

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 1 5 0 3 0 1 4

COMPANY NAME

F R U I T A S H O L D I N G S , I N C . (A S u b s i d i a r y o f
L u s h P r o p e r t i e s , I n c .) A N D S U B S I D I A R I E
S

PRINCIPAL OFFICE (No./Street/Barangay/City/Town/Province)

N o . 6 0 C o r d i l l e r a S t . , B r g y . D o n a J o s e f
a , Q u e z o n C i t y , 1 1 1 3

Form Type

A C F S

Department requiring the report

C R M D

Secondary License Type, If Applicable

N / A

COMPANY INFORMATION

Company's Email Address

-

Company's Telephone Number/s

(02) 243-1741

Mobile Number

-

No. of Stockholders

16

Annual Meeting (Month / Day)

2nd Monday of June

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Ms. Madelene Timbas-Sayson

Email Address

madelene.sayson@fruitasholdings.com

Telephone Number/s

(02) 243-1741

Mobile Number

-

CONTACT PERSON'S ADDRESS

No. 60 Cordillera St., Brgy. Dona Josefa, Quezon City, 1113

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt shall not excuse the corporation from liability for its deficiencies.



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Fruitas Holdings, Inc. and Subsidiaries
No. 60 Cordillera St., Brgy. Dona Josefa
Quezon City, 1113

Opinion

We have audited the consolidated financial statements of Fruitas Holdings, Inc. (a subsidiary of Lush Properties, Inc.) and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated 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.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 PSAs 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, these could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

REYES TACANDONG & Co.



WILSON P. TEO
Partner

CPA Certificate No. 92765

Tax Identification No. 191-520-944-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 1614-A

Valid until March 1, 2020

BIR Accreditation No. 08-005144-014-2017

Valid until March 8, 2020

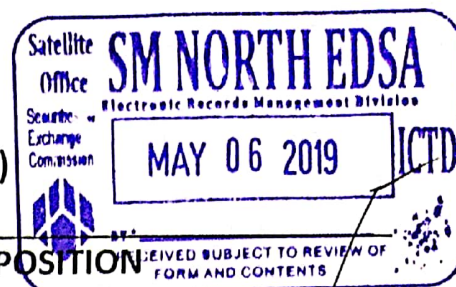
PTR No. 7334346

Issued January 3, 2019, Makati City

April 1, 2019
Makati City, Metro Manila

FRUITAS HOLDINGS, INC.
(A Subsidiary of Lush Properties, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



December 31

	Note	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents		P260,497,779	P294,434,879
Trade receivables	5	55,638,257	19,207,562
Merchandise inventories	6	52,024,675	38,965,930
Due from related parties	14	40,571,161	7,082,438
Deposits and advance rentals	21	85,559,226	66,025,850
Financial assets at fair value through profit or loss (FVPL)	7	—	11,236,373
Other current assets	8	6,344,487	5,799,542
Total Current Assets		500,635,585	442,752,574
Noncurrent Assets			
Property and equipment	9	182,741,692	84,459,637
Intangible assets	10	207,871,944	201,335,217
Deferred input VAT		2,379,386	—
Deferred tax assets	22	4,334,274	610,686
Total Noncurrent Assets		397,327,296	286,405,540
		P897,962,881	P729,158,114
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	11	P112,681,996	P48,400,446
Current portion of notes payable	12	283,689,470	311,750,000
Current portion of mortgage payable	13	2,589,472	1,131,261
Due to related parties	14	22,116,380	7,908,256
Dividends payable	16	45,500,320	—
Income tax payable		30,865,222	36,044,406
Total Current Liabilities		497,442,860	405,234,369
Noncurrent Liabilities			
Notes payable - net of current portion	12	27,624,634	—
Mortgage payable - net of current portion	13	3,371,936	3,294,327
Retirement benefits liability	15	2,229,865	1,702,112
Total Noncurrent Liabilities		33,226,435	4,996,439
Total Liabilities		530,669,295	410,230,808
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	16	160,000,000	160,000,000
Retained earnings		152,147,292	103,781,012
Other equity reserves	4	55,192,582	55,192,582
Other comprehensive loss		(46,288)	(46,288)
Total Equity		367,293,586	318,927,306
		P897,962,881	P729,158,114

See accompanying Notes to Consolidated Financial Statements.

FRUITAS HOLDINGS, INC.
(A Subsidiary of Lush Properties, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31	
		2018	2017
REVENUE	17	₱1,579,205,736	₱1,152,567,060
COST OF SALES	18	(693,470,433)	(458,332,452)
GROSS PROFIT		885,735,303	694,234,608
SELLING AND DISTRIBUTION EXPENSES	19	(607,292,310)	(369,057,440)
GENERAL AND ADMINISTRATIVE EXPENSES	20	(131,451,739)	(79,205,890)
INTEREST EXPENSE	12	(16,065,157)	(1,232,519)
INTEREST INCOME		1,195,358	1,431,571
OTHER INCOME	7	1,361,007	1,230,261
INCOME BEFORE INCOME TAX		133,482,462	247,400,591
PROVISION FOR (BENEFIT FROM) INCOME TAX	22		
Current		43,339,450	74,871,611
Deferred		(3,723,588)	(361,015)
		39,615,862	74,510,596
NET INCOME		93,866,600	172,889,995
OTHER COMPREHENSIVE LOSS			
<i>Item not to be reclassified to profit or loss</i>			
Actuarial loss on retirement benefit obligation			
(net of tax of ₱19,838)	15	—	(46,288)
TOTAL COMPREHENSIVE INCOME		₱93,866,600	₱172,843,707
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent Company		₱93,866,600	₱138,569,320
Noncontrolling interests		—	34,320,675
		₱93,866,600	₱172,889,995
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent Company		₱93,866,600	₱138,523,032
Noncontrolling interests		—	34,320,675
		₱93,866,600	₱172,843,707
Basic and Diluted Earnings Per Share Attributable to the Equity Holders of the Parent Company	23	₱0.0587	₱0.1014

See accompanying Notes to Consolidated Financial Statements.

FRUITAS HOLDINGS, INC.
(A Subsidiary of Lush Properties, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31	
	Note	2018	2017
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
CAPITAL STOCK	16		
Issued			
Balance at beginning of year		₱160,000,000	₱115,000,000
Issuances		—	45,000,000
Balance at end of year		160,000,000	160,000,000
Subscribed			
Balance at beginning of year		—	17,250,000
Subscriptions during the year		—	27,750,000
		—	45,000,000
Less subscriptions receivable:			
Balance at beginning of year		—	500
Collections		—	(500)
Balance at end of year		—	—
		—	45,000,000
Issuances		—	(45,000,000)
Balance at end of year		—	—
SHARES HELD BY SUBSIDIARIES - At Cost	16		
Balance at beginning of year		—	(52,000,000)
Sale of shares		—	52,000,000
Balance at end of year		—	—
		160,000,000	160,000,000
RETAINED EARNINGS			
Balance at beginning of year		103,781,012	83,538,533
Net income		93,866,600	138,569,320
Cash dividends	16	(45,500,320)	(118,326,841)
Balance at end of year		152,147,292	103,781,012

(Forward)

		Years Ended December 31	
	Note	2018	2017
OTHER EQUITY RESERVES	4		
Effect of pooling of interests		P4,219,471	P4,219,471
Acquisition of noncontrolling interests		50,973,111	50,973,111
		55,192,582	55,192,582
OTHER COMPREHENSIVE LOSS			
<i>Not to be reclassified to profit or loss when realized - remeasurement adjustments on net retirement benefits liability, net of deferred tax</i>			
	15	(46,288)	(46,288)
NONCONTROLLING INTERESTS			
Balance at beginning of year		—	24,715,536
Acquisition of noncontrolling interests	4	—	(59,036,211)
Net income		—	34,320,675
Balance at end of year		—	—
		P367,293,586	P318,927,306

See accompanying Notes to Consolidated Financial Statements.

FRUITAS HOLDINGS, INC.
(A Subsidiary of Lush Properties, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P133,482,462	P247,400,591
Adjustments for:			
Depreciation and amortization	9	53,426,092	15,641,285
Interest expense	12	16,065,157	1,232,519
Interest income		(1,195,358)	(1,431,571)
Retirement benefits expense	15	527,753	1,203,384
Unrealized gain on changes in FVPL	7	—	(156,697)
Operating income before working capital changes		202,306,106	263,889,511
Decrease (increase) in:			
Financial assets carried at FVPL		11,236,373	—
Trade receivables		(36,430,695)	(12,349,113)
Merchandise inventories		(13,058,745)	(32,879,451)
Deposits and advance rentals		(19,533,376)	(31,029,718)
Other current assets		(4,440,945)	(5,798,542)
Deferred input VAT		(2,379,386)	—
Increase in trade and other payables		64,281,550	21,460,372
Net cash generated from operations		201,980,882	203,293,059
Income tax paid		(48,518,634)	(64,757,240)
Interest paid		(16,065,157)	(1,232,519)
Interest received		1,195,358	1,431,571
Net cash flows from operating activities		138,592,449	138,734,871
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property and equipment	9	(146,439,570)	(87,075,749)
Intangible assets	10	(7,909,304)	(201,442,050)
Advances to related parties	14	(40,571,161)	(7,451,848)
Collection of advances to related parties	14	7,082,438	46,065,236
Proceeds from sale of shares held by subsidiaries	16	—	52,000,000
Net cash flows from investing activities		(187,837,597)	(197,904,411)

(Forward)

		Years Ended December 31	
	Note	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of promissory notes	12	₱246,700,000	₱332,500,000
Due to related parties	14	15,462,843	3,107,071
Avallment of mortgage loan	13	3,987,769	4,804,228
Stock subscription	16	—	27,750,000
Payments of:			
Notes payable	12	(247,135,896)	(20,750,000)
Mortgage payable	13	(2,451,949)	(1,001,622)
Advances from related parties	14	(1,254,719)	(1,581,857)
Cash dividends		—	(118,326,841)
Acquisltion of noncontrolling interests		—	(8,063,100)
Collection of subscriptions receivable		—	500
Net cash flows from financing activities		15,308,048	218,438,379
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		(33,937,100)	159,268,839
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		294,434,879	135,166,040
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		₱260,497,779	₱294,434,879
SUPPLEMENTARY INFORMATION ON NONCASH ACTIVITIY			
Reclassification of advances to suppliers to property and equipment	8	₱3,896,000	₱—
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash on hand		₱1,460,954	₱379,818
Cash in banks		225,069,804	225,662,655
Cash equivalents		33,967,021	68,392,406
		₱260,497,779	₱294,434,879

See accompanying Notes to Consolidated Financial Statements.

