

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 . (F o r m e r l y T h e L u
s h C o m p a n y , I n c . , a n d 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 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. (formerly The Lush Company, Inc., and a subsidiary of Lush Properties, Inc.) and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, 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, 2017 and 2016, 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, they 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.





- 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 December 31, 2018

SEC Accreditation No. 1514-A

Valid until March 1, 2020

BIR Accreditation No. 08-005144-014-2017

Valid until March 8, 2020

PTR No. 6607966

Issued January 3, 2018, Makati City

March 22, 2018

Makati City, Metro Manila



FRUITAS HOLDINGS, INC.
 (Formerly The Lush Company, Inc., and
 A Subsidiary of Lush Properties, Inc.)
AND SUBSIDIARIES



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	2017	2016
December 31			
ASSETS			
Current Assets			
Cash and cash equivalents		P294,434,879	P135,166,040
Financial assets at fair value through profit or loss (FVPL)	5	11,236,373	11,079,676
Trade receivables	6	19,207,562	6,858,449
Merchandise inventories	7	38,965,930	6,086,479
Due from related parties	14	7,082,438	45,695,826
Deposits and advance rentals	21	66,025,850	34,996,132
Other current assets	8	5,799,542	1,000
Total Current Assets		442,752,574	239,883,602
Noncurrent Assets			
Property and equipment	9	84,459,637	12,918,340
Intangible assets	10	201,335,217	-
Deferred tax assets	22	610,686	229,833
Total Noncurrent Assets		286,405,540	13,148,173
		P729,158,114	P253,031,775
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	11	P48,400,446	P26,940,074
Notes payable	12	311,750,000	-
Current portion of mortgage payable	13	1,131,261	286,277
Due to related parties	14	7,908,256	6,383,042
Income tax payable		36,044,406	25,930,035
Total Current Liabilities		405,234,369	59,539,428
Noncurrent Liabilities			
Mortgage payable - net of current portion	13	3,294,327	336,705
Retirement benefits liability	15	1,702,112	432,602
Total Noncurrent Liabilities		4,996,439	769,307
Total Liabilities		410,230,808	60,308,735
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	16	160,000,000	132,249,500
Shares held by subsidiaries - at cost	16	-	(52,000,000)
Retained earnings		103,781,012	83,538,533
Other equity reserves	4	55,192,582	4,219,471
Other comprehensive loss		(46,288)	-
		318,927,306	168,007,504
Noncontrolling Interests			
		-	24,715,536
Total Equity		318,927,306	192,723,040
		P729,158,114	P253,031,775

See accompanying Notes to Consolidated Financial Statements.

FRUITAS HOLDINGS, INC.
(Formerly The Lush Company, Inc., and
A Subsidiary of Lush Properties, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31	
		2017	2016
REVENUE	17	P1,152,567,060	P500,159,142
COST OF SALES	18	(458,332,452)	(189,112,386)
GROSS PROFIT		694,234,608	311,046,756
SELLING AND DISTRIBUTION EXPENSES	19	(369,057,440)	(170,051,768)
GENERAL AND ADMINISTRATIVE EXPENSES	20	(79,205,890)	(25,701,461)
INTEREST EXPENSE	12	(1,232,519)	(49,214)
INTEREST INCOME		1,431,571	985,245
OTHER INCOME	5	1,230,261	626,567
INCOME BEFORE INCOME TAX		247,400,591	116,856,125
PROVISION FOR (BENEFIT FROM) INCOME TAX	22		
Current		74,871,611	35,093,917
Deferred		(361,015)	(168,944)
		74,510,596	34,924,973
NET INCOME		172,889,995	81,931,152
OTHER COMPREHENSIVE LOSS			
<i>Item not to be reclassified to profit or loss</i>			
Actuarial loss on retirement benefit obligation (net of tax of P19,838)	15	(46,288)	-
TOTAL COMPREHENSIVE INCOME		P172,843,707	P81,931,152
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent Company		P138,569,320	P70,568,032
Noncontrolling interests		34,320,675	11,363,120
		P172,889,995	P81,931,152
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent Company		P138,523,032	P70,568,032
Noncontrolling interests		34,320,675	11,363,120
		P172,843,707	P81,931,152
Basic and Diluted Earnings Per Share Attributable to the Equity Holders of the Parent Company	23	P0.1014	P0.2349

See accompanying Notes to Consolidated Financial Statements.

