COVER SHEET

CS201503014
SEC Registration Number

FRUITAS HOLDINGS, INC.
(Company's Full Name)

NO. 60 CORDILLERA ST.
BRGY. DONA JOSEFA QUEZON CITY
(Business Address: No., Street City / Town / Province)

RUSHELL A. SALVADOR
Contact Person

+(632) 8731-8886
Company Telephone Number

SEC FORM 17-Q

12 31
Month Day
Fiscal Year

FORM TYPE

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept Requiring this Doc Section

Amended Articles Number /

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended- 30 June 2020

2. SEC Identification Number- CS201503014

3. BIR Tax Identification No.- 008-961-476-000

4. **FRUITASHOLDINGS INC**
   Exact name of issuer as specified in its charter

5. PHILIPPINES
   Province, country or other jurisdiction of incorporation

6. [ ] (SEC Use Only)
   Industry Classification Code

7. 60 CORDILLERA ST. COR. E. RODRIGUEZ SR. AVE. QUEZON CITY 1113
   Address of principal office Postal Code:

8. (02)8243-1741
   Issuer's telephone number, including area code

9. N/A
   Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	2,133,680,000

11. Are any or all of the securities listed on a Stock Exchange?
    Yes [✓] No [ ]

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
    PHILIPPINE STOCK EXHANGE/COMMON SECURITIES

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
    Yes [✓] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.
    Yes [ ] No [✓]

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying consolidated financial statements and notes thereto, which form part of this SEC Form 17-Q as "Annex A". The consolidated financial statements and notes thereto have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS).

Results of Operations for First half ended 2020 vs First half ended 2019

Key Highlights

Revenues
The Group generated revenues of ₱462.1 million for the six months ended June 30, 2020, a 50.9% or ₱479.1 million decline from the same period in 2019, which closed at ₱914.2 million. The decline was driven by the temporary suspension of operation of certain stores due to the imposed quarantine in the second half of March which continued until the end of May.

Cost of Sales
Cost of sales for the six months ended June 30, 2020 closed at ₱185.7 million, 52.6% or ₱206.4 million decline from the same period in 2019 which closed at ₱392.2 million. The decline is attributable mainly to the reduction in revenues, although the Group was able to improve its gross profit margin which registered at 59.8% for the first half of 2020 versus the 58.3% of the same period in 2019.

Operating Expenses
The Group's operating expenses settled at ₱313.1 million at the close of the first half of 2020, a 34.8% or a ₱166.8 million decline from the same period in 2019 which settled at ₱479.9. The decline was attributed to the reduced business volume in 2020 and cost containment measures undertaken by the Group.

Income Tax Expense/ Benefits
From ₱22.2 million current income tax in the first half of 2019 to ₱ 10.5 million income tax benefit for the same period in 2020. Benefits from income tax for the first half ended June 30, 2020 was primarily due to higher deferred tax for attributable from taxable losses caused by the COVID-19 pandemic.

Net income
Net loss for the first half ended June 30, 2020 closed at ₱12.3 million compared to the same period of the prior year of ₱52.0 million net income driven by the decrease in revenue despite the improvement in gross profit margin and operating expenses

Financial Condition as of JUNE 30, 2020 versus DECEMBER 2019

FRUIT had consolidated total assets of ₱1.65 billion as of June 30, 2020 a slight decrease from the total assets of ₱1.80 billion last December 2019.

Cash and cash equivalents

As of end June 2020, cash and cash equivalents totalled ₱679.7 million, down from ₱853.3 million as of end-2019 primarily as a result of temporary suspension of operations during the quarantine period. Cash includes cash on hand and in banks while cash equivalents are short-term, highly liquid investments that are easily convertible to cash.

Trade and other receivables

Trade and other receivables were at ₱100.5 million as of June 30, 2020 compared to ₱83.6 million as of end-2019, an increase of 20.2% due to higher third party trade receivables.

Inventories

As of June 30, 2020, inventories decreased to ₱39.2 million from ₱50.0 million as of end-2019. The decrease was attributed to the Group's initiative to use up existing inventories during the lockdown period.

Property, plant, and equipment

Consolidated net property, plant, and equipment stood at ₱203.5 million as of June 30, 2020. Acquisition of property and equipment for the first half of the year reached ₱19.9 million, which was invested in the building of new stores and improvements in the corporate office and commissary.

Intangible assets

Intangible assets stood at ₱222.3 million for the period; the slight increase was brought about by the recognition of goodwill from the purchase of Soykingdom Inc.

Trade and other payables

Trade and other payables decreased by 47.5% for the six months ending June 2020 to ₱71.4 million driven by the payment of trade payables for the purchase of inventories towards the end of 2019.

Notes payable

As of June 30, 2020, the Group's notes payable stood at ₱159.5 million, as deleveraging continued into the second quarter of 2020.

Equity

As of June 30, 2020, the Company's consolidated equity slightly decreased to ₱1.30 billion from ₱1.31 billion as of end-2019.

Cash Flow Summary

Net cash used in operating activities amounted to ₱103.2 million for the six months of 2020.

Net cash used in investing activities was ₱25.5 million for the first six months of 2020, driven by CAPEX and acquisitions.