FRUITAS HOLDINGS, INC.
(A Subsidiary of Lush Properties, Inc.)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. Corporate Information

Fruitas Holdings, Inc. (herein referred to as "FHI" or the "Parent Company") and its subsidiaries, collectively referred to as the "Group", were incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on the following dates:

Name of Companies	Date of Incorporation
Parent Company	February 18, 2015
Subsidiaries with direct ownership:	
Negril Trading, Inc. (<i>doing Business under the Name and Style of De Original Jamaican Pattie Shop & Juice Bar</i>) (NTI)	June 20, 1990
Buko ni Fruitas Inc. (BNFI)	May 17, 2005
Fruitasgroup Incorporated (<i>doing Business under the Name and Style of Bukoloco, Fruitasicecandy and 7,107 Halo Halo Islands</i>) (FGI)	July 13, 2010
Subsidiaries with indirect ownership:	
Green Empire International Limited (GEIL)*	May 10, 2017
Oceanic Luck Limited (OLL)**	April 25, 2016
*ownership through FGI	
**ownership through GEIL	

The Parent Company is engaged in investment activities.

The principal activities and percentage of ownership of the Parent Company's subsidiaries as at 2018 and 2017, respectively are presented below.

Subsidiaries	Principal Activities	Principal Place of Business	Percentage of Ownership
<u>Direct</u>			
NTI	Production, processing and distribution of goods	Quezon City	100%
BNFI	Trading of goods	Quezon City	100%
FGI	Trading of goods	Quezon City	100%
<u>Indirect</u>			
GEIL	Holding company	British Virgin Islands	100%
OLL	Holding company	Samoa Islands	100%

In October 2017, the SEC approved the following amendments to the Parent Company's Articles of Incorporation (AOI):

- change in the Parent Company's name to "Fruitas Holdings, Inc.";
- change in the Parent Company's registered office address from 68 Data St., Brgy. Don Manuel, Quezon City to No. 60 Cordillera St., Brgy. Dona Josefa, Quezon City, 1113;
- increase in the number of members of the Board of Directors (BOD) from five (5) to seven (7); and,
- 1:10 stock split resulting to decrease in par value from ₱1.00 to ₱0.10 a share and increasing the authorized capital stock from 500.0 million to 5.0 billion shares.

In February 2017, Lush Properties, Inc. (LPI), a company engaged in leasing/real estate activities, subscribed to additional 12.7 million common shares of FHI at ₱1 par value a share equivalent to ₱12.7 million. Further, LPI acquired the existing shares aggregating ₱87.1 million held by individual and corporate stockholders and shares held by subsidiaries. The transaction increased LPI's ownership interest in FHI to 87% and accordingly, made LPI the parent company of FHI. LPI is an entity incorporated in the Philippines.

In November 2017, the Parent Company received cash subscriptions aggregating ₱15.0 million from individual and corporate stockholders.

In February 2018, the SEC approved the following amendments to the AOI:

- of the seven (7) directors, at least three (3) should be independent; and
- that the authorized capital stock of FHI amounting to ₱500.0 million shall be divided into (a) 3.0 billion preferred shares at one centavo (₱0.01) par value a share; and (b) 4.7 billion common shares at ten centavos (₱0.10) par value a share.

NTI. In July 2018, NTI acquired the assets, intellectual property rights, recipes and other know-how related to *Sabroso Lechon* brand from Sabroso Lechon Inc. (SLI). The acquisition was completed following the fulfillment of the closing conditions of the Contract to Sell and Deed of Assignment of Registered Trademark and the payment of the related consideration amounting to ₱28.3 million (see Note 4).

In October 2017, FHI acquired 2,152 shares of NTI from the remaining individual stockholders for ₱470,200 to increase FHI's ownership interest to 100%. On the same date, FHI also subscribed to additional 436,625 shares of NTI at ₱255 per share or for a total consideration of ₱111.3 million.

BNFI. In October 2017, FHI acquired 13,494 shares of BNFI from the remaining individual stockholders for ₱4.0 million to increase FHI's ownership interest to 100%. On the same date, FHI also subscribed to additional 331,500 shares of BNFI at ₱355 per share or for a total consideration of ₱117.7 million.

FGI. In October 2017, FHI acquired 124,992 shares of FGI from the remaining individual stockholders for ₱12.7 million to increase FHI's equity interest in FGI to 100%. Subsequently, FHI also subscribed to additional 400,000 shares of FGI at par and paid ₱82.0 million.

In August 2017, FGI subscribed to 1 share of GEIL for US\$1. In December 2017, FGI subscribed to additional 40,000 shares for US\$4.0 million (equivalent to ₱200.2 million) at US\$100 per share equivalent to 100% equity interest. GEIL then acquired 100% of OLL. OLL holds the intellectual property rights to certain brands including *Fruitas*, *The Mango Farm*, *Shou*, *Black Pearl*, *Friends Fries* and *Juice Avenue*. GEIL was incorporated and domiciled in the British Virgin Islands. OLL was incorporated and domiciled in the Samoan Islands.

In February 2017, the BOD of FGI and BNFI approved certain reorganization activities wherein FGI and BNFI obtained the rights to the lease of various outlets previously owned by related and third parties. The primary purpose of the reorganization activities is to integrate the operating activities of *Fruitas* brands to the Group, which will result in the economies of scale and efficiency of operations and more productive use of the properties of the Group. The obligations for rental deposits on leases were transferred to the Group through an assignment of lease agreement.

The above amendments and equity transactions are pursuant to the planned listing with the Philippine Stock Exchange (PSE) and the public offering of the shares of the Group. As at December 31, 2018, the Group is in the process of completing the required documentation with the SEC and PSE.

The consolidated financial statements of the Group as at and for the years ended December 31, 2018 and 2017 were approved and authorized for issuance by the BOD on April 1, 2019.

2. Summary of Significant Accounting and Reporting Policies

The significant accounting policies used in the presentation of the consolidated financial statements are consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation and Statement of Compliance

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

Bases of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis; except for financial assets at fair value through profit or loss (FVPL), and are presented in Philippine Peso (Peso), the Group'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 and the fair value of the consideration received in exchange for incurring a liability.

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 Group uses observable market 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 Group 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 26 to the consolidated financial statements.

New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended standards and interpretations which the Group adopted effective January 1, 2018:

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

PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9), bringing together all aspects of the accounting for financial instruments: classification and measurement of financial assets and financial liabilities, impairment, hedge accounting, recognition 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 the classification by reference to the business model within which these are held and the 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 FVPL 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" (ECL) model based on the concept of providing for expected losses at the inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing consolidated 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.

The Group has performed an assessment and determined the following impact of PFRS 9 on its financial instruments. As allowed under transitory provisions of PFRS 9, the Group applied the requirements of PFRS 9 retrospectively. The Group's retrospective application of PFRS 9, however, did not result in restatement of account balances in comparative periods or any adjustment in the opening retained earnings of the earliest period presented in the consolidated financial statements.

Classification and Measurement. Based on the Group's analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at December 31, 2018, the Group has concluded that all of its financial assets and financial liabilities shall continue to be measured on the same basis as under PAS 39, *Financial Instruments* but shall be classified under PFRS 9.

The application of the classification and measurement requirements under PFRS 9 did not materially affect the carrying amounts of the Group's financial instruments as at January 1, 2017.

Impairment. The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39 "incurred loss approach" with a forward-looking ECL approach. PFRS 9 requires the Group to recognize an allowance for ECL for all financial assets not held at FVPL.

The Group assessed that the adoption of PFRS 9, specifically on determining impairment loss using simplified and general approach, has no significant impact on the carrying amounts of the Group's financial assets carried at amortized cost.

Hedging. The Group does not have transactions that will require the use of hedge accounting.

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

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

- Amendments to PFRS 15, *Revenue from Contract with Customers - Clarifications to PFRS 15*

The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

All of the Group's contracts with customers generally undertake to provide single performance obligation, at a fixed price, which is mainly sale of goods and franchise fee. Thus, the allocation of transaction price to the single performance obligation is not applicable. The Group recognizes revenue as the goods are transferred to the customer at the point of delivery.

Based on the franchise agreement, the consideration for the payment of non-refundable franchise fee is related to the delivery of materials, store equipment and all expenses incurred by the Group in assisting the franchisees for setting up the related franchise at the inception of the agreement. The Group has assessed that the performance obligation under the franchise agreement is the delivery of materials and store equipment necessary to operate the franchise store. Accordingly, the performance obligation is satisfied upon delivery of the said materials and store equipment.

Whereas, the royalty fee paid by the franchisee throughout the term of the franchise agreement is the consideration for the continuing grant of the franchise until the expiration of the term of the franchise agreement.

The adoption of PFRS 15 has no significant impact on the Group's consolidated financial statements.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective as at December 31, 2018.

New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS, which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2019 -

- PFRS 16, *Leases*

PFRS 16 replaces PAS 17 *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

For the Group's operating lease commitments as at December 31, 2018, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Group will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 - which might have a significant impact on the amounts recognized in the Group's consolidated financial statements.

