support its business and maximize shareholder value. The Company maintains its current capital structure and will make adjustments, if necessary, in order to generate a reasonable level of returns to stockholders over the long term. No changes were made in the objectives, policies or processes during the year.

The Company considers its capital stock of ₱132.2 million as at December 31, 2016 (₱33.0 million as at December 31, 2015) as its capital employed. The Company is not subject to externally imposed capital requirements.

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**10. Fair Value Measurement**

The table below presents the carrying amounts and fair values of the Company's financial instruments as at December 31, 2016 (and 2015).

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	<b>₱70,838,214</b>	<b>₱70,838,214</b>	₱30,758,614	₱30,758,614
Due from a related party	<b>49,828,752</b>	<b>49,828,752</b>	–	–
	<b>₱120,666,966</b>	<b>₱120,666,966</b>	₱30,758,614	₱30,758,614
<b>Financial liability:</b>				
Due to stockholders	<b>₱19,383,042</b>	<b>₱19,383,042</b>	₱19,482,050	₱19,482,050

*Cash and Cash Equivalents, Due from a Related Party and Due to Stockholders.* The carrying amounts of these financial instruments approximate fair values due to the relatively short-term maturity of these financial instruments.



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**11. Supplementary Information Required by the Bureau of Internal Revenue**

**Revenue Regulations No. 15-2010**

The information for 2016 required by the above regulations is presented below:

Output and Input Value-added Tax (VAT)

The Company does not have transactions subject to VAT for the year ended December 31, 2016.

All Other Local and National Taxes

All other local and national taxes paid by the Company for the year ended December 31, 2016 consist of:

Documentary stamp taxes	₱496,248
Business permit	9,092
Community tax certificate	500
	<hr/>
	₱505,840

The above taxes are classified as "Taxes and licenses" under "General and administrative expenses" in the 2016 separate statement of comprehensive income.

Withholding Taxes

The Company has no transactions which were subject to withholding taxes during the year.

Tax Assessments and Tax Cases

The Company has no pending deficiency tax assessments from the BIR or pending tax cases in courts or other regulatory bodies outside of the BIR as at and for the year ended December 31, 2016.

**Revenue Regulations No. 19-2011**

The information for 2016 required by the above regulations is presented below:

Taxable Sales

The Company has no taxable revenue during the year. Interest income amounting to ₱888,700 is already subjected to final tax.

Deductible General and Administrative Expenses

	Amount
Taxes and licenses	₱505,840
Professional fees	250,000
	<hr/>
	₱755,840