Net cash used in financing activities was ₱44.8 million for the first six months of 2020, as the Group paid down some notes payable and due to the roll forward of lease liabilities.

	Interim Six Months Ended June 30, 2019	**Interim Six Months Ended June 30, 2020**
Revenue Growth	n/a	(50.9%)
Gross Profit Margin	58.3%	59.8%
Net Income/ Loss (₱ million)	51.9	(12.3)
	As of December 31, 2019	**As of June 30, 2020**
Current Ratio	3.9	5.3
Debt to Equity Ratio	37.0%	27.2%

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRUITAS HOLDINGS, INC.

LESTER C. YU
President and Chief Executive Officer
Date: August 13, 2020

LERMA C. FAJARDO
Deputy Chief Finance Officer and Comptroller
Date: August 13, 2020

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	1	5	0	3	0	1	4

C O M P A N Y   N A M E

FRUITAS HOLDINGS, INC. (A Subsidiary of LUSH PROPERTIES, INC.) AND SUBSIDIARIES

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
ACFS	CRMD	N/A

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number/s	Mobile Number
–	(02) 8243-1741	–

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
131	Every Second Monday of June	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ms. Madelene Timbas-Sayson	madelene.sayson@fruitasholdings.com	(02) 8243-1741	–

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.*

FRUITAS HOLDINGS, INC. AND SUBSIDIARIES

(A Subsidiary of LUSH PROPERTIES, INC.)

Consolidated Financial Statements As at
June 30, 2020 and 2019 and for the Years Ended
June 30, 2020 and December 31, 2019

FRUITAS HOLDINGS, INC.
(A Subsidiary of LUSH PROPERTIES, INC.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes		As of June 30, 2020 (Unaudited)		As of December 31, 2019 (Audited)
ASSETS					
Current Assets					
Cash and cash equivalents	5	₱	679,735,744	₱	853,266,354
Trade and other receivables	6		100,459,175		83,566,374
Merchandise inventories	7		39,227,167		49,907,654
Due from related parties	14		116,198,479		114,745,318
Deposits and advance rentals			129,246,869		102,516,218
Other current assets	8		12,716,265		13,685,549
Total Current Assets			1,077,583,699		1,217,687,467
Noncurrent Assets					
Property and equipment	9		203,475,783		222,786,889
Intangible assets	10		222,287,311		214,385,788
Right-of-use (ROU) assets	22		100,126,286		115,194,610
Unamortized input value-added tax (VAT)			982,788		982,788
Net deferred tax assets			43,486,916		25,375,831
Total Noncurrent Assets			570,359,085		578,725,906
		₱	**1,647,942,784**	₱	**1,796,413,373**
LIABILITIES AND EQUITY					
Current Liabilities					
Trade and other payables	11	₱	71,437,645	₱	136,017,618
Current portion of:					
Notes payable	12		101,176,349		115,834,240
Mortgage payable	13		2,169,651		2,321,815
Lease liabilities	22		26,292,145		27,980,841
Due to related parties	14		-		663,821
Income tax payable			3,251,977		26,732,814
Total Current Liabilities			204,327,767		309,551,149

(Forward)

	Note		
Noncurrent Liabilities			
Noncurrent portion of:			
Notes payable	12	58,359,013	75,269,897
Mortgage payable	13	1,453,406	2,348,845
Lease liabilities	22	82,425,438	92,241,490
Retirement benefits liability	15	5,407,430	5,407,430
Total Noncurrent Liabilities		147,645,288	175,267,662
Total Liabilities		351,973,054	484,818,811
Equity			
Capital stock	16	213,368,000	213,368,000
Additional paid-in capital	16	777,837,044	777,837,044
Retained earnings		251,236,559	266,111,391
Other equity reserves		54,442,582	55,192,582
Other comprehensive loss		- 914,455	- 914,455.00
Total Equity		1,295,969,730	1,311,594,562
		₱ **1,647,942,784**	₱ **1,796,413,373**

(See accompanying Notes to Consolidated Financial Statements)

FRUITAS HOLDINGS, INC.
(A Subsidiary of LUSH PROPERTIES, INC.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the Quarter Ended June 2020 (Unaudited)	For the Quarter Ended June 2019 (Unaudited)	For the six months ended June 2020 (Unaudited)	For the six months ended June 2019 (Audited)
REVENUE	17	₱ 87,910,095	₱ 518,257,648	₱ 462,054,113	₱ 941,188,340
DIRECT COST	18	(35,911,796)	(214,420,136)	(185,742,518)	(392,154,040)
GROSS PROFIT		51,998,299	303,837,512	276,311,595	549,034,300
SELLING AND DISTRIBUTION EXPENSES	19	(69,559,413)	(216,426,455)	(226,067,879)	(390,820,929)
GENERAL AND ADMINISTRATIVE EXPENSES	20	(32,849,225)	(19,563,804)	(77,715,841)	(69,182,505)
INTEREST EXPENSE	22	(4,468,279)	(11,295,703)	(9,301,053)	(19,899,678)
OTHER INCOME-net	21	11,214,124	1,493,646	13,905,704	5,078,918
INCOME/ (LOSS) BEFORE INCOME TAX		(43,664,494)	58,045,196	(22,867,475)	74,210,106
PROVISION FOR INCOME TAX					
Current		136,157	8,334,572	3,744,020	14,186,694
Deferred		(16,362,667)	8,049,294	(14,266,267)	8,049,294
		(16,226,510)	16,383,866	(10,522,248)	22,235,988
NET INCOME/ (LOSS)		(27,437,984)	41,661,330	(12,345,227)	51,974,118
OTHER COMPREHENSIVE LOSS					
Item not to be reclassified to profit or loss		-	-	-	-
Actuarial loss on retirement benefits liability (net of deferred income tax)					
TOTAL COMPREHENSIVE INCOME/ (LOSS)		₱ (27,437,984)	₱ 41,661,330	₱ (12,345,227)	₱ 51,974,118
NET INCOME ATTRIBUTABLE:					
Equity holders of the Parent Company		-	-	-	-
Non-controlling interests					
		₱ (27,437,984)	₱ 41,661,330	₱ (12,345,227)	₱ 51,974,118
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Equity holders of the Parent Company		-	-	-	-
Non-controlling interests					
		(27,437,984)	41,661,330	(12,345,227)	51,974,118