Under prevailing circumstances, the adoption of PFRS 16 is not expected to have any material effect on the consolidated financial statements of the Group. However, it is not practicable to provide a reasonable estimate of that effect until the Group has completed the review.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries.

Subsidiaries

A subsidiary is an entity that is controlled by the Parent Company. A subsidiary is consolidated from the date when control is transferred to the Parent Company directly or through a holding company. Control is achieved when the Parent Company is exposed or has rights to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. A subsidiary is deconsolidated from the date when control ceases.

The financial statements of the subsidiaries are prepared for the same reporting year as that of the Parent Company using uniform accounting policies. Significant intercompany transactions and balances, including intercompany profits, dividends and unrealized profits and losses, are eliminated in full.

A change in ownership interest of a subsidiary, without a change in control, is accounted for as an equity transaction.

If the Parent Company loses control over a subsidiary, the Group: (a) derecognizes the assets and liabilities of the subsidiary; (b) derecognizes the carrying amounts of any noncontrolling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss.

Noncontrolling Interests

Noncontrolling interests represent the equity interest of the subsidiaries not owned, directly or indirectly, by the Parent Company. The noncontrolling interests share in the losses of a subsidiary even if that results in a deficit balance.

Business Combination

Business combination is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date, including the separation of embedded derivatives in host contracts by the acquiree, if any.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PFRS 9 either in statements of comprehensive income or as a change to other comprehensive income. If the contingent consideration is not within the scope of PFRS 9, it is measured in accordance with appropriate PFRS. Contingent consideration that is classified as equity is not remeasured until it is finally settled and accounted for within equity.

If necessary information, such as fair value of assets and liabilities acquired, is not available by the end of the reporting period in which the business combination occurs, provisional amounts are used for a period not exceeding one year from the date of acquisition or the measurement period. During this period, provisional amounts recognized for a business combination may be retrospectively adjusted if relevant information has been obtained or becomes available.

The Group also considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business if it acquires an integrated set of business processes in addition to the group of assets acquired.

Financial Assets and Liabilities

Recognition and Measurement

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference.

Classification

Classification of Financial Instruments. The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at FVOCI. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Group's business model and its contractual cash flow characteristics.

As at December 31, 2018 and 2017, the Group has no financial instruments classified as financial assets at FVOCI and financial liabilities at FVPL.

Classification of Financial Instruments between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Financial Assets at Amortized Cost. Financial assets shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost 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. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2018 and 2017, the Group's cash and cash equivalents, trade receivables and due from related parties are classified under this category (see Notes 5 and 14).

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship.

The Group's investments in Unit Investment Trust Funds (UITF) which are held for trading are included in this category.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2018 and 2017, the Group's trade and other payables (except statutory payables), dividends payable, notes payable, mortgage payable and amounts due to related parties are classified under this category (see Notes 11, 12, 13, 14 and 16).

Reclassification

The Group reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income (OCI).

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Impairment of Financial Assets at Amortized Cost

The Group records an allowance for ECL which is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

Trade Receivables. For trade receivables, the Group has applied the simplified approach in measuring ECLs.

Simplified approach requires that ECL should always be based on the lifetime ECL. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Other Financial Instruments Measured at Amortized Cost. For these debt instruments, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the financial 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 Group has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Group could raise debt with similar terms and conditions in the market. The difference between the carrying amount of the original liability and fair value of the new liability is recognized in the consolidated statement of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Merchandise Inventories

Merchandise inventories are carried at the lower of cost and net realizable value (NRV). The NRV of inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. Cost is determined using first-in, first-out method.

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its NRV. Impairment loss is recognized immediately in profit or loss.

When inventories are sold, the carrying amount of those inventories is recognized to profit or loss in the year when the related revenue is recognized.

Deposits and Advance Rentals

Deposits and advance rentals represent payments for security, utilities and other deposits made in relation to the lease agreements entered into by the Group. These are carried at face amounts and will generally be applied as lease payments toward the end of the lease terms.

Other Current Assets

Other current assets mainly pertain to prepayments, construction bond, advances to suppliers, advances to officers and employees, input VAT and others, which are stated at cost, less allowance for any impairment in value.

Prepayments. Prepayments are expenses paid in advance and recorded as assets before these are utilized. Prepayments are apportioned over the period covered by the payment and included in profit or loss when incurred. Prepayments that are expected to be realized for no more than 12 months after the financial reporting period are classified as current assets. Otherwise, these are classified as noncurrent assets.

Construction Bond. Construction bond is initially recorded at transaction price and subsequently measured at the undiscounted amount of cash or other consideration expected to be received.

Advances to Suppliers. Advances to suppliers are recognized whenever the Group pays in advance for its purchase of goods and supplies. The advances to suppliers are measured at transaction price less impairment in value, if any.

Advances to Officers and Employees. Advances to officers and employees pertain to advances made by the Group to employees to fund for working capital expenditures. These are subject to liquidation and are measured at transaction price less impairment in value, if any.

Input VAT. Revenue, expenses and assets are generally recognized net of the amount of VAT. The net amount of input VAT recoverable from the taxation authority is presented as "Input VAT".

Property and Equipment

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

Cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization is calculated on a straight-line basis over the following estimated useful lives of the property and equipment:

<u>Asset Type</u>	<u>Number of Years</u>
Leasehold improvements	5 years or term of lease, whichever is shorter
Transportation equipment	5-10
Office furniture, fixtures and equipment	2-5
Store furniture, fixtures and equipment	2-5

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits for the use of property and equipment.

Fully depreciated assets are retained in the accounts until these are no longer in use.

When property and equipment are sold or retired, their cost, accumulated depreciation and amortization and any allowance for impairment in value are eliminated and any resulting gain or loss is included in profit or loss.

Intangible Assets

Intangible assets are identifiable non-monetary assets of the Group without physical substance held for use in operations, the production of goods or services and for rental to others. This account includes the following:

Brand Names. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible asset is carried at cost less any accumulated impairment losses.

The Group assessed the useful life of brand names to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group.

Brand names with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The Relief-from-Royalty Method was used in the valuation of the brands.

Under the relief-from-royalty method, the value of an intangible asset is determined by reference to the value of the hypothetical royalty payments that would be saved through owning the asset, as compared with licensing the intangible asset from a third party. The hypothetical royalty payments over the life of the intangible asset are adjusted for tax and discounted to present value at the valuation date. Conceptually, the method may also be viewed as a discounted cash flow method applied the cash flow that the owner of the intangible asset could receive through licensing the intangible asset to third parties.

Software License. Software license is measured initially at cost which is the amount of the purchase consideration. Following initial recognition, software license is carried at cost less accumulated amortization and any accumulated impairment losses. The Group's software license has a term of five years and is amortized over such period using the straight-line method. The useful life and amortization method for software license are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the software is accounted for by changing the useful life and amortization method, as appropriate, and treated as a change in accounting estimates. The amortization expense on software is recognized in the profit or loss.

Gains or losses arising from the disposal of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

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. Brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. 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, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

Operating Segments

The Group operates using different brand names on which operating results are regularly monitored by the chief operating decision-maker (CODM) for the purpose of making decisions regarding resource allocation and performance assessment. The CODM has been identified as the Chief Executive Officer of the Group. However, as permitted by PFRS 8, *Operating Segments*, the Group has aggregated these segments into a single operating segment to which it derives its revenues and incurs expenses as these segments have the same economic characteristics and are similar in the following respects:

- the nature of products and services;
- the nature of production processes;
- the type or class of customer for the products and services; and
- the methods used to distribute their products and services.

Equity

Common Stock. Common stock represents the par value of issued common shares. Unpaid subscriptions are recognized as a reduction from subscribed capital shares.

Preferred Stock. Preferred shares are voting, cumulative, nonparticipating and nonconvertible and nonredeemable.

Retained Earnings. Retained earnings represent the cumulative balance of net income, net of any dividend declaration.

Shares Held by Subsidiaries. Shares of Parent Company held by subsidiaries are treated as treasury shares. These are recognized at cost and deducted from equity. No gain or loss is recognized in the Parent Company's consolidated statements of comprehensive income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital account is reduced by its par value and the excess of cost over par value upon retirement is debited to APIC, to the extent of the specific or average APIC when the shares were issued, and to retained earnings for the remaining balance. Voting rights related to treasury shares are nullified for the Parent Company and no dividends are allocated to them.

Other Equity Reserves. Other equity reserves consist of the difference between the equity of the subsidiaries attributable to the Parent Company's interest and the purchase price.

Other Comprehensive Loss. This pertains to the accumulated remeasurement loss on the Group's retirement benefits liability arising from experience adjustments and changes in financial assumptions. Remeasurements of retirement benefits liability, and the corresponding deferred tax component, are recognized immediately in other comprehensive loss and are included in equity. These are not reclassified to profit or loss in subsequent periods.

Earnings Per Share (EPS) Attributable to the Equity Holders of the Parent

Basic EPS is calculated by dividing the net income by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends declared and stock split.

Diluted EPS is computed by adjusting the weighted average number of common shares outstanding to assume conversion of all the dilutive potential common shares into common shares.

The Group has no dilutive potential common shares.

Income Recognition

Revenue

The Group generates revenue primarily from sale of goods.

Revenue from Contracts with Customers. Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in all of its revenue sources.

The following specific recognition criteria must also be met before revenue is recognized.

Net Sales. Revenue is recognized, net of sales returns and discounts, when the significant risks and rewards of ownership of the goods have passed to the customers, which is normally upon delivery to and acceptance of the goods by the buyer.

Franchise Fees. Revenue from franchisees includes continuing royalty and initial franchise fees. Royalty fees are recognized in the period earned. Initial franchise fees are recognized upon opening of a store when the Group has performed substantially all of the performance obligations required under the franchise agreement. These are presented net of final tax.