FRUITAS HOLDINGS, INC.
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AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31	
		2017	2016
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
CAPITAL STOCK	16		
Issued			
Balance at beginning of year		P115,000,000	P-
Issuances		45,000,000	115,000,000
Balance at end of year		160,000,000	115,000,000
Subscribed			
Balance at beginning of year		17,250,000	125,000,000
Subscriptions during the year		27,750,000	7,250,000
		45,000,000	132,250,000
Less subscriptions receivable:			
Balance at beginning of year		500	92,000,000
Unpaid subscriptions during the year		-	-
Collections		(500)	(91,999,500)
Balance at end of year		-	500
		45,000,000	132,249,500
Issuances		(45,000,000)	(115,000,000)
Balance at end of year		-	17,249,500
		160,000,000	132,249,500
SHARES HELD BY SUBSIDIARIES - At Cost			
	16		
Balance at beginning of year		(52,000,000)	(13,000,000)
Sale of shares		52,000,000	-
Additions		-	(39,000,000)
Balance at end of year		-	(52,000,000)
		160,000,000	80,249,500
RETAINED EARNINGS			
Balance at beginning of year		83,538,533	11,999,835
Net income		138,569,320	70,568,032
Cash dividends	16	(118,326,841)	-
Acquisition of noncontrolling interests	4	-	970,666
Balance at end of year		103,781,012	83,538,533

(Forward)

	Note	Years Ended December 31	
		2017	2016
OTHER EQUITY RESERVES			
Acquisition of noncontrolling interests	4	P50,973,111	P-
Effect of pooling of interests		4,219,471	4,219,471
		55,192,582	4,219,471
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>			
		(46,288)	-
NONCONTROLLING INTERESTS			
Balance at beginning of year		24,715,536	14,323,082
Acquisition of noncontrolling interests	4	(59,036,211)	(970,666)
Net income		34,320,675	11,363,120
Balance at end of year		-	24,715,536
		P318,927,306	P192,723,040

See accompanying Notes to Consolidated Financial Statements.

FRUITAS HOLDINGS, INC.
(Formerly The Lush Company, Inc., and
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AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31	
		2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P247,400,591	P116,856,125
Adjustments for:			
Depreciation and amortization	9	15,641,285	4,727,296
Interest income		(1,431,571)	(985,245)
Interest expense	12	1,232,519	49,214
Retirement benefits expense	15	1,203,384	229,639
Unrealized gain on changes in FVPL	5	(156,697)	(79,676)
Provision for doubtful accounts	20	-	333,508
Operating income before working capital changes		263,889,511	121,130,861
Decrease (increase) in:			
Trade receivables		(12,349,113)	(7,191,957)
Merchandise inventories		(32,879,451)	493,990
Deposits and advance rentals		(31,029,718)	(12,919,902)
Financial assets at FVPL		-	(11,000,000)
Other current assets		(5,798,542)	-
Increase (decrease) in trade and other payables		21,460,372	(25,483,537)
Net cash generated from operations		203,293,059	65,029,455
Income tax paid		(64,757,240)	(11,772,001)
Interest received		1,431,571	985,245
Interest paid		(1,232,519)	(49,214)
Net cash provided by operating activities		138,734,871	54,193,485
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Intangible assets	10	(201,442,050)	-
Property and equipment	9	(87,075,749)	(6,447,773)
Proceeds from:			
Sale of shares held by subsidiaries	16	52,000,000	-
Collection of due from related parties	14	46,065,236	-
Advances to related parties	14	(7,451,848)	(45,695,826)
Net cash used in investing activities		(197,904,411)	(52,143,599)

(Forward)

		Years Ended December 31	
	Note	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of promissory notes		P332,500,000	P-
Stock subscription	16	27,750,000	7,250,000
Availment of mortgage loan		4,804,228	872,000
Advances from related parties	14	3,107,071	-
Payments of:			
Cash dividends		(118,326,841)	-
Notes payable		(20,750,000)	-
Advances from related parties	14	(1,581,857)	(31,212,907)
Mortgage payable		(1,001,622)	(249,018)
Acquisition of noncontrolling interests		(8,063,100)	-
Collection of subscriptions receivable	16	500	91,999,500
Acquisition of shares held by subsidiaries	16	-	(39,000,000)
Net cash provided by financing activities		218,438,379	29,659,575
NET INCREASE IN CASH AND CASH EQUIVALENTS		159,268,839	31,709,461
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		135,166,040	103,456,579
CASH AND CASH EQUIVALENTS AT END OF YEAR		P294,434,879	P135,166,040
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash on hand		P379,818	P174,988
Cash in banks		225,662,655	103,668,865
Cash equivalents		68,392,406	31,322,187
		P294,434,879	P135,166,040

See accompanying Notes to Consolidated Financial Statements.

FRUITAS HOLDINGS, INC.
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AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

FruitAs Holdings, Inc., formerly The Lush Company, 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's subsidiaries are presented below.

Subsidiaries	Principal Activities	Principal Place of Business	Percentage of Ownership	
			2017	2016
<u>Direct</u>				
NTI	Production, processing and distribution of goods	Quezon City	100.00	99.00
BNFI	Trading of goods	Quezon City	100.00	92.00
FGI	Trading of goods	Quezon City	100.00	75.00
<u>Indirect</u>				
GEIL	Holding company	British Virgin Islands	100.00	—
OLL	Holding company	Samoa Islands	100.00	—

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 "Fruititas 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 held by individual and corporate stockholders and shares held by subsidiaries aggregating ₱87.1 million. The transaction increased LPI's ownership interest in FHI to 87% and accordingly, makes 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 October 2017, FHI's BOD and stockholders 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 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.