(See accompanying Notes to Consolidated Financial Statements)

FRUITAS HOLDINGS, INC.
(A Subsidiary of LUSH PROPERTIES, INC.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes		As of June 2020 (Unaudited)		As of June 2019 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY					
Capital Stock					
Issued					
Balance at beginning of year	16	₱	213,368,000	₱	160,000,000
Issuances			-		
Effect of stock split					
Balance at end of year			213,368,000		160,000,000
Additional Paid-in Capital	16	₱	777,837,044	₱	
Retained Earnings					
Balance at beginning of year, as previously reported			266,111,391		152,147,292
Gain from bargain purchase					6,436,907
Balance at beginning of year			266,111,391		158,584,199
Net Income/ (Loss)			(12,345,227)		51,974,118
balance of R/E of acquired entity			(2,529,606)		-
Cash dividends			-		(14,000,000)
Balance at end of year			251,236,558		196,558,317
Other Equity Reserves					
Balance at beginning of year			55,192,582		55,192,582
Excess value over cost of investments			(750,000)		-
Balance at end of year			54,442,582		55,192,582
Other Comprehensive Loss					
Not to be reclassified to profit or loss when realized			(914,455)		(46,288)
Balance at beginning of year					
Remeasurement adjustments on net retirement benefits liability, net of deferred tax					
			(914,455)		(46,288)
		₱	1,295,969,729	₱	411,704,611

(See accompanying Notes to Consolidated Financial Statements)

FRUITAS HOLDINGS,INC.
(A Subsidiary of LUSH PROPERTIES, INC.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes		As of June 30, 2020 (Unaudited)		As of June 2019 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES					
Income before income tax		₱	(22,867,475)	₱	74,210,106
Adjustments for:					
Depreciation and amortization	9		59,172,011		47,474,170
Interest expense			9,301,053		19,899,678
Retirement benefits expense			-		482,773
Interest income	21		(3,604,737)		(241,251)
Unrealized foreign exchange loss			-		907,752
Gain from bargain purchase					-
Income on market investments			(8,600,000)		-
Operating income before working capital changes			33,400,852		142,733,228
Decrease (increase) in:					
Trade and other receivables	6		(16,892,801)		(17,051,434)
Merchandise inventories	7		10,680,487		8,398,559
Deposits and advance rentals			(26,730,651)		(3,359,120)
Other current assets	8		969,284		(31,965,996)
Unamortized input VAT			-		155,178
Financial assets carried at FVPL			-		
Increase in trade and other payables	11		(64,579,973)		(8,421,950)
Net cash generated from operations			(63,152,803)		90,488,465
Income taxes paid			(34,349,278)		(34,021,100)
Interest paid			(9,301,053)		(19,899,678)
Interest received			3,604,737		241,251
Net cash flows from operating activities		₱	(103,198,397)	₱	36,808,938
CASH FLOWS FROM INVESTING ACTIVITIES					
Advances to related parties	14		(1,550,000)		(316,836,700)
Collections of due from related parties			96,839		250,085,000
Acquisitions of:					
Property and equipment	9		(24,401,398)		(43,165,500)
Intangible assets	10		(8,292,707)		
Income on market investments	21		8,600,000		-
Net cash flows from investing activities		₱	(25,547,266)	₱	(109,917,200)

(Forward)

	Note		2021		2020
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from:					
Issuance of shares, net of share issue costs			-		
Issuance of promissory notes			-		198,916,000
Availment of mortgage loan			-		500,000
Stock subscription			-		
Payments of:					
Notes payable	12		(31,568,775)		(100,949,000)
Due to related parties			4,233,374		32,122,936
Cash dividends			-		(59,500,000)
Lease liabilities	22		(11,504,748)		(9,735,400)
Mortgage payable	13		(1,047,603)		(1,252,000)
Advances from related parties	14		(4,897,195)		(42,332,900)
Proceeds from sale of shares held by subsidiaries			-		
Collections of subscriptions receivable			-		-
Net cash flows from financing activities		₱	(44,784,947)	₱	17,769,636
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			-		(907,752)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			(173,530,610)		(56,246,378)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			853,266,354		260,497,779
CASH AND CASH EQUIVALENTS AT END OF YEAR		₱	679,735,744	₱	204,251,401