Rental Income. Rental income is recognized on a straight-line basis over the lease term.

Other Income

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

Other Income. Income from other sources is recognized when earned during the period.

Cost and Expense Recognition

Costs and 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.

Cost of Sales. Cost of sales includes expenses directly related to the production and sale of food products. Cost of sales is recognized at the time the related inventories are sold to consumers.

Selling and Distribution Expenses. Selling and distribution expenses constitute costs of selling and distribution of the goods to customers that are not qualified as cost of sales. These are expensed as incurred.

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

Interest Expense. Interest expense includes interest expense and other finance costs. These are expensed as incurred. Interest expense is recognized in profit or loss using the effective interest method.

Retirement Benefits

The Group has an unfunded, noncontributory defined benefit plan covering all qualified employees. The retirement benefits cost is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Group recognizes current service costs and interest expense on the retirement benefits liability in profit or loss.

The Group determines the interest expense on retirement benefits liability by applying the discount rate to the retirement benefits liability at the beginning of the year, taking into account any changes in the liability during the period as a result of benefit payments.

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

The retirement benefits liability recognized by the Group is the present value of the defined benefits obligation. This is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related retirement benefits liability.

Actuarial valuations are made with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

Leases

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

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

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

Group as Lessee. Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as expense in profit or loss using straight-line basis over the lease term.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income is recognized in profit or loss on a straight-line basis over the noncancellable lease term. If the arrangement is determined to be cancellable, the Group recognizes rental income when earned, based on the contractual terms of the lease agreements.

Foreign Currency Translation

The functional currency of the entities of the Group is the Philippine Peso except for GEIL and OLL, with functional currency in the United States (US) dollar (\$). Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded using the prevailing exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at the reporting date. All differences are taken to the consolidated statements of comprehensive income. For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses in the year such are realized.

The assets and liabilities of GEIL and OLL are translated into Philippine Peso at the rate of exchange ruling at the reporting date and income and expenses are translated to Philippine Peso at monthly average exchange rates. The exchange differences arising on the translation are taken directly to OCI and presented as a separate component of equity under the "Accumulated translation adjustment" account. There are no exchange differences recognized as at December 31, 2018.

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 rate 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 carryforward benefits of net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of NOLCO and MCIT 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 rate that is 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 by the reporting date.

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

Offsetting. Current tax assets and current tax liabilities are offset, or deferred tax assets and deferred tax liabilities are offset if, and only if, an enforceable right exists to set off the amounts and it can be demonstrated without undue cost or effort that the Group plans either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Related Party Relationships and Transactions

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 Group; (b) associates and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group 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.

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

Provisions

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

Contingencies

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

Events after the Reporting Date

Events after the reporting date that provide additional information about the Group's financial 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 consolidated financial statements when material.

3. Significant Accounting Judgments and Estimates

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

While the Group 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 Group:

Determining Functional Currency. The functional currency of the companies in the Group has been determined to be the Philippine Peso except for certain subsidiaries whose functional currency is the US dollar. The Philippine Peso is the currency that mainly influences the sale of goods and the costs of sales.

Assessing Group Reorganization. Group reorganization involving entities under common control is outside the scope of PFRS 3 and there is no other specific PFRSs guidance. Accordingly, management used its judgment to develop an accounting policy that is relevant and reliable, in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The management assessed that the substance of the group reorganization does not constitute "purchase" of companies but pooling or merging of the assets and liabilities of the Group. Hence, the most relevant and reliable accounting policy adopted by the Group is the pooling of interests method of accounting.

The Group elected a policy to restate the financial information in the consolidated financial statements for periods prior to the reorganization of the entities under common control to reflect the reorganization as if it had occurred from the beginning of the earliest period presented in the consolidated financial statements, regardless of the actual date of the reorganization.

Accounting for Business Acquisition. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date. The Group's acquisitions have resulted in the recognition of intangible assets with indefinite lives.

Classifying Operating Segments. The Group is organized into operating segments based on brand names but the Group has aggregated the brand names into a single operating segment as allowed under PFRS 8 due to their similar characteristics. This is evidenced by a consistent range of gross margin across all brand outlets as well as uniformity in sales increase and trending for all outlets, regardless of the brand name. Moreover, all brands have the following business characteristics:

- (a) Similar nature of products/services offered and methods to distribute products and provide services;
- (b) Similar class of target customers; and
- (c) Primary place of operations is in the Philippines.

Identifying Performance Obligations and Timing of Satisfaction of Revenues. The Group enters into contracts with its customers to sell goods where revenue from company-owned outlets and sale of goods are recognized. The Group determined that all the goods prior to transfer to its respective customers are in its full ownership. The Group concluded that it transfers control over its goods and services, at a point in time, upon receipt of the customer.

For revenue from franchise fee, the performance obligation under the franchise agreement is the delivery of materials and store equipment necessary to operate the franchise store, as this is deemed to be the time that the franchisee obtains control of the promised goods and therefore the benefits of unimpeded access.

Assessing ECL of Trade Receivables. When the Group assessed that there is a significant change in the credit risk, the Group estimates ECL using a provision matrix. Depending on the diversity of its debtor's base, the Group uses its historical credit loss experience adjusted for forward-looking factors, as appropriate. The information about the ECL assessment on the Group's trade and other receivables is disclosed in Note 25 to the consolidated financial statements.

The carrying amounts of the Group's trade receivables amounted to ₱55.6 million and ₱19.2 million as at December 31, 2018 and 2017, respectively (see Note 5).

Assessing ECL on Other Financial Assets at Amortized Cost. The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition in which case ECL are provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and,
- Actual or expected significant adverse changes in the operating results of the borrower

The Group also considers financial assets that are more than 30 days past due to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no provision for ECL on other financial assets at amortized cost was recognized in 2018 and 2017. The carrying amounts of other financial assets at amortized cost are as follows:

Asset Type	Note	2018	2017
Cash in banks		₱260,497,779	₱294,434,879
Due from related parties	14	40,571,161	7,082,438

Classifying Leases - Group as Lessor. The Group entered into a sublease agreement of foodpark spaces. The Group determined, based on the evaluation of terms and conditions of agreement, that the lessor retains all the significant risks and rewards of ownership of the foodpark spaces. Thus, the agreement is accounted for as an operating lease.

Rental income amounted to ₱9.4 million and ₱2.2 million in 2018 and 2017, respectively (see Note 21).

Classifying Leases - Group as Lessee. The Group has entered into commercial property leases for its stores. The Group has determined that the risks and rewards of ownership related to the leased property are retained by the lessor. Accordingly, the agreements are accounted for as operating leases.

Rental expense amounted to ₱228.5 million and ₱176.6 million in 2018 and 2017, respectively (see Note 21).

Estimating Fair Value of Financial Assets Carried at FVPL. The Group carries an investment in UITF, which requires extensive use of accounting estimates and judgments. Fair value determination is generally based on quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair the value of these financial assets would affect asset, profit or loss and equity.

The fair value of the Group's financial assets carried at FVPL amounted to ₱11.2 million as at December 31, 2017 (see Note 7).

Evaluating NRV of Merchandise Inventories. The Group assesses at the end of each reporting period whether its merchandise inventories are impaired. Whenever the NRV becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes, the Group recognizes an impairment loss. A new assessment is made of the NRV in each subsequent period. When the circumstances that previously caused the inventories to be impaired no longer exist or when there is clear evidence of an increase in the NRV because of changed economic circumstances, the amount of the impairment loss is reversed (i.e., the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the NRV.

The cost of merchandise inventories is lower than its NRV. No impairment loss was recognized in 2018 and 2017. Merchandise inventories amounted to ₱52.0 million and ₱39.0 million as at December 31, 2018 and 2017, respectively (see Note 6).

Estimating Useful Lives of Property and Equipment (Except Land) and Intangible Assets. The useful lives of the Group's property and equipment (except land) and intangible asset are estimated based on the period over which the assets are expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of each asset are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by the changes in the factors mentioned above. A reduction in the estimated useful lives of any property and equipment would increase the recorded operating expenses and decrease noncurrent assets. In 2018, the useful life of certain item of intangible assets was shortened from four years to one year and this resulted in additional amortization of ₱1.2 million.

The carrying amount of property and equipment and intangible assets aggregated to ₱390.6 million and ₱285.8 million as at December 31, 2018 and 2017, respectively (see Notes 9 and 10).

Assessing Impairment of Brands with Indefinite Useful Life. The Group tests annually whether any impairment in brand names is to be recognized in accordance with the related accounting policy in Note 2. The recoverable amounts of cash-generating units (CGUs) have been determined based on the higher of fair value less costs to sell and value in use calculations, which require the use of estimates. Based on the impairment testing conducted, the recoverable amounts of the CGUs as at December 31, 2018 and 2017, calculated based on value in use are greater than the corresponding carrying amounts of the CGUs as at the same dates.

No impairment loss was recognized in 2018 and 2017. The carrying amount of brand names amounted to ₱204.9 million and ₱200.2 million as at December 31, 2018 and 2017, respectively (see Note 10).

The carrying amount of intangible assets amounted to ₱207.9 million and ₱201.3 million as at December 31, 2018 and 2017, respectively (see Note 10).

Determining Impairment Indicators for Other Nonfinancial Assets. The Group assesses impairment on its deposits and advance rentals, other current assets, property and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying amounts of the assets or group of assets may not be recoverable. The relevant factors that the Group considers in deciding whether to perform an asset impairment review include, among others, the following:

- significant underperformance of a business in relation to expectations;
- significant negative industry or economic trends; and
- significant changes or planned changes in the use of the assets.

Management has assessed that there are no indicators of impairment on the nonfinancial assets of the Group. Accordingly, no impairment was recognized in 2018 and 2017. The carrying amounts of the Group's nonfinancial assets aggregated ₱482.5 million and ₱357.6 million as at December 31, 2018 and 2017, respectively (see Notes 8, 9, 10 and 21).