The above amendments were approved by the SEC in February 2018.

NTI. In June 2015, FHI acquired 40,966 shares of NTI representing 95% equity interest from its former stockholders for ₱14.7 million.

In November 2016, the SEC approved the increase in NTI's authorized capital stock from ₱6,900,000 divided into 69,000 common shares with ₱100 par value a share to ₱75,000,000 divided into 750,000 common shares with the same par value. FHI subscribed to 170,250 shares at par or for a total consideration of ₱17.0 million and paid ₱4.3 million as partial payment of the subscription. Accordingly, FHI increased its equity interest in NTI to 99%. Existing stockholders waived their pre-emptive right to subscribe pro-rata to the 170,250 common shares.

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 May 2016, the SEC approved the increase in BNFI's authorized capital stock from ₱3,000,000 divided into 30,000 common shares with ₱100 par value a share to ₱55,000,000 divided into 550,000 common shares with the same par value. FHI subscribed to 130,000 shares at par or for a total consideration of ₱13.0 million and paid ₱3.2 million as partial payment of the subscription. Accordingly, FHI increased its equity interest in BNFI to 92%. Existing stockholders waived their pre-emptive right to subscribe pro-rata to the 130,000 common shares.

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 May 2016, FHI subscribed to 375,000 shares of FGI at par or for a total consideration of ₱37.5 million and paid ₱9.4 million as partial payment of the subscription. FHI held 75% equity interest in FGI as at December 31, 2016.

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 in the British Virgin Islands on May 10, 2017. OLL was incorporated in the Samoan Islands on April 25, 2016.

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 FHI. As at March 22, 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, 2017 and 2016 were approved and authorized for issuance by the BOD on March 22, 2018.

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, the Group's functional currency. All amounts are rounded to the nearest Philippine 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 market observable data to the extent possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

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

The 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.

Adoption of New and Amended PFRSs

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRSs which the Group adopted effective for annual periods beginning January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.

- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.
- Amendment to PFRS 12, *Disclosures of Interests in Other Entities – Clarification of the Scope of the Standard* – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and clarifies that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

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

New and Amended PFRSs Issued But Not Yet Effective

Relevant new and amended PFRSs which are not yet effective for the year ended December 31, 2017 and have not been applied in preparing the consolidated financial statements are summarized below.

Effective for annual periods beginning January 1, 2018:

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

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

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

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

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

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

- PFRS 15, *Revenue from Contract with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).
- Amendment to PFRS 15 - *Clarification 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.

Effective for annual periods beginning January 1, 2019 -

- PFRS 16, *Leases* – Significant change introduced by the new standard is that almost all leases will be brought onto lessees' statements of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

The Group anticipates that the application of PFRS 15 might have a significant effect on amounts reported in respect of the Group's financial assets and financial liabilities, leases and revenue. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Additional disclosures will be included in the notes to consolidated financial statements, as applicable.

Basis of Consolidation

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

The acquisitions by the Parent Company of its interests in the subsidiaries were accounted for as group reorganization. Group reorganization has no economic substance since there is no real alteration to the composition or ownership over the subsidiaries. These acquisitions qualify for the common control exemption under PFRS 3, *Business Combinations* and were accounted for similar to pooling-of-interests method.

The Group elected a policy to restate the financial information in the consolidated financial statements for periods prior to the combination of the entities under common control to reflect the combination 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 combination.

The acquisition of additional shares from FGI, NTI and BNFI in 2017 and NTI in 2016 is treated as a separate transaction and is considered as an acquisition of a noncontrolling interest.

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.

Financial Assets and Liabilities

Financial assets and liabilities are accounted for as follows:

a. Recognition

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

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

b. Classification

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

As at December 31, 2017 and 2016 the Group does not have financial liabilities at FVPL, HTM investments and AFS financial assets.

Financial Assets at FVPL. Financial assets at FVPL are either classified as held for trading or designated at FVPL. A financial instrument is classified as held for trading if it meets either of the following conditions:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

After initial recognition, financial assets at FVPL are subsequently measured at fair value. Unrealized gains or losses arising from the fair valuation of financial assets at FVPL are recognized in profit or loss.

Included in this category are the Group's investments in unit investment trust fund (UITF) which are held for trading.

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

The Group's cash and cash equivalents, trade receivables and due from related parties are classified under this category.

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

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

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

The Group's trade and other payables (excluding output VAT and statutory payables), notes payable, mortgage payable, and due to related parties are classified under this category.

c. Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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

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

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

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

d. Derecognition

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

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

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

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

e. Offsetting

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

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.

Rental Deposits and Advance Rentals

Rental 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 advances to suppliers and others, which are stated at cost, less allowances for any impairment in value.

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>
Transportation equipment	5-10
Office furniture, fixtures and equipment	2-5
Store furniture, fixtures and equipment	2-5
Leasehold improvements	5 years or term of lease, whichever is shorter

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

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

Retained Earnings. Retained earnings represent the cumulative balance of net income, 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 statements of comprehensive income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital (APIC). 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.

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.

Revenue Recognition

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

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 services 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.