(See accompanying Notes to Consolidated Financial Statements)

FRUITAS HOLDINGS, INC.
(A Subsidiary of LUSH PROPERTIES, INC.)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

FRUITAS HOLDINGS, INC. (herein referred to as FHI or the "Parent Company") and its subsidiaries, collectively referred to as the "Group", were incorporated in the Philippines [except for Green Empire International Limited (GEIL) and Oceanic Luck Limited (OLL)] 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. *(doing business under the name and style of De Original Jamaican Pattie Shop & Juice Bar)* (NTI)	June 20, 1990
Buko ni Fruitas Inc. (BNFI)	May 17, 2005
Fruitasgroup Incorporated *(doing business under the name and style of Buko Loco, Fruitas Ice Candy and 7,107 Halo Halo Islands)* (FGI)	July 13, 2010
Soykingdom Inc.	August 28, 2006
Cocodelivery Incorporated	
Subsidiaries with indirect ownership:	
Green Empire International Limited (GEIL)*	May 10, 2017
Oceanic Luck Limited (OLL)**	April 25, 2016

**ownership through FGI*
***ownership through GEIL*

The Parent Company is engaged in investment activities.

The principal activities and percentage of ownership of the Parent Company's subsidiaries as at June 30, 2020 are presented below.

Subsidiaries	Principal Activities	Principal Place of Business	Percentage of Ownership
Direct:			
NTI	Production, processing and distribution of goods	Quezon City	100%
BNFI	Trading of goods	Quezon City	100%
FGI	Trading of goods	Quezon City	100%
SKI	Trading of soy products	Manila City	100%
CDI	Trading and delivery of goods	Quezon City	100%
Indirect:			
GEIL	Holding company	British Virgin Islands	100%
OLL	Holding company	Samoan Islands	100%

Amendments to the Articles of Incorporation (AOI)

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

- of the seven (7) directors, at least three (3) should be independent; and

- that the authorized capital stock amounting to ₱500.0 million of FHI shall be divided into (a) 3,000,000,000 preferred shares at one centavo (₱0.01) par value a share; and (b) 4,700,000,000 common shares at ten centavos (₱0.10) par value a share. Accordingly, total authorized number of shares is 7,700,000,000 common and preferred shares (see Note 16)

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

In October 2017, the SEC approved the following amendments to the Parent Company's AOI, among others:

- change in the Parent Company's name from "THE LUSH COMPANY, INC." to "FRUITAS HOLDINGS, INC.";
- 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 to 5.0 billion shares (see Note 16).

Changes in Ownership Structure

FHI. The Parent Company is 58.98% owned by LUSH PROPERTIES, INC. (LPI), a company incorporated and domiciled in the Philippines and engaged in leasing/real estate activities.

NTI. In December 2019, NTI acquired the assets of *Heat Stroke Grill* from a sole proprietor for a total consideration of ₱368,000 (see Note 4).

In July 2018, NTI acquired the assets and the brand name *Sabroso Lechon* from Sabroso Lechon Inc. (SLI). The acquisition was completed following the fulfillment of the closing conditions of the Contract to Sell and the Deed of Assignment of the registered trademark and the payment of the related consideration amounting to ₱28.3 million (see Note 4).

In October 2017, FHI acquired 2,152 shares of NTI from the remaining individual stockholders for ₱470,200 to increase FHI's ownership interest to 100% (see Note 4). On the same date, FHI also subscribed to additional 436,625 shares of NTI at ₱255.00 per share equivalent to ₱111.3 million.

BNFI. In December 2019, the Parent Company subscribed to additional 60,000 shares at ₱300.00 for a total consideration of ₱18.0 million.

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% (see Note 4). On the same date, FHI also subscribed to additional 331,500 shares of BNFI at ₱355.00 a share equivalent to ₱117.7 million.

FGI. In November 2019, the Parent Company subscribed to additional 200,000 common shares and 80,000 preferred shares of FGI at ₱400.00 and ₱1,000.00 per share, respectively, for a total consideration of ₱160.0 million.

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% (see Note 4). Subsequently, FHI also subscribed to additional 400,000 shares of FGI at par and paid ₱82.0 million. The increase in authorized capital stock of FGI was approved by the SEC on December 13, 2019.

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 a share equivalent to 100% equity interest. GEIL then acquired 100% of OLL. OLL holds the intellectual property rights to certain brands including *Fruitas*, *The Mango Farm*, *Shou*, *Black Pearl, Friends Fries* and *Juice Avenue*. GEIL was incorporated and domiciled in the British Virgin Islands. OLL was incorporated and domiciled in the Samoan Islands.

SKI and CDI- During 1st quarter of 2020 FHI acquired the outstanding shares of CDI from its former stockholder the following month CDI shares was also purchased.

On November 29, 2019, the common shares of the Parent Company were listed and traded in the PSE through an IPO under the trading name "FRUIT".

2. Summary of Significant Accounting and Reporting Policies

The significant accounting policies used in the presentation of the consolidated financial statements have been 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 (PFRS) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including SEC pronouncements. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations on International Financial Reporting Interpretations Committee (IFRIC).

Bases of Measurement

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

Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the fair value of the consideration received in exchange for incurring a liability.