Estimating Retirement Benefits Liability. The determination of the obligation and costs of retirement benefits is dependent on the assumptions used by the actuary in calculating such amounts. These assumptions are described in Note 15 to the consolidated financial statements and include, among others, discount rates and salary increase rates. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligation.

The retirement benefits liability amounted to ₱2.2 million and ₱1.7 million as at December 31, 2018 and 2017, respectively. The cumulative remeasurement losses on retirement benefits liability (net of deferred tax) recognized in equity amounted to ₱46,288 as at December 31, 2018 and 2017 (see Note 15).

Assessing Recognition of Deferred Tax Assets. The Group reviews the carrying amount of deferred tax asset at each reporting date and reduces deferred tax asset 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. Deferred tax assets recognized amounted to ₱4.3 million and ₱610,686 as at December 31, 2018 and 2017, respectively (see Note 22).

Deferred tax asset pertaining to NOLCO of the Parent Company amounting to ₱669,012 as at December 31, 2017 was not recognized since management has assessed that it is not probable that sufficient future 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 (see Note 22).

4. Accounting for Group Reorganization and Business Acquisition

Group Reorganization

The acquisition by the Parent Company of the subsidiaries was considered as a group reorganization of entities under common control. Accordingly, the acquisition is accounted for based on the recorded values of assets and liabilities of the subsidiaries at historical cost. As a result, the assets and liabilities of the Group were reflected at their carrying amounts and no goodwill was recognized.

In October 2017, FHI acquired the following shares from the remaining individual stockholders to increase its ownership to 100% (see Note 1):

- 2,152 shares of NTI for ₱470,200
- 13,494 shares of BNFI for ₱4.0 million
- 124,992 shares of FGI for ₱12.7 million

The excess of the carrying amount of noncontrolling interests at the date of acquisition (₱68.4 million) over the aggregate acquisition costs (₱17.4 million) amounting to ₱51.0 million was recognized as "Other equity reserves" in the consolidated statements of financial position as at December 31, 2018 and 2017.

Acquisition of noncontrolling interests in 2017 amounted to ₱59.0 million. The effect of pooling of interests amounting to ₱4.2 million as at December 31, 2018 and 2017 was recognized as part of "Other equity reserves".

Business Acquisition

As discussed in Note 1, NTI acquired the assets, intellectual property rights, recipes and other know-hows related to *Sabroso Lechon* for a total consideration of ₱28.3 million. The acquisition cost was derived after taking into account the valuation study of the brand which was agreed between NTI and SLI.

The provisional fair values of the identifiable assets acquired as at acquisition date are as follows:

	Note	Amount
Leasehold improvements		₱21,835,900
Brand name	10	4,751,491
Transportation equipment		1,010,083
Security deposit		720,000
		<u>₱28,317,474</u>

The purchase price allocation was determined pending the Group's complete accounting of the transaction. Reasonable changes are expected as additional information becomes available. This will be finalized in July 2019 as allowed by the PFRS.

5. Trade Receivables

This account consists of:

	2018	2017
Trade receivables	₱55,971,765	₱19,541,070
Less allowance for doubtful accounts	333,508	333,508
	<u>₱55,638,257</u>	<u>₱19,207,562</u>

This account represents outstanding receivables from franchisees. These are unsecured, noninterest-bearing and are normally collected on a 30-day term.

6. Merchandise Inventories

This account consists of:

	2018	2017
Food and beverages	₱30,353,277	₱20,432,540
Store supplies and others	21,671,398	18,533,390
	₱52,024,675	₱38,965,930

The Group's merchandise inventories are carried at cost. The cost of merchandise inventories is lower than its NRV. No inventory losses were recognized in 2018 and 2017.

Cost of merchandise inventories charged to cost of sales amounted to ₱590.1 million and ₱418.2 million in 2018 and 2017, respectively (see Note 18).

7. Financial Assets at FVPL

This account represents investments in UITF amounting to ₱11.2 million as at December 31, 2017. This was withdrawn in 2018.

The fair value of the investments is based on the financial report prepared by the bank (classified as Level 1). Unrealized gain on fair value changes amounted to ₱156,697 in 2017, and is presented as part of "Other income" in the consolidated statements of comprehensive income.

Details of other income are as follows:

	2018	2017
Unrealized gain on changes in FVPL	₱—	₱156,697
Others	1,361,007	1,073,564
	₱1,361,007	₱1,230,261

Others consist mainly of outlet cash overage.

8. Other Current Assets

This account consists of:

	2018	2017
CWTs	₱1,347,697	₱—
Prepayments	1,593,984	—
Construction bond	1,342,288	—
Input VAT	912,640	—
Advances to suppliers	727,253	4,386,042
Advances to officers and employees	315,422	—
Others	105,203	1,413,500
	₱6,344,487	₱5,799,542

Prepayments mainly consist of insurance and listing-related expenses.

Construction bond is collectible once the improvement has been completed and given by the Group to lessor for construction projects to protect the lessor against an adverse event.

Advances to suppliers pertain to advance payments made for goods pending delivery as at year-end. In 2018, advances amounting to ₱3.9 million were reclassified to property and equipment upon receipt of the assets (see Note 9).

Advances to officers and employees pertain to cash advances and are settled through liquidation.

9. Property and Equipment

The composition of and movements in this account are as follows:

2018						
	Land	Leasehold Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Store Furniture, Fixtures and Equipment	Total
Cost						
Balance at beginning of year	₱13,000,000	₱61,451,228	₱13,491,465	₱2,832,610	₱33,618,677	₱124,393,980
Additions	—	43,039,381	7,724,112	8,902,914	86,773,163	146,439,570
Reclassification	—	3,896,000	—	—	—	3,896,000
Balance at end of year	13,000,000	108,386,609	21,215,577	11,735,524	120,391,840	274,729,550
Accumulated Depreciation and Amortization						
Balance at beginning of year	—	16,884,135	3,374,483	1,941,042	17,734,683	39,934,343
Depreciation and amortization	—	22,020,155	1,901,533	1,810,478	26,321,349	52,053,515
Balance at end of year	—	38,904,290	5,276,016	3,751,520	44,056,032	91,987,858
Carrying Amount	₱13,000,000	₱69,482,319	₱15,939,561	₱7,984,004	₱76,335,808	₱182,741,692

2017						
	Land	Leasehold Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Store Furniture, Fixtures and Equipment	Total
Cost						
Balance at beginning of year	₱—	₱9,846,692	₱7,243,643	₱1,851,718	₱18,376,178	₱37,318,231
Additions	13,000,000	51,604,536	6,247,822	980,892	15,242,499	87,075,749
Balance at end of year	13,000,000	61,451,228	13,491,465	2,832,610	33,618,677	124,393,980
Accumulated Depreciation and Amortization						
Balance at beginning of year	—	9,846,692	2,235,956	1,585,626	10,731,617	24,399,891
Depreciation and amortization	—	7,037,443	1,138,527	355,416	7,003,066	15,534,452
Balance at end of year	—	16,884,135	3,374,483	1,941,042	17,734,683	39,934,343
Carrying Amount	₱13,000,000	₱44,567,093	₱10,116,982	₱891,568	₱15,883,994	₱84,459,637

In 2018, advances to suppliers amounting to ₱3.9 million were reclassified to property and equipment (see Note 8).

The cost of fully depreciated property and equipment still in use by the Group amounted to ₱17.4 million and ₱20.6 million as at December 31, 2018 and 2017, respectively.

Transportation equipment with carrying value of ₱2.9 million and ₱6.7 million as at December 31, 2018 and 2017, respectively, are held as security for the Group's mortgage payable (see Note 13).

Depreciation and amortization were derived from the following:

	Note	2018	2017
Property and equipment		₱52,053,515	₱15,534,452
Intangible asset	10	1,372,577	106,833
		₱53,426,092	₱15,641,285

Depreciation and amortization charged to operations consist of:

	Note	2018	2017
Cost of sales		₱1,793,406	₱—
Selling and distribution expenses	19	49,830,421	15,641,285
General and administrative expenses	20	1,802,265	—
		₱53,426,092	₱15,641,285

10. Intangible Assets

This account consists of the following:

		2018		
	Note	Brand Names	Software License	Total
Cost				
Balance at beginning of year		₱200,160,050	₱1,282,000	₱201,442,050
Additions		4,751,491	3,157,813	7,909,304
Balance at end of year		204,911,541	4,439,813	209,351,354
Accumulated Amortization				
Balance at beginning of year		—	106,833	106,833
Amortization	9	—	1,372,577	1,372,577
Balance at end of year		—	1,479,410	1,479,410
Carrying Amount		₱204,911,541	₱2,960,403	₱207,871,944

		2017		
	Note	Brand Names	Software License	Total
Acquisition cost		₱200,160,050	₱1,282,000	₱201,442,050
Amortization	9	—	106,833	106,833
Carrying Amount		₱200,160,050	₱1,175,167	₱201,335,217

Brand Names

In August 2017, FGI subscribed to 1 share of GEIL for US\$1. In December 2017, FGI subscribed to an additional 40,000 shares for US\$4.0 million (equivalent to ₱200.2 million) at US\$100 per share. GEIL then acquired 100% of OLL. OLL holds the intellectual property rights to certain brands including *Fruitas, The Mango Farm, Shou, Black Pearl, Friends Fries* and *Juice Avenue*.

The difference between the net assets of OLL and acquisition cost was allocated to the value of identified Brands amounting to ₱200.2 million. The Relief-from-Royalty Method was used in the valuation of the Brands. Under this method, the value of brands is determined by reference to the value of the hypothetical royalty payments that would be saved through owning the asset, as compared with licensing the brands from a third party. The hypothetical royalty payments over the life of the brands are adjusted for tax and discounted to present value at the valuation date.