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 other comprehensive income 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 an 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 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.

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 other comprehensive income and presented as a separate component of equity under the "Accumulated translation adjustment" account. There are no exchange differences recognized as at December 31, 2017.

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 unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

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

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.

Value-Added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of VAT except:

- where the VAT incurred on the purchase of an asset or service is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the assets or part of the expense item as applicable; or
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT payable to taxation authority is presented as "Output VAT" under "Trade and other payables" in the consolidated statement of financial position.

Related Party Relationships and Transactions

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.

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.

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.

Accounting for 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.

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.

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 ₱2.2 million in 2017 (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.

Rent expense amounted to ₱180.6 million and ₱95.7 million in 2017 and 2016, respectively (see Note 21).

Assessing Impairment of Financial Assets. The Group maintains allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the financial condition of the parties and their payment behaviors and known factors. The Group identifies and provides for specific accounts that are doubtful of collection and reviews the age and status of the remaining receivables and establishes a provision considering, among others, historical collection and write-off experience.

Provision for impairment losses on trade receivables amounted to ₱333,508 in 2016 (see Note 20).

The carrying amounts of the Group's cash and cash equivalents, trade receivables and due from related parties aggregated ₱320.7 million and ₱187.7 million as at December 31, 2017 and 2016, respectively (see Notes 6 and 14).

Estimating Fair Value of Financial Assets Carried at FVPL. The Group carries an investment in trust fund at fair value, 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 and ₱11.1 million as at December 31, 2017 and 2016, respectively (see Note 5).

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 2017 and 2016. Merchandise inventories amounted to ₱39.0 million and ₱6.1 million as at December 31, 2017 and 2016, respectively (see Note 7).

Estimating Useful Lives of Property and Equipment (Except Land). The useful lives of the Group's property and equipment (except land) 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. There is no change in the estimated useful lives of property and equipment in 2017 and 2016.

Property and equipment (except land) amounted to ₱71.5 million and ₱12.9 million as at December 31, 2017 and 2016, respectively (see Note 9).

Determining Impairment Indicators for Intangible Assets with Indefinite Useful Life. The Group determines whether intangible asset is impaired at least annually, in accordance with the related policy in Note 3. The Group has brand names valued at ₱200.2 million as at December 31, 2017 (see Note 10). Based on management's assessment, there are no indicators for impairment in 2017 and 2016.

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

Determining Impairment Indicators for Other Nonfinancial Assets. The Group assesses impairment on its deposits and advance rentals, other current assets and property and equipment 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 indications of impairment on the nonfinancial assets of the Group. Accordingly, no impairment was recognized in 2017 and 2016. The carrying amounts of the Group's nonfinancial assets aggregated ₱156.3 million and ₱47.9 million as at December 31, 2017 and 2016, respectively (see Notes 8, 9 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 ₱1.7 million and ₱432,602 as at December 31, 2017 and 2016, respectively. The cumulative remeasurement losses on retirement benefits liability (net of deferred tax) recognized in equity amounted to ₱46,288 as at December 31, 2017 (see Note 15).

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

The Group has deferred tax assets amounting to ₱563,677 and ₱229,833 as at December 31, 2017 and 2016, respectively. Deferred tax asset on the NOLCO of the Parent Company amounting to ₱669,012 and ₱237,372 as at December 31, 2017 and 2016, respectively, was not recognized since management has assessed that it is not probable that sufficient taxable income may be available in the future against which the deferred tax asset can be utilized (see Note 22).

4. Accounting for 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.

The other equity reserves amounting to ₱4.2 million pertains to the excess of combined net assets of the subsidiaries amounting to ₱70.0 million over the consideration amounting to ₱65.8 million as at January 1, 2015.

As discussed in Note 1, the Parent Company subscribed to additional 170,250 shares in NTI at ₱100 a share equivalent to ₱17,025,000 and paid ₱4.3 million as partial payment of the total subscription. Accordingly, the equity interest of FHI in NTI increased by 4% and the corresponding noncontrolling interests decreased by ₱970,666.

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.

5. Financial Assets at FVPL

This account represents investments in UITF amounting to ₱11.2 million and ₱11.1 million as at December 31, 2017 and 2016, respectively.

The fair value of the investments is based on the financial report prepared by the bank (classified as Level 1) as at December 31, 2017 and 2016. Unrealized gain on changes in fair value amounted to ₱156,697 and ₱79,676 in 2017 and 2016, respectively.

Details of other income shown in the consolidated statements of comprehensive income follow:

	2017	2016
Unrealized gain on changes in FVPL	₱156,697	₱79,676
Others	1,073,564	546,891
	<u>₱1,230,261</u>	<u>₱626,567</u>

Others consist mainly of outlet cash overage.

6. Trade Receivables

This account consists of:

	2017	2016
Trade receivables	₱19,541,070	₱7,191,957
Less allowance for doubtful accounts	333,508	333,508
	<u>₱19,207,562</u>	<u>₱6,858,449</u>

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

7. Merchandise Inventories

This account consists of:

	2017	2016
Food and beverages	₱20,432,540	₱3,040,418
Store supplies and others	18,533,390	3,046,061
	<u>₱38,965,930</u>	<u>₱6,086,479</u>

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 2017 and 2016.