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

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

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

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

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

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards and Interpretations which the Group adopted effective January 1, 2019:

- PFRS 16, *Leases* – PFRS 16 replaced PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives,* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

  At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term [i.e., ROU asset]. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the ROU asset.

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

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

  The Group generally leases spaces for the retail establishments for a term ranging from six months to 24 months from various entities. These are renewable upon mutual agreement of the parties and do not contain any purchase options. These retail establishments include kiosks, carts and inline food stalls. The Group has assessed that at commencement date, it is not reasonably certain to exercise the extension option on the lease of the kiosks and carts because these are movable improvements and can be relocated any time without undue costs, and the renewal option will be exercised after a complete evaluation of the financial performance of an outlet or a store. Accordingly, the Group availed of the recognition exemption for short-term leases and the related lease expenses are recognized in the profit or loss on a straight-line basis.

  For the Group’s outlets with permanent and significant improvement and other non-cancellable operating lease commitments, the Group recognized ROU assets and lease liabilities. These liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. The incremental borrowing rate applied to the lease liabilities ranges from 10.87% to 11.00%, depending on the lease term. ROU assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

Based on the Group's lease agreements, lease payments include fixed payments which are subject to yearly escalation and variable lease payments based on a certain percentage of revenue. The Group assessed that variable lease payments that are linked to the Group's future performance are excluded from the definition of lease payments. Consequently, no lease liability is recognized for those variable lease payments. These are recognized in profit or loss when the event or condition that triggers the payments occurs or when the Group generates revenue.

The Group has adopted PFRS 16 using the modified retrospective method, which requires that the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application. Accordingly, the comparative information presented for 2018 and 2017 have not been restated.

As at December 31, 2018, the Group's operating lease commitments are reconciled to the recognized lease liabilities as at January 1, 2019 as follows:

Operating lease commitments as at December 31, 2018	₱146,626,693
Discount using incremental borrowing rate	(33,199,973)
Lease liabilities as at January 1, 2019	₱113,426,720

The following table summarizes the ROU assets and lease liabilities recognized as at January 1, 2019:

Outlets spaces	₱46,459,204
Land and building	66,967,516
Total ROU assets	₱113,426,720

Current portion of lease liabilities	₱46,459,204
Noncurrent portion of lease liabilities	66,967,516
Total lease liabilities	₱113,426,720

- Philippine Interpretation on IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes,* in particular (i) matters to be considered in accounting for uncertain tax treatments separately, (ii) assumptions for taxation authorities' examinations, (iii) determinants of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments clarify that a financial asset passes the "solely payments of principal and interest" criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Consequently, financial assets with termination provisions can now be measured at amortized cost (or, depending on the business model, at fair value through other comprehensive income).

- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

- Annual Improvements to PFRS 2015 to 2017 Cycle:

  - Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements - Previously Held Interest in a Joint Operation* – The amendments to PFRS 3, *Business Combinations,* clarify that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11, *Joint Arrangements,* clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.

  - Amendments to PAS 12 - *Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – The amendments require entities to recognize the income tax consequences of dividends as defined in PFRS 9 when the liability to pay dividends are recognized. The income tax consequences of dividends are recognized either in profit or loss, other comprehensive income or equity, consistently with the transactions that generated the distributable profits. This requirement applies to all income tax consequences of dividends, such as withholding taxes.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS did not have any material effect on the consolidated financial statements of the Group except for PFRS 16. Additional disclosures were included in the consolidated financial statements, as applicable.

Amended PFRS Issued But Not Yet Effective
Relevant amended PFRS, which are not yet effective as at December 31, 2019 and have not been applied in preparing the consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides a new definition of a “business” which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, ‘an integrated set of activities and assets’ must now include ‘an input and a substantive process that together significantly contribute to the ability to create an output’.

The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or group of assets.

- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of "material" and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS. Based on the new definition, information is "material" if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Deferred effectivity -

- Amendment to PFRS 10, *Consolidated Financial Statements* and PAS 28 - *Sale or Contribution of* Amendments to PFRS 10, *Consolidated Financial Statements,* and PAS 28 - *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a conflicting provision under the two standards. It clarifies that a gain or loss shall be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group. Additional disclosures will be included in the consolidated financial statements as necessary.

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

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

The separate 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 non-controlling 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 in relation to that subsidiary on same basis as would be required if the Parent Company had directly disposed of the related assets and liabilities.

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

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

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

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

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

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

A gain from bargain purchase is generated when the fair value of the net assets acquired by the Group exceeds the acquisition price, and is recognized in the consolidated statement of comprehensive income in the year of acquisition.

Business combination arising from transfers of interest involving entities under common control is accounted for using book values. Any difference between the purchase price and the net assets of acquired entity is presented separately within equity on consolidation. Any non-controlling interest is measured as a proportionate share of the book values of the related assets and liabilities. The acquiree’s assets and liabilities are recognized at book values and results of operations are included in the consolidated financial statements as if the acquisition has occurred at the beginning of the latest comparative period.

Financial Assets and Liabilities

Recognition and Measurement

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

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

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

Classification

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

As at June 30, 2020 and December 31, 2019, the Group has no financial instruments classified as financial assets at FVPL and FVOCI and financial liabilities at FVPL.