In 2018, the Group also recognized brand name amounting to ₱4.8 million following the completion of acquisition of *Sabroso* brand from SLI (see Note 4).

The fair values of the brand names were determined based on a valuation using cash flow projections (value-in-use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The range of the growth rates is consistent with the long-term average growth rate for the industry.

The discount rates applied to after-tax cash flow projections range from 15.6% to 17.6% in 2018 and 2017. As at December 31, 2018 and 2017, the recoverable amount of each CGU, calculated using value in use, exceeded the carrying amount of the CGU.

The Group used the weighted average cost of capital as the discount rate, which reflected management's estimate of the risk. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Sensitivity Analysis. Generally, an increase (decrease) in the incremental after-tax cash flows will result in an increase (decrease) in the fair value of intangible asset. An increase (decrease) in discount rate will result in a decrease (increase) in the fair value of intangible asset.

Software License

In 2018, the useful life of certain intangible asset was shortened from the useful life of four years to one year upon management review of the operational efficiency of the intangible asset and this resulted additional amortization of ₱1.2 million.

11. Trade and Other Payables

This account consists of:

	2018	2017
Trade payables	₱75,632,041	₱29,683,573
Statutory payables	32,997,081	13,426,577
Others	4,052,874	5,290,296
	₱112,681,996	₱48,400,446

Trade payables are unsecured, noninterest-bearing and generally settled on a 15 to 60-day term.

Statutory payables pertain to obligations to government agencies such as SSS, HDMF, PHIC and withholding taxes that are normally settled in the following month.

Other payables include accrual for various expenses such as professional fees, utilities and unpaid salaries which are noninterest-bearing and are normally settled within a year.

12. Notes Payable

In 2017, the Group obtained short-term promissory notes from local commercial banks to finance its working capital requirements and capital infusion. The notes bear interest at rates ranging from 3.13% to 5.50% per annum and interest is payable on a monthly basis. In 2018, the outstanding balances of the notes were rolled over under similar terms.

In 2018, the Group obtained additional promissory notes from local commercial banks and bear interest rates ranging from 4.25% to 7.5% per annum. The principal amount will mature in 2021.

Movements in this account are as follows:

	2018	2017
Balance at beginning of year	P311,750,000	P-
Availments	246,700,000	332,500,000
Payments	(247,135,896)	(20,750,000)
	311,314,104	311,750,000
Less current portion	283,689,470	311,750,000
	P27,624,634	P-

Interest on notes and mortgage payable is as follows:

	Note	2018	2017
Notes payable		P10,525,857	P1,077,820
Mortgage payable	13	5,539,300	154,699
		P16,065,157	P1,232,519

The schedule of maturities of the loans is as follows:

	Amount
2019	P158,689,470
2020	143,416,423
2021	9,208,211
	P311,314,104

13. Mortgage Payable

The Group obtained loans from local commercial banks aggregated ₱4.0 million and ₱4.8 million in 2018 and 2017, respectively, to finance its acquisition of transportation equipment.

Movements in this account are as follows:

	2018	2017
Balance at beginning of year	₱4,425,588	₱622,982
Availments	3,987,769	4,804,228
Payments	(2,451,949)	(1,001,622)
	5,961,408	4,425,588
Less current portion	2,589,472	1,131,261
Noncurrent portion	₱3,371,936	₱3,294,327

The loans are payable in monthly installments up to May 2023 and bear effective interest ranging from 7.66% to 9.6% per annum in 2018 and 2017. Interest expense amounted to ₱5.5 million and ₱154,699 in 2018 and 2017, respectively (see Note 12).

The loan is secured by a chattel mortgage on the transportation equipment with total carrying values of ₱2.9 million and ₱6.7 million as at December 31, 2018 and 2017, respectively (see Note 9).

The schedule of maturities of the mortgage payable is as follows:

	Amount
2019	₱2,589,472
2020	2,156,675
2021	672,809
2022	461,544
2023	80,908
	₱5,961,408

14. Related Party Transactions

The Group, in the normal course of business, has transactions with related parties as follows:

Related Party	Nature of Transactions	Transactions during the Year		Outstanding Balance	
		2018	2017	2018	2017
Due from related parties					
Entities Under Common Management					
	Advances	₱40,571,161	₱7,451,848		
	Collections	(7,082,438)	(46,065,236)		
	Reorganization costs	–	6,733,929	₱40,571,161	₱7,082,438

Related Party	Nature of Transactions	Transactions during the Year		Outstanding Balance	
		2018	2017	2018	2017
Due to related parties					
Stockholders	Advances	₱15,462,843	₱—		
	Payments	(1,254,719)	(1,581,857)	₱19,009,309	₱4,801,185
<i>Entity Under Common Management</i>	Advances	—	3,107,071		
	Payments	—	—	3,107,071	3,107,071
				₱22,116,380	₱7,908,256

Terms and Conditions of Transactions with Related Parties

Outstanding balances are unsecured, noninterest-bearing and due, demandable and settled in cash. Management makes an annual assessment of the financial position of the related parties and the market in which the related parties operates. There were no impairment losses recognized in 2018 and 2017.

Compensation of Key Management Personnel

Compensation of key management personnel, consisting of salaries and short-term benefits, amounted to ₱4.2 million and ₱3.7 million in 2018 and 2017, respectively.

15. Retirement Benefits Liability

The Group's retirement plan is unfunded, noncontributory defined benefit plan with a single lump sum payment covering retirement based on Republic Act No. 7641.

The Group did not obtain an updated actuarial valuation in 2018 because management has assessed that the effect on the consolidated financial statements of the difference between the retirement expense recognized by the Group and that resulting from an updated actuarial valuation is not significant. The latest actuarial report is dated March 5, 2018.

The following tables summarize the components of retirement expense recognized in the consolidated statements of comprehensive income.

	2018	2017
Current service cost	₱429,177	₱405,264
Interest cost	98,576	65,942
Increase in transitional liability	—	732,178
	₱527,753	₱1,203,384

Movements in this account follows:

	2018	2017
Balance at beginning of year	₱1,702,112	₱432,602
Current service cost	429,177	405,264
Interest cost	98,576	65,942
Increase in transitional liability	—	732,178
Actuarial loss	—	66,126
Balance at end of year	₱2,229,865	₱1,702,112

The principal assumptions used in determining the retirement benefits liability for the Group's retirement liability in 2018 and 2017 are as follows:

Discount rate	5.8%
Future salary increases	4.0%

The projected unit credit method was applied to all the benefits without using one-year term cost. This sensitivity analysis shows the impact of changes in key actuarial assumptions in 2018.

	Effect on Retirement Benefits Liability	
	Discount Rate	Salary Projected Rate
+1%	₱1,449,336	₱2,038,259
-1%	2,026,953	1,437,006

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the retirement benefits liability at the reporting date after adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remain unchanged. The corresponding change in the retirement benefits liability was expressed as a percentage change from the base amount.

The Group does not maintain a fund for its retirement liability. While funding is not a requirement of the law, there is a risk that the Group may not have the cash if several employees retire within the same year.

The average duration of the retirement liability as at December 31, 2018 and 2017 is 28 years.

The cumulative actuarial loss recognized in consolidated OCI amounted to ₱46,288, net of deferred tax asset of ₱19,838 as at December 31, 2017.

16. Equity

Capital Stock

This account consists of:

	Number of Shares		Amount	
	2018	2017	2018	2017
Authorized				
Common - ₱0.1 par value in 2018 (₱1.0 par value in 2017)				
Balance at beginning of year	5,000,000,000	500,000,000	₱500,000,000	₱500,000,000
Reclassification to preferred stock	(300,000,000)	—	(30,000,000)	—
Effect of stock split	—	4,500,000,000	—	—
Balance at end of year	4,700,000,000	5,000,000,000	₱470,000,000	₱500,000,000

(Forward)

	Number of Shares		Amount	
	2018	2017	2018	2017
Preferred - ₱0.01 par value				
Reclassification to common stock	3,000,000,000	—	30,000,000	—
	7,700,000,000	5,000,000,000	₱500,000,000	₱500,000,000
Issued - Common				
Balance at beginning of year	1,600,000,000	115,000,000	160,000,000	115,000,000
Issuances	—	45,000,000	—	45,000,000
Effect of stock split	—	1,440,000,000	—	—
Balance at end of year	1,600,000,000	1,600,000,000	160,000,000	160,000,000
Subscribed - Common				
Balance at beginning of year	—	17,250,000	₱—	₱17,250,000
Subscription	—	27,750,000	—	27,750,000
Issuances	—	(45,000,000)	—	(45,000,000)
Balance at end of year	—	—	—	—
			₱160,000,000	₱160,000,000

Common Shares

On October 6, 2017, the SEC approved the application for 1:10 stock split resulting in a decrease in par value from ₱1.00 to ₱0.10 a share and increasing the authorized capital stock from 500.0 million shares to 5,000.0 million shares.

On February 26, 2018, the SEC approved the reclassification of common shares to preferred shares. The authorized capital stock of the Parent Company amounting to ₱500.0 million shall be divided into (a) 3.0 billion preferred shares with a par value of one centavo (₱0.01) a share; and (b) 4.7 billion common shares with a par value of ten centavos (₱0.10) a share.

Preferred Shares

The features of the preferred shares are as follows:

- guaranteed dividend yield of 2.5% per annum
- voting, cumulative and non-participating
- shall not be convertible into common share

Retained Earnings

The Group's BOD declared the following cash dividends in 2018 and 2017:

Date of declaration	Stockholders of record	Amount declared	
		Per Share	Total
December 27, 2018	December 27, 2018	₱0.0284	₱45,500,320
November 2, 2017	November 2, 2017	₱0.0820	₱118,326,841

As at December 31, 2018, dividends declared in 2018 are not yet paid.

Shares Held by Subsidiaries

In October 2017, LPI acquired the existing FHI shares held by subsidiaries for ₱52.0 million.