Cost of merchandise inventories charged to cost of sales amounted to ₱418.2 million and ₱178.3 million in 2017 and 2016, respectively (see Note 18).

8. Other Current Assets

This account consists of:

	2017	2016
Advances to suppliers	P4,386,042	P-
Others	1,413,500	1,000
	P5,799,542	P1,000

Advances to supplier pertain to advance payments made for goods.

9. Property and Equipment

The composition and movements in this account are as follows:

	2017					Total
	Land	Transportation Equipment	Office Furniture, Fixtures and Equipment	Store Furniture, Fixtures and Equipment	Leasehold Improvements	
Cost						
Balance at beginning of year	P-	P7,243,643	P1,851,718	P18,376,178	P9,846,692	P37,318,231
Additions	13,000,000	6,247,822	980,892	15,242,499	51,604,536	87,075,749
Balance at end of year	13,000,000	13,491,465	2,832,610	33,618,677	61,451,228	124,393,980
Accumulated Depreciation and Amortization						
Balance at beginning of year	-	2,235,956	1,585,626	10,731,617	9,846,692	24,399,891
Depreciation and amortization	-	1,138,527	355,416	7,003,066	7,037,443	15,534,452
Balance at end of year	-	3,374,483	1,941,042	17,734,683	16,884,135	39,934,343
Carrying Amount	P13,000,000	P10,116,982	P891,568	P15,883,994	P44,567,093	P84,459,637
	2016					Total
	Transportation Equipment	Office Furniture, Fixtures and Equipment	Store Furniture, Fixtures and Equipment	Leasehold Improvements		
Cost						
Balance at beginning of year	P5,931,643	P1,735,518	P13,356,605	P9,846,692	P30,870,458	
Additions	1,312,000	116,200	5,019,573	-	6,447,773	
Balance at end of year	7,243,643	1,851,718	18,376,178	9,846,692	37,318,231	
Accumulated Depreciation and Amortization						
Balance at beginning of year	1,685,155	1,491,628	6,649,120	9,846,692	19,672,595	
Depreciation and amortization	550,801	93,998	4,082,497	-	4,727,296	
Balance at end of year	2,235,956	1,585,626	10,731,617	9,846,692	24,399,891	
Carrying Amount	P5,007,687	P266,092	P7,644,561	P-	P12,918,340	

The cost of fully depreciated property and equipment still in use by the Group amounted to P20.6 million and P18.5 million as at December 31, 2017 and 2016, respectively.

Transportation equipment with carrying value of P6.7 million and P799,333 as at December 31, 2017 and 2016, respectively, are held as security for the Group's mortgage payable (see Note 13).

Depreciation and amortization charged to operations consist of:

	Note	2017	2016
Property and equipment		₱15,534,452	₱4,727,296
Intangible asset	10	106,833	–
		₱15,641,285	₱4,727,296

10. Intangible Assets

This account consists of the following as at December 31, 2017:

Brand names	₱200,160,050
Software license	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.

The value of the intangible asset was determined 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 of 3.1% 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 ranges from 15.6% to 17.6% in 2017. No separate valuation was made as at December 31, 2017 since management believes that any reasonably possible change in the key assumptions on which the recoverable amount of intangible asset is based would not cause its carrying amount to exceed its recoverable amount.

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.

Software License

Movement in this account in 2017 follows:

	Note	
Cost		
Additions		P1,282,000
Accumulated Amortization		
Amortization	9	106,833
Net Book Value		P1,175,167

11. Trade and Other Payables

This account consists of:

	2017	2016
Trade payables	P29,683,573	P12,843,461
Output VAT	9,789,954	5,406,152
Statutory payables	3,636,623	4,091,944
Others	5,290,296	4,598,517
	P48,400,446	P26,940,074

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 issued short-term promissory notes to local commercial banks aggregating P332.5 million to finance its working capital requirements and capital infusion. The notes bear interest at rates ranging from 3.13% to 5.50% per annum. The Group made principal payments aggregating P20.7 million in 2017. The principal amount of the promissory notes will mature in June 2018 and interest is payable on a monthly basis.

Outstanding balance as at December 31, 2017 amounted to P311.8 million.

Interest on notes and mortgage payable is as follows:

	Note	2017	2016
Notes payable		P1,077,820	P-
Mortgage payable	13	154,699	49,214
		P1,232,519	P49,214

13. Mortgage Payable

The Group obtained loans from local commercial banks aggregating ₱4.8 million and ₱872,000 in 2017 and 2016, respectively, to finance its acquisition of transportation equipment.

Movements in this account in 2017 are as follows:

	2017	2016
Balance at beginning of year	₱622,982	₱-
Availments	4,804,228	872,000
Payments	(1,001,622)	(249,018)
	4,425,588	622,982
Less current portion	1,131,261	286,277
Noncurrent portion	₱3,294,327	₱336,705

The loans are payable in 36 monthly installments up to May 2020 and bear effective interest ranging from 7.66% to 8.46% per annum. Interest expense amounted to ₱154,699 and ₱49,214 in 2017 and 2016, respectively (see Note 12).