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

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at June 30, 2020 and December 31, 2019, the Group's cash and cash equivalents, trade and other receivables, due from related parties and construction bond (presented under "Other current assets") are classified under this category.

Cash equivalents are short-term, highly liquid investment that is readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and which is subject to an insignificant risk of change in value.

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

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

As at June 30, 2020 and December 31, 2019, the Group's trade and other payables (except statutory payable), notes payable, mortgage payable, lease liabilities, due to related parties and dividends payable are classified under this category.

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

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

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

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

Trade and Other Receivables. For trade and other receivables, the Group has applied the simplified approach in measuring ECL.

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

Other Financial Assets at Amortized Cost. For these debt instruments, the Group has applied the general approach in measuring ECL.

Under the general approach, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Derecognition

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

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

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

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

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

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

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

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

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

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

Merchandise Inventories
Merchandise inventories are carried at the lower of cost and net realizable value (NRV). The NRV of merchandise 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, merchandise inventories are assessed for impairment. If merchandise inventories is impaired, the carrying amount is reduced to its NRV. Impairment loss is recognized immediately in profit or loss.

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

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

Other Current Assets

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

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

Creditable Input VAT. Revenue, expenses and assets are generally recognized net of the amount of VAT. This is measured at face amount less impairment in value, if any. The net amount of VAT recoverable from or payable to the taxation authority is presented as "Creditable input VAT" or "Output VAT" presented part of "Statutory payable" under "Trade and other payables" in the consolidated statement of financial position.

Deferred Input VAT. Deferred input VAT represents amount of input VAT on accruals and trade payables. Deferred input VAT that is expected to be realized within 12 months after the financial reporting period is classified as current. Otherwise, it is classified as noncurrent asset.

Unamortized Input VAT. In accordance with the Revenue Regulations (RR) No. 16-2005, input VAT on purchases or imports of the Group of capital goods (depreciable assets for income tax purposes) with an aggregate acquisition cost (exclusive of VAT) in each of the calendar month exceeding ₱1.0 million is claimed as credit against output VAT over 60 months or the estimated useful lives of capital goods, whichever is shorter.

Unamortized input VAT on capital goods is classified as current asset if it is expected to be claimed against output VAT no more than 12 months after the reporting date. Otherwise, it is classified as noncurrent asset.

Advances to Suppliers. Advances to suppliers are recognized whenever the Group pays in advance for its purchase of goods and supplies. The advances to suppliers are measured at transaction price less impairment in value, if any. These are charged to appropriate asset or expense account upon receipt from suppliers.

Creditable Withholding Taxes (CWTs). CWTs are deducted from income tax payable in the same year the revenue was recognized and are carried forward to the succeeding year when in excess of income tax payable. CWTs are stated at face amount less impairment in value, if any.

Property and Equipment

Property and equipment, except land and construction-in-progress (CIP), are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at cost less impairment in value, if any.

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.

CIP represents warehouse under construction and is stated at cost. Cost includes costs of construction, labor and other direct costs. CIP is not depreciated until such time that the relevant assets are ready for use. This will be recognized as warehouse upon completion of the construction.

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

Asset Type	Number of Years
Leasehold improvements	3 years or term of lease, whichever is shorter
Transportation equipment	5-10
Office furniture, fixtures and equipment	2-5
Store furniture, fixtures and equipment	2-5

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

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

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

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

Equity

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

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

Additional Paid-in Capital. Additional paid-in capital represents the excess of proceeds or fair value of consideration received over par value.

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

Dividend Distribution. Dividends are recognized as a liability and deducted from equity when declared by the BOD and the shareholders of the Group. Dividends for the year that are declared after the reporting date are dealt with as an event after the reporting date.

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

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

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

<u>EPS Attributable to the Equity Holders of the Parent Company</u>
Basic EPS is calculated by dividing the net income attributable to equity holders of the Parent Company 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 Parent Company has no dilutive potential common shares.

<u>Revenue Recognition</u>

Revenue
The Group generates revenue primarily from sale of goods and franchise fees.

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

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

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

Net Sales. Revenue is recognized, net of sales discounts, at a point in time when the control over the goods has transferred to the customers, which is normally upon delivery to and acceptance of the goods by the buyer.

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

Other Income

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

Interest Income. Interest income is recognized as it accrues, net of final tax, using the effective interest method.

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

Contract Balances

Receivables. A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets. A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays a consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

As at June 30, 2020 and December 31, 2019, the Group does not have outstanding contract assets.

Contract Liabilities. A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays a consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made by the customer or when the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract. Contract liabilities also include payments received by the Group from the customers for which revenue recognition has not yet commenced and payments in excess of revenue recognized based on percentage of completion.

As at June 30, 2020 and December 31, 2019, the Group does not have outstanding contract liabilities.

Cost to Obtain a Contract. The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. Otherwise, these are treated as expense.

Contract Fulfillment Asset. Contract fulfillment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Group first considers any other applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15,

Revenue from Contracts with Customers. If other standards are not applicable to contract fulfillment costs, the Group applies the following criteria which, if met, result in capitalization: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The assessment of these criteria requires the application of judgment, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

As at June 30, 2020 and December 31, 2019, the Group does not have contract fulfillment assets.

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.