17. Revenue

This account consists of:

	Note	2018	2017
Net sales		P1,533,709,139	P1,138,995,249
Franchise fees	21	36,055,210	11,396,434
Rental income	21	9,441,387	2,175,377
		P1,579,205,736	P1,152,567,060

The Group derives sales upon delivery to customers or at a point in time when the Group has no more obligations that could affect the acceptance of goods by the customers.

Details of the Group's sales based on geographical markets are as follows:

	Note	2018	2017
Sale of goods:			
Luzon		P1,267,576,409	P1,033,140,479
Visayas		189,588,562	87,619,865
Mindanao		76,544,168	18,234,905
		1,533,709,139	1,138,995,249
Franchise fees	21	36,055,210	11,396,434
		P1,569,764,349	P1,150,391,683

18. Cost of Sales

This account consists of:

	Note	2018	2017
Inventories at beginning of year		P38,965,930	P6,086,479
Purchases		603,177,866	451,052,939
Cost of goods available for sale		642,143,796	457,139,418
Inventories at end of year	6	(52,024,675)	(38,965,930)
Inventories used		590,119,121	418,173,488
Direct labor		82,529,245	34,026,924
Manufacturing overhead		20,822,067	6,132,040
		P693,470,433	P458,332,452

Direct labor pertains to outside services and salaries and wages of personnel performing tasks directly related to the production of merchandise inventories.

Manufacturing overhead pertains to utilities, depreciation, taxes and licenses and rental expense incurred in the commissary.

19. Selling and Distribution Expenses

This account consists of:

	Note	2018	2017
Rental	21	₱211,686,714	₱161,713,927
Salaries, wages and other employees' benefits		188,469,514	103,350,931
Depreciation and amortization	9	49,830,421	15,641,285
Outside services		48,357,966	28,783,157
Utilities		41,418,652	11,884,292
Transportation and travel		15,421,832	13,370,152
Repairs and maintenance		15,404,542	7,044,152
Distribution supplies		14,750,705	9,943,815
Advertisement		7,248,047	9,336,745
Training and development		2,081,264	—
Insurance		1,534,864	2,965,493
Others		11,087,789	5,023,491
		₱607,292,310	₱369,057,440

Salaries, wages and other employees' benefits include government contributions and other allowances.

Outside services pertain to salaries of service crews from agencies.

20. General and Administrative Expenses

This account consists of:

	Note	2018	2017
Salaries, wages and other employees' benefits		₱65,597,885	₱31,818,831
Management fees		22,262,857	—
Taxes and licenses		20,484,457	8,109,562
Professional fees		6,374,823	9,303,601
Rental	21	5,033,819	14,861,325
Representation		4,211,521	4,195,454
Office supplies		3,462,367	2,523,154
Depreciation	9	1,802,265	—
Retirement benefits	15	527,753	1,203,384
Reorganization costs:			
Related parties	14	—	6,733,929
Third parties		221,599	380,357
Others		1,472,393	76,293
		₱131,451,739	₱79,205,890

Reorganization costs pertain to the amounts paid to the related parties in consideration for the assignment of lease contracts to the Group (see Note 1).

21. Significant Agreements

Operating Leases - Group as Lessee

The Group entered into several lease agreements with third parties for its store spaces for varying periods of up to one year and renewable annually. The lease contracts for the stores provide for a monthly rental based on certain percentage of gross sales and a monthly fixed rental or an agreed minimum rental, whichever is higher. Lease agreements are generally renewable through a notice of lease renewal and upon mutual agreement with the lessors.

Details of rental deposits and advance rentals on lease contracts are as follows:

	2018	2017
Rental deposits	₱77,474,958	₱62,878,330
Advance rentals	8,084,268	3,147,520
	₱85,559,226	₱66,025,850

These will be applied against any unpaid rentals and other expenses relevant to the lease upon termination of the lease agreements.

Rental expense charged to operations is as follows:

	Note	2018	2017
Cost of sales		₱11,770,660	₱-
Selling and distribution	19	211,686,714	161,713,927
General and administrative	20	5,033,819	14,861,325
		₱228,491,193	₱176,575,252

Operating Leases - Group as Lessor

In 2017, the Group entered into several sublease agreements with third parties for the lease of spaces in food parks for varying periods up to one year. Rental income amounted to ₱9.4 million and ₱2.2 million in 2018 and 2017, respectively (see Note 17).

Franchise Agreements

The Group has granted its franchisees the right to operate outlets under various brands for acquired periods and subject to the terms and conditions specified in the franchise agreements. The agreements are renewable at the option of the Group. The agreements provide for an initial franchise fee payable upon execution of the agreements. The non-refundable initial franchise fee payment covers the renovation of franchisee's unit, signage, promotional materials and equipment. Franchise fees recognized as part of "Revenue" amounted to ₱36.1 million and ₱11.4 million in 2018 and 2017, respectively (see Note 17).

In 2017, the Group obtained the rights to the lease of 218 outlets from related parties. Rental deposits and advance rentals on leases were transferred to the Group through an assignment of lease agreements.

22. Income Tax

The Group's provision for current income tax amounting to ₱43.0 million and ₱74.9 million in 2018 and 2017, respectively, pertains to RCIT.

The details of the Group's deferred tax assets as at December 31, 2018 and 2017 are as follows:

	2018	2017
NOLCO	₱3,565,262	₱—
Retirement benefits liability	668,960	510,634
Allowance for doubtful accounts	100,052	100,052
	₱4,334,274	₱610,686

Deferred tax asset on the NOLCO of the Parent Company amounting to ₱669,012 as at December 31, 2017 was not recognized in the consolidated statements of financial position since management has assessed that it is not probable that sufficient future taxable income may be available against which the deferred tax asset can be utilized within the period allowed by the regulations.

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

Year Incurred	Balance at beginning	Incurred	Expired	Amount	Expiry Date
2018	₱—	₱9,689,565	₱—	₱9,689,565	2021
2017	1,438,801	—	—	1,438,801	2020
2016	755,840	—	—	755,840	2019
2015	35,400	—	35,400	—	2018
	₱2,230,041	₱9,689,565	₱35,400	₱11,884,206	

The reconciliation between the income tax at statutory tax rate and the Group's provision for income tax shown in the consolidated statements of comprehensive income is as follows:

	2018	2017
Income tax at statutory tax rate	₱40,044,739	₱74,220,177
Change in unrecognized deferred tax asset	(669,012)	431,640
Effect of consolidation	(230,407)	230,407
Tax effects of:		
Nondeductible expenses	818,529	176,852
Interest income already subjected to final tax	(358,607)	(429,471)
Expired NOLCO	10,620	—
Nontaxable income	—	(119,009)
	₱39,615,862	₱74,510,596

23. Earnings Per Share

Basic and diluted earnings per share are computed as follows:

	2018	2017
Net income attributable to equity holders of the Parent Company	₱93,866,600	₱138,569,320
Divided by weighted average number of outstanding common shares	1,600,000,000	1,367,082,500
	₱0.0587	₱0.1014

Diluted earnings per share equals the basic earnings per share as the Parent Company does not have any dilutive potential common shares at the end of each of the two years presented.

24. Reconciliation of Liabilities Arising from Financing Activities

The tables below detail changes in the Group's liabilities arising from financing activities, including cash and noncash changes:

	2017	Financing Cash Flows		2018
		Proceeds	Payments	
Notes payable	₱311,750,000	₱246,700,000	(₱247,135,896)	₱311,314,104
Mortgage payable	4,425,588	3,987,769	(2,451,949)	5,961,408
Due to related parties	7,908,256	15,462,843	(1,254,719)	22,116,380
	₱324,083,844	₱266,150,612	(₱250,842,564)	₱339,391,892

	2016	Financing Cash Flows		Declaration of Dividends	2017
		Proceeds	Payments		
Notes payable	₱—	₱332,500,000	(₱20,750,000)	₱—	₱311,750,000
Mortgage payable	622,982	4,804,228	(1,001,622)	—	4,425,588
Due to related parties	6,383,042	3,107,071	(1,581,857)	—	7,908,256
Dividends payable	—	—	(118,326,841)	118,326,841	—
	₱7,006,024	₱340,411,299	(141,660,320)	₱118,326,841	₱324,083,844

25. Financial Risk Management Objectives and Policies

Financial Instruments Risk Management

The Group's financial instruments comprise mainly of cash and cash equivalents, financial assets at FVPL, trade receivables, due from related parties, trade and other payables (excluding statutory payables), notes payable, mortgage payable, due to related parties and dividends payable. The main purpose of these financial liabilities is to finance the Group's operations.

The Group is exposed to credit risk, interest rate risk and liquidity risk. The Group's management oversees the management of these risks. The Group's BOD reviews and approves policies for managing each of these risks as summarized below.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities and from its deposits with banks and financial institutions.

The table below shows the gross maximum exposure of the Group to credit risk before taking into consideration collateral and other credit enhancements:

	2018	2017
Cash and cash equivalents	₱260,497,779	₱294,434,879
Financial assets at FVPL	–	11,236,373
Trade receivables	55,971,765	19,207,562
Due from related parties	40,571,161	7,082,438
	₱357,040,705	₱331,961,252

Risk Management. The Group deals only with reputable banks and customer to limit this risk. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Group 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 management. The compliance with credit limits by customers is regularly monitored by management.