The schedule of maturities of the loan as at December 31, 2017 is shown as follows:

2018	₱1,131,261
2019	2,410,128
2020	884,199
Total	₱4,425,588

The loans are secured by a chattel mortgage on the transportation equipment with total carrying values of ₱6.7 million and ₱799,333 as at December 31, 2017 and 2016, respectively (see Note 9).

14. Related Party Transactions

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

Related Party	Nature of Transactions	Transaction during the Year		Outstanding Balance	
		2017	2016	2017	2016
Due from related parties					
<i>Under Common Key Management</i>					
One Fifty Food Place Inc.	Advances	₱6,524,286	₱-		
	Collections	(698,320)	-	₱5,825,966	₱-
Lush Enterprises Corporation	Advances	-	37,695,826		
	Collections	(37,366,916)	-		
	Reorganization costs	100,000	-	328,910	37,695,826
The Mango Farm	Advances	88,503	-		
	Reorganization costs	455,357	-	88,503	-
RAL Properties Inc.	Advances	-	8,000,000		
	Collections	(8,000,000)	-	-	8,000,000
Lush Coolers Inc.	Reorganization costs	5,187,500	-	-	-
Bamazeh Inc. (Bamazeh)	Reorganization costs	991,072	-	-	-
<i>Parent Company</i>					
LPI	Advances	839,059	-	839,059	-
				₱7,082,438	₱45,695,826

Related Party	Nature of Transactions	Transaction during the Year		Outstanding Balance	
		2017	2016	2017	2016
Due to related parties					
Stockholders <i>Under Common Key Management</i>	Payments	(P1,581,857)	(P31,212,907)	P4,801,185	P6,383,042
Bamazeh	Advances	3,107,071	–	3,107,071	–
				P7,908,256	P6,383,042

Terms and Conditions of Transactions with Related Parties

Outstanding balances are unsecured, noninterest-bearing and due and demandable. There are no guarantees provided for any of the aforementioned related party receivables and payables. 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 2017 and 2016.

Compensation of Key Management Personnel

Compensation of key management personnel, consisting of salaries and short-term benefits, amounted to P3.7 million and P4.5 million in 2017 and 2016, 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 following tables summarize the components of retirement expense recognized in the consolidated statements of comprehensive income (based on the reports of an independent actuary dated March 2018):

	2017	2016
Current service cost	P405,264	P229,639
Interest cost	65,942	–
Increase in transitional liability	732,178	–
	P1,203,384	P229,639

Movements in the retirement benefits liability shown in the consolidated statements of financial position follows:

	2017	2016
Balance at beginning of year	P432,602	P202,963
Current service cost	405,264	229,639
Interest cost	65,942	–
Actuarial loss	66,126	–
Increase in transitional liability	732,178	–
Balance at end of year	P1,702,112	P432,602

The actuarial loss recognized in the consolidated other comprehensive income amounted to P46,288 (net of tax of P19,838) in 2017.

The principal assumptions used in determining the retirement benefits liability for the Group's retirement plan were as follows:

	2017	2016
Discount rate	5.8%	6.1%
Future salary increases	4.0%	5.0%

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.

	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, 2017 is 26 years.

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

16. Equity

Capital Stock

This account consists of:

	Shares		Amount	
	2017	2016	2017	2016
Authorized Capital Stock - ₱0.10 par value in 2017 and ₱1 in 2016				
Balance at beginning of year	500,000,000	500,000,000	₱500,000,000	₱500,000,000
Effect of stock split	4,500,000,000	-	-	-
Balance at end of year	5,000,000,000	500,000,000	₱500,000,000	₱500,000,000
Issued				
Balance at beginning of year	115,000,000	-	₱115,000,000	₱-
Issuances	45,000,000	115,000,000	45,000,000	115,000,000
Effect of stock split	1,440,000,000	-	-	-
Balance at end of year	1,600,000,000	115,000,000	160,000,000	115,000,000

(Forward)

	Shares		Amount	
	2017	2016	2017	2016
Subscribed				
Balance at beginning of year	17,250,000	125,000,000	₱17,250,000	₱125,000,000
Subscription	27,750,000	7,250,000	27,750,000	7,250,000
Issuances	(45,000,000)	(115,000,000)	(45,000,000)	(115,000,000)
Balance at end of year	–	17,250,000	–	17,250,000
Less subscriptions receivable			–	500
			₱160,000,000	₱132,249,500

Common Shares

On October 6, 2017, the SEC approved the application for 1:10 stock split resulting to 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 5.0 billion shares.

On October 19, 2017, the Parent Company's BOD and stockholders 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. The application for the reclassification of common shares to preferred shares was approved by the SEC on February 26, 2018.

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

On November 2, 2017, the Parent Company's BOD declared cash dividends of ₱0.082 a share or ₱118.3 million to all stockholders of record as at November 2, 2017.