Direct Costs. Direct costs are costs directly related to the production and sale of goods and are recognized as expense when the related goods are sold or the related services are rendered.

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 recognized in profit or loss in the period when these are incurred.

General and Administrative Expenses General and administrative expenses constitute costs of administering the business. These are recognized in profit or loss in the period when these are incurred.

Interest Expense. Interest expense includes interest expense and other finance costs. This is recognized in profit or loss using the effective interest method.

Retirement Benefits

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

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

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

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

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

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

Leases

a. Accounting policies prior to January 1, 2019

   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.

   Leases where the lessor transfers substantially all the risks and rewards of ownership of the asset are classified as finance leases, otherwise, operating leases.

   At the commencement of the lease, finance leases should be recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments. Lease payments should be apportioned between the interest expense and the reduction of the outstanding liability.

The depreciation policy for assets held under finance leases should be consistent with that for owned assets. If there is no reasonable certainty that the lessee will obtain ownership at the end of the lease, the asset should be depreciated over the shorter of the lease term or the life of the asset.

The Group as a 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 on a straight-line basis over the lease term.

The Group as a Lessor. Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which these are earned.

b. Accounting policies beginning January 1, 2019

The Group assesses whether the contracts is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Group assesses whether, throughout the period of use, it has both of the following:

i. the right to obtain substantially all of the economic benefits from the use of the identified asset; and

ii. the right to direct the use of the identified asset.

If the Group has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

The Group also assesses whether a contract contains a lease for each potential separate lease component.

The Group as a Lessee. At the commencement date, the Group recognizes ROU assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

ROU Assets. At commencement date, the Group measures ROU assets at cost. The cost comprises:

i. the amount of the initial measurement of lease liabilities;

ii. any lease payments made at or before the commencement date less any lease incentives received;

iii. any initial direct costs; and

iv. an estimation of costs to be incurred by the Group in dismantling and removing the underlying asset, when applicable.

The ROU assets are recognized at the present value of the liability at the commencement date of the lease, adding any directly attributable costs. After the commencement date, the ROU assets are carried at cost less any accumulated amortization and accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. The ROU assets are amortized over the shorter of the lease terms or the useful lives of the underlying assets ranging from three to ten years.

Lease Liabilities. At commencement date, the Group measures a lease liability at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liability comprise the following:

i. fixed payments, including in-substance fixed payments;

ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

iii. amounts expected to be payable by the lessee under residual value guarantees; and

iv. the exercise price under a purchase option that the Group is reasonably certain to exercise; lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

A lease liability is subsequently measured at amortized cost. Interest on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

For income tax reporting purposes, payments under operating lease agreements are treated as deductible expense in accordance with the terms of the lease agreements.

The Group as a Lessor. Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which these are earned.

Income Taxes

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates and tax laws 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 OCI.

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

Foreign Currency Translation

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

The assets and liabilities of GEIL and OLL are translated into Peso at the rate of exchange ruling at the reporting date and income and expenses are translated to Peso at monthly average exchange rates. The exchange differences arising on the translation are taken directly to OCI. There are no exchange differences recognized as at June 30, 2020 and December 31, 2019.

Related Party Relationships and Transactions

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

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

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

Related party transactions are considered material and/or significant if i) these transactions amount to 10% or higher of the Group's total assets or, ii) there are several transactions or a series of transactions over a 12-month period with the same related party amounting to 10% or higher of the Group's total assets. Details of transactions entered into by the Group with related parties are reviewed by independent directors in accordance with the Group's related party transactions policy.

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 Period

Events after the reporting date that provide additional information about the Group's consolidated 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.

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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 on 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. In particular, the COVID-19 pandemic and the resulting adverse effects to the global economic conditions, as well as the Group's operations, may impact future estimates including, but not limited to, the allowance for ECL, fair

value measurements, impairment of nonfinancial assets, recognition of deferred tax assets, actuarial losses on retirement benefits liability and discount rate assumptions.

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 Peso except for certain subsidiaries whose functional currency is the US dollar. Peso is the currency that mainly influences the sale of goods and the costs of sales.

Assessing Group Reorganization. Group reorganization involving entities under common control is outside the scope of PFRS 3 and there is no other specific PFRS 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. The acquisition by the Parent Company of the subsidiaries was considered as a group reorganization of entities under common control is disclosed in Note 4.

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

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

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date. The Group's acquisitions have resulted in the recognition of intangible assets with indefinite lives is disclosed in Note 4.

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

(a) Similar nature of products/services offered and methods to distribute products and provide services;

(b) Similar class of target customers; and

(c) Primary place of operations is in the Philippines.

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

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

Classifying Lease Commitments - Group as a Lessor. Lessor accounting under PFRS 16 is substantially unchanged from accounting under PAS 17. The Group entered into a sublease agreement of food park 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 food park spaces. Thus, the agreement is accounted for as an operating lease.

Classifying Lease Commitments prior to January 1, 2019 - Group as a Lessee. The Group has entered into lease agreements with various lessors for its outlets spaces and warehouse. The Group has determined that the arrangements are operating leases as the risks and rewards of ownership are retained by the lessor.