The table below shows the credit quality of financial assets as at December 31, 2018 and 2017:

2018					
	Neither past due nor impaired		Past Due but Not Impaired	Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents	₱260,497,779	₱–	₱–	₱–	₱260,497,779
Trade receivables	–	47,912,069	7,726,188	333,508	55,971,765
Due from related parties	–	40,571,161	–	–	40,571,161
	₱260,497,779	₱88,483,230	₱7,726,188	₱333,508	₱357,040,705

2017					
	Neither past due nor impaired		Past Due but Not Impaired	Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents	₱294,434,879	₱–	₱–	₱–	₱294,434,879
Financial assets at FVPL	11,236,373	–	–	–	11,236,373
Trade receivables	–	19,207,562	–	333,508	19,541,070
Due from related parties	7,082,438	–	–	–	7,082,438
	₱312,753,690	₱19,207,562	₱–	₱333,508	₱332,294,760

The credit quality of such financial assets at amortized cost is managed by the Group using the internal credit quality ratings as follows:

- *High Grade.* Pertains to counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions and companies. 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.

Impairment. An impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and other forms of credit insurance). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one (1) year and are not subject to enforcement activity

Trade receivables arise mainly from transactions with its approved franchisees. Franchisees are subject to stringent financial, credit, and legal verification process. In addition, trade receivable balances are monitored on an on-going basis to ensure timely collections. The Group has assessed that the ECL on trade receivables is not material because substantial amount of receivables are normally collected within the Group's credit terms.

The Group's exposure to credit risk is insignificant due to the provision expressly stated in the franchise agreement that in case of breach of agreement which includes significant delay or non-payment of obligations, the franchise will be terminated and the Group will be given the rights to take-over the franchised outlets. Accordingly, this will allow the Group to have the earning rights over the outlets' assets. And this credit enhancement allows the Group to reduce its exposure to credit risk.

For other financial assets at amortized cost which is mainly comprised of cash and cash equivalents and due from related parties, the PFRS 9 impairment requirements do not result to significant expected credit loss. The following are considered in the assessment:

- Cash and cash equivalents are deposited with reputable counterparty banks that possess good credit ratings.
- For due from related parties, the Company considered the available liquid assets of the related parties.

Liquidity Risk

Liquidity risk arises from the possibility that the Group 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 Group's objective is to maintain a balance between continuity of funding and flexibility through related party advances and aims to manage liquidity as follows:

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

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2018 and 2017, based on undiscounted cash flows:

	December 31, 2018					Total
	Payable on demand	1 to 120 days	121 to 240 days	241 to 360 days	Over 360 days	
Trade and other payables*	P-	P79,684,915	P-	P-	P-	P79,684,915
Notes payable	-	136,411,855	141,138,807	6,138,808	27,624,634	311,314,104
Mortgage payable	-	855,170	853,697	880,606	3,371,935	5,961,408
Future interests	-	1,930,211	683,983	229,417	277,196	3,120,807
Due to related parties	22,116,380	-	-	-	-	22,116,380
	P22,116,380	P218,882,151	P142,676,487	P7,248,831	P31,273,765	P422,197,614

* Excluding statutory payable amounting to P33.0 million as at December 31, 2018.

	December 31, 2017					Total
	Payable on demand	1 to 120 days	121 to 240 days	241 to 360 days	Over 360 days	
Trade and other payables*	P-	P34,973,869	P-	P-	P-	P34,973,869
Notes payable	-	19,500,000	65,500,000	226,750,000	-	311,750,000
Mortgage payable	-	744,301	199,888	175,530	3,305,869	4,425,588
Future interests	-	6,030,262	2,920,088	484,710	79,657	9,514,717
Due to related parties	7,908,256	-	-	-	-	7,908,256
	P7,908,256	P61,248,432	P68,619,976	P227,410,240	P3,385,526	P368,572,430

* Excluding statutory payable amounting to P13.4 million as at December 31, 2017

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to its notes payable and mortgage payable. The Group obtains additional financing through bank borrowings. The Group's policy is to obtain the most favorable interest rates available.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's income before tax.

	Change in Basis Points	Effect on Income Before Income Tax
2018	+3.34%	P688,805
	-3.34%	(688,805)
2017	+5.35%	1,014,924
	-5.35%	(1,014,924)

Capital Management

The primary objective of the Group'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 Group 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 Group considers the equity presented in the consolidated statements of financial position as its core capital.

The Group manages its capital structure and makes adjustments when there are changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using debt-to-equity ratio, which is total debt divided by total equity.

The debt-to-equity ratios as at December 31, 2018 and 2017 are as follows:

	2018	2017
Total debt	₱530,669,295	₱410,230,808
Total equity	367,293,586	318,927,306
Debt-to-equity ratio	1.44:1	1.29:1

Group is not subject to externally imposed capital requirements.

25. Fair Value Measurement

The table below presents the carrying amounts and fair values of the Group's financial instruments as at December 31, 2018 and 2017.

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets at amortized cost:				
Cash and cash equivalents	₱260,497,779	₱260,497,779	₱294,434,879	₱294,434,879
Trade receivables	55,638,257	55,638,257	19,207,562	19,207,562
Due from related parties	40,571,161	40,571,161	7,082,438	7,082,438
Financial assets at FVPL	—	—	11,236,373	11,236,373
	₱356,707,197	₱356,707,197	₱331,961,252	₱331,961,252
Financial liabilities at amortized cost:				
Trade and other payables*	₱79,684,915	₱79,684,915	₱34,973,869	₱34,973,869
Notes payable	311,314,104	319,133,518	311,750,000	311,750,000
Mortgage payable	5,961,408	6,312,896	4,425,588	4,446,834
Due to related parties	22,116,380	22,116,380	7,908,256	7,908,256
	₱419,076,807	₱427,247,709	₱359,057,713	₱359,078,959

* Excluding statutory payable amounting to ₱33.0 million and ₱13.4 million as at December 31, 2018 and 2017, respectively.

The following methods and assumptions were used to estimate the fair values of each class of financial instruments.

Cash and Cash Equivalents, Trade Receivables, Due from Related Parties, Trade and Other Payables (Excluding Statutory Payables), Notes Payable and Due to Related Parties. The carrying amounts of these financial instruments approximate fair values due to the relatively short-term maturity of these financial instruments.

Financial Assets at FVPL. The fair value of financial assets at FVPL is based on financial report prepared by the bank (classified as Level 1).

Mortgage Payable. Fair value is determined based on the discounted cash flow analysis using effective interest rates for similar types of instruments. This financial instrument is classified under Level 2 of the fair value hierarchy groups of the consolidated financial statements (significant observable inputs).

27. Operating Segment Information

For management purposes, the Group is organized into operating segments based on brand names. However, due to the similarity in the economic characteristics, such segments have been aggregated into a single operating segment for external reporting purposes.

Outlet stores sales reflected in the consolidated statements of comprehensive income are all from external customers and within the Philippines, which is the Group's domicile and primary place of operations. Additionally, the Group's noncurrent assets are also primarily acquired, located and used within the Philippines.

Outlet stores sales are attributable to revenue from the general public, which are generated through the Group's store outlets. Consequently, the Group has no concentrations of revenue from a single customer in 2018 and 2017.

**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS FOR FILING WITH THE
SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and the Board of Directors
Fruitas Holdings, Inc. and Subsidiaries
No. 60 Cordillera St., Brgy. Dona Josefa
Quezon City, 1113

We have audited the accompanying consolidated financial statements of Fruitas Holdings, Inc. (a subsidiary of Lush Properties, Inc.) and Subsidiaries as at and for the years ended December 31, 2018 and 2017, on which we have rendered our report dated April 1, 2019.

In compliance with Securities Regulation Code Rule 68, as amended, we are stating that Fruitas Holdings, Inc. has fifteen (15) stockholders owning one hundred (100) or more shares each as at December 31, 2018 and 2017.

REYES TACANDONG & Co.


WILSON P. TEO
Partner

CPA Certificate No. 92765
Tax Identification No. 191-520-944-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 1614-A
Valid until March 1, 2020
BIR Accreditation No. 08-005144-014-2017
Valid until March 8, 2020
PTR No. 7334346
Issued January 3, 2019, Makati City

April 1, 2019
Makati City, Metro Manila

**REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY SCHEDULE OF ADOPTION OF
EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS**

The Stockholders and the Board of Directors
Fruitas Holdings, Inc. and Subsidiaries
No. 60 Cordillera St., Brgy. Dona Josefa
Quezon City, 1113

We have audited in accordance with Philippine Standards on Auditing, the basic consolidated financial statements of Fruitas Holdings, Inc. (a subsidiary of Lush Properties, Inc.) and Subsidiaries (the "Group") as at and for the years ended December 31, 2018 and 2017, and have issued our report thereon dated April 1, 2019. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Schedule of Adoption of Effective Accounting Standards and Interpretations is the responsibility of the Group's management. This schedule is presented for the purpose of complying with Securities Regulation Code Rule 68, as amended, and is not part of the basic consolidated financial statements. The information in this schedule has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements, including comparing such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

REYES TACANDONG & Co.


WILSON P. TEO
Partner

CPA Certificate No. 92765
Tax Identification No. 191-520-944-000
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Issued January 3, 2019, Makati City

April 1, 2019
Makati City, Metro Manila

FRUITAS HOLDINGS, INC.
(A Subsidiary of Lush Properties, Inc.)
AND SUBSIDIARIES

**SUPPLEMENTARY SCHEDULE OF ADOPTION OF
EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS
DECEMBER 31, 2018**

Title	Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements			
Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRS Practice Statement Management Commentary			✓
PFRSs Practice Statement 2: Making Materiality Judgments			✓

Philippine Financial Reporting Standards (PFRSs)

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: First-time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions for First-time Adopters			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> with PFRS 4, <i>Insurance Contracts</i>			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments			✓
	Amendments to PFRS 8: Aggregation of Operating Segments			✓
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
	Amendments to PFRS 15: Clarifications to PFRS 15	✓		

Philippine Accounting Standards (PAS)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16: Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue			✓
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement			✓
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets			✓
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property			✓
PAS 41	Agriculture			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

Philippine Interpretations

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests 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			✓
	Amendments to Philippine Interpretation IFRIC- 9: 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			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
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			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓

PHILIPPINE INTERPRETATIONS - SIC

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
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			✓