Shares Held by Subsidiaries

In 2015, BNFI and FGI each subscribed to 26,000,000 shares of FHI at par or for an aggregate amount of ₱52.0 million, of which ₱13.0 million was collected. Ownership interest of BNFI and FGI each represents 20.8% ownership interest in FHI. In 2016, the subsidiaries paid in full its stock subscription amounting to ₱39.0 million.

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

17. Revenue

This account consists of:

	Note	2017	2016
Net sales		₱1,138,995,249	₱499,559,142
Franchise fees	21	11,396,434	600,000
Rental income	21	2,175,377	–
		₱1,152,567,060	₱500,159,142

18. Cost of Sales

This account consists of:

	Note	2017	2016
Inventories at beginning of year		₱6,086,479	₱6,580,469
Purchases		451,052,939	177,817,355
Cost of goods available for sale		457,139,418	184,397,824
Inventories at end of year	7	(38,965,930)	(6,086,479)
Inventories used		418,173,488	178,311,345
Direct labor		34,026,924	8,189,243
Manufacturing overhead		6,132,040	2,611,798
		₱458,332,452	₱189,112,386

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

19. Selling and Distribution Expenses

This account consists of:

	Note	2017	2016
Rent	21	₱161,713,927	₱88,851,344
Salaries, wages and other employees' benefits		103,350,931	46,812,792
Contracted services		28,783,157	11,420,633
Depreciation and amortization	9	15,641,285	4,727,296
Transportation and travel		13,370,152	4,896,214
Communication, light and water		11,884,292	8,660,302
Distribution supplies		9,943,815	101,927
Advertisement		9,336,745	1,751,498
Repairs and maintenance		7,044,152	2,129,445
Insurance		2,965,493	360,353
Others		5,023,491	339,964
		₱369,057,440	₱170,051,768

Contracted services pertain to salaries of service crews from agencies.

20. General and Administrative Expenses

This account consists of:

	Note	2017	2016
Salaries, wages and other employees' benefits		₱31,818,831	₱9,795,564
Rent	21	14,861,325	5,505,483
Professional fees		9,303,601	2,740,078
Taxes and licenses		8,109,562	5,581,803
Reorganization costs			
Related parties	14	6,733,929	–
Third parties		380,357	–
Representation		4,195,454	–
Office supplies		2,523,154	1,515,386
Retirement benefits	15	1,203,384	229,639
Provision for doubtful accounts	6	–	333,508
Others		76,293	–
		₱79,205,890	₱25,701,461

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. 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 rent, 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:

	2017	2016
Rental deposits	₱62,878,330	₱34,516,942
Advance rentals	3,147,520	479,190
	₱66,025,850	₱34,996,132

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

Rent expense charged to operations is as follows:

	Note	2017	2016
Selling and distribution	19	₱161,713,927	₱88,851,344
General and administrative	20	14,861,325	5,505,483
		₱176,575,252	₱94,356,827

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 ₱2.2 million in 2017 (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 initial franchise fee payment covers the renovation of franchisee's unit, training of staff, signage, promotional materials and equipment. Franchise fees recognized as part of "Revenue" amounted to ₱11.4 million and ₱600,000 in 2017 and 2016, respectively (see Note 17).

In September 2016, FGI entered into a Deed of Absolute Sale with parties outside the Group for the sale and transfer of 111 outlets.

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 represents regular corporate income tax in 2017 and 2016.

The details of the Group's deferred tax assets as at December 31, 2017 and 2016 are as follows:

	2017	2016
Retirement benefits liability	₱510,634	₱129,781
Allowance for doubtful accounts	100,052	100,052
	₱610,686	₱229,833

Deferred tax asset on the NOLCO of the Parent Company amounting to ₱669,012 and ₱237,372 as at December 31, 2017 and 2016, respectively, was not recognized in the consolidated statements of financial position since management has assessed that it is not probable that sufficient taxable income may be available in the future against which the deferred tax asset can be utilized.

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

Year Incurred	Amount	Expiry Date
2017	₱1,438,801	2020
2016	755,840	2019
2015	35,400	2018
	₱2,230,041	

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:

	2017	2016
Income tax at statutory tax rate	₱74,220,177	₱35,056,838
Tax effects of:		
Interest income already subjected to final tax	(429,471)	(295,573)
Nondeductible interest expense	176,852	4,074
Nontaxable income	(119,009)	(67,118)
Change in unrecognized deferred tax asset	431,640	226,752
Effect of consolidation	230,407	-
	₱74,510,596	₱34,924,973

23. Earnings Per Share

Basic and diluted earnings per share are computed as follows:

	2017	2016
Net income attributable to equity holders of the Parent Company	₱138,569,320	₱70,568,032
Divided by weighted average number of outstanding common shares	1,367,082,500	300,415,833
	₱0.1014	₱0.2349

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 table below details changes in the Group's liabilities arising from financing activities, including cash and noncash changes:

	Financing Cash Flows			Declaration of Dividends	2017
	2016	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	-	-	(118,323,028)	118,323,028	-
	₱7,006,024	₱340,411,299	(₱141,656,507)	₱118,323,028	₱324,083,844

25. Financial Risk Management Objectives and Policies

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

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

Credit Risk

Credit risk is the risk when a counterparty fails to fulfill its obligations to the Group. Counterparty such as banks and customer who pay on or before due date have minimum risk exposure because default in settling its obligations is remote. The Group deals only with reputable banks and customer to limit this risk.

The table below shows the gross maximum exposure to credit risk for the components of the Group's consolidated statements of financial position before taking into consideration collateral and other credit enhancements:

	2017	2016
Cash and cash equivalents	₱294,434,879	₱135,166,040
Financial assets at FVPL	11,236,373	11,079,676
Trade receivables	19,207,562	6,858,449
Due from related parties	7,082,438	45,695,826
	₱331,961,252	₱198,799,991

The tables below show the credit quality of financial assets as at December 31, 2017 and 2016:

	2017				
	Neither past due nor impaired				
	High Grade	Standard Grade	Past Due but Not Impaired	Impaired	Total
Cash and cash equivalents	₱294,434,879	₱-	₱-	₱-	₱294,434,879
Financial assets at FVPL	11,236,373	-	-	-	11,236,373
Trade receivables	12,736,870	6,470,692	-	333,508	19,541,070
Due from related parties	-	7,082,438	-	-	7,082,438
	₱318,408,122	₱13,553,130	₱-	₱333,508	₱332,294,760

	2016				
	Neither past due nor impaired				
	High Grade	Standard Grade	Past Due but Not Impaired	Impaired	Total
Cash and cash equivalents	₱135,166,040	₱-	₱-	₱-	₱135,166,040
Financial assets at FVPL	11,079,676	-	-	-	11,079,676
Trade receivables	6,858,449	-	-	333,508	7,191,957
Due from related parties	-	45,695,826	-	-	45,695,826
	₱153,104,165	₱45,695,826	₱-	₱333,508	₱199,133,499

High Grade. Pertains to a 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, companies, government agencies and individual buyers. Credit quality was determined based on the credit standing of the counterparty.

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

Liquidity Risk

Liquidity risk arises from the possibility that the 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:

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

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2017 and 2016, based on undiscounted cash flows:

	December 31, 2017					
	Payable on demand	1 to 120 days	121 to 240 days	241 to 360 days	Over 360 days	Total
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 output VAT and statutory payables

	December 31, 2016					
	Payable on demand	1 to 120 days	121 to 240 days	241 to 360 days	Over 360 days	Total
Trade and other payables*	P-	P17,441,978	P-	P-	P-	P17,441,978
Mortgage payable	-	69,466	70,850	145,961	336,705	622,982
Future interests	-	11,870	10,486	16,711	15,748	54,815
Due to related parties	6,383,042	-	-	-	-	6,383,042
	P6,383,042	P17,523,314	P81,336	P162,672	P352,453	P24,502,817

* Excluding output VAT and statutory payables

Interest Rate Risk

Interest rate risk is the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest.

The primary source of the Group's interest rate risk relates to notes payable and mortgage payable as disclosed in Notes 12 and 13.

The balances are short-term in nature and with the current interest rate level, any variation in the interest will not have a material impact on the net profit or loss of the Group.

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 monitors capital on the basis of the debt-to-equity ratio which is calculated as total debt divided by total equity. Total debt comprises of payables and other current liabilities and income tax payable. Total equity comprises all components of equity.

The debt-to-equity ratios as at December 31, 2017 and 2016 are as follows:

	2017	2016
Total debt	₱410,230,808	₱60,308,735
Total equity	318,927,306	192,723,040
Debt-to-equity ratio	1.29:1	0.31:1

Group is not subject to externally imposed capital requirements.

26. Fair Value Measurement

The table below presents the carrying amounts and fair values of the Group's financial instruments as at December 31, 2017 and 2016.

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets measured at fair value				
Financial assets at FVPL	₱11,236,373	₱11,236,373	₱11,079,676	₱11,079,676
Assets for which fair values are disclosed				
Loans and receivables:				
Cash and cash equivalents	294,434,879	294,434,879	135,166,040	135,166,040
Trade receivables	19,207,562	19,207,562	6,858,449	6,858,449
Due from related parties	7,082,438	7,082,438	45,695,826	45,695,826
	₱331,961,252	₱331,961,252	₱198,799,991	₱198,799,991
Liabilities for which fair values are disclosed				
Financial liabilities at amortized cost:				
Trade and other payables*	₱34,973,869	₱34,973,869	₱17,441,978	₱17,441,978
Notes payable	311,750,000	311,750,000	-	-
Mortgage payable	4,425,588	4,446,834	622,982	622,982
Due to related parties	7,908,256	7,908,256	6,383,042	6,383,042
	₱359,057,713	₱359,078,959	₱24,448,002	₱24,448,002

* Excluding output VAT and statutory payables

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 Output VAT and 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 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 2017 and 2016.