Classifying Lease Commitments beginning January 1, 2019 - Group as a Lessee. The Group has entered into commercial property leases for its stores. For the Group's non-cancellable lease, the Group recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Group's incremental borrowing rate. The Group availed exemption for leases with term of 12 months or less. Accordingly, lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

ROU assets and lease liabilities as at June 30, 2020 is disclosed in Note 22.

Assessing the ECL of Trade and Other Receivables. The Group estimates ECL using a provision matrix. Depending on the diversity of its debtor's base, the Group uses its historical credit loss experience adjusted for forward-looking factors, as appropriate.

The carrying amounts of the Group's trade and other receivables as at June 30, 2020 and December 31, 2019 are disclosed in Note 6.

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

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

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

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

No provision for ECL on other financial assets at amortized cost was recognized in June 2020 and 2019. The transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults.

The carrying amounts of other financial assets at amortized cost are as follows:

Asset Type	Note	**June- 2020**	Dec-2019
Cash and cash equivalents	5	**₱679,735,744**	₱853,266,354
Due from related parties	14	**116,198,479**	114,745,31
Construction bond		**2,525,251**	2,485,841

Estimating ROU Assets and Lease Liabilities. The Group's ROU assets and lease liabilities are initially measured at the present value of lease payments. In determining the appropriate discount rate, the Group considered readily available interest rate implicit in the lease agreements, interest rate on its borrowings and the term of each lease commitment. The Group determined that the incremental borrowing rate is readily available and presents the appropriate financing cost in leasing the underlying assets. The incremental borrowing rate is the rate that would cause the present value of the lease payments and unguaranteed residual to equal the sum of the fair value of the underlying assets and initial direct costs incurred.

The carrying amounts of ROU assets and lease liabilities are disclosed in Note 22. Rental expense incurred on short-term leases in 2020 and 2019 is disclosed in Note 22.

Assessing the Extension Options of Lease Commitments. The Group's lease commitments contain extension options exercisable by the Group prior the end of the non-cancelable contract period. Where practicable, the Group seeks to include the extension options to provide operational flexibility. The Group assessed at lease commencement that it is not reasonably certain that the Group will exercise the extension options. A reassessment is made whether it is reasonable certain to exercise the extension options if there is a significant event or significant change in circumstances within its control.

Evaluating the 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 merchandise 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 June 30, 2020 and 2019. The carrying amount of merchandise inventories as at June 30, 2020 and December 31, 2019 is disclosed in Note 7.

Estimating the Useful Lives of Property and Equipment (except Land and CIP), ROU Assets and Intangible Assets. The useful lives of these assets 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 would increase the recorded operating expenses and decrease noncurrent assets. In 2018, the useful life of certain item of intangible assets was shortened from four years to one year, which resulted in additional amortization of ₱1.2 million. In June 30, 2020, there were no changes in the estimated useful lives.

The carrying amounts of property and equipment, intangible assets and ROU assets as at June 30, 2020 and December 31, 2019 are disclosed in Notes 9, 10 and 22, respectively.

Assessing the Impairment of Brand Names with Indefinite Useful Life. The Group tests annually whether any impairment in brand names is to be recognized in accordance with the related accounting policy in Note 2. The recoverable amounts of cash-generating units (CGUs) have been determined based on the higher of fair value less costs to sell and value in use calculations, which require the use of estimates. Based on the impairment testing conducted, the recoverable amounts of the CGUs calculated based on value in use as at June 30, 2020 and December 31, 2019 are greater than the corresponding carrying amounts of the CGUs as at the same dates.

No impairment loss was recognized in June 30, 2020 and 2019. The carrying amount of brand names as at June 30, 2020 and December 31, 2019 is disclosed in Note 10.

Assessing Impairment of Other Nonfinancial Assets. The Group assesses impairment of its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amounts of the assets or group of assets may not be recoverable. The relevant factors that the Group considers in deciding whether to perform an asset impairment review include, among others, the following:

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

No impairment was recognized in June 30, 2020 and 2019.

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 and cumulative remeasurement losses on retirement benefits liability (net of deferred tax) recognized in equity as at June 30, 2020 and December 31, 2019 is disclosed in Note 15.

Assessing the Recognition of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount 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 within the period allowed by the tax regulations. Recognition of deferred tax assets is determined based on forecasted taxable income of the Group. This forecast is based on the Group's past results and future expectations on revenue and expenses.

4. Accounting for Group Reorganization and Business Acquisition

Business Acquisition

In February 2020 NTI acquired the assets including recipes and marketing collateral of KXN Kuxina Food Corporation from a sole proprietor for a total consideration of ₱500,000. In December 2019, NTI acquired the assets including recipes and marketing collateral of *Heat Stroke Grill* (HSG) from a sole proprietor for a total consideration of ₱368,000. Both has resulted to a business combination due to acquisition of the significant inputs, processes and outputs of KXN and HSG. The carrying amounts of the assets acquired approximate the fair values as at acquisition date. Hence, no goodwill nor gain from bargain purchase was recognized.

NTI acquired the assets of SLI and the brand name *Sabroso Lechon* for ₱28.3 million. Provisional fair values of the assets acquired were recognized in 2018. No goodwill or gain from bargain purchase was recognized as a result of the acquisition in 2018.

The valuation of the net assets of SLI was completed in 2019 resulting to additional fair valuation adjustments to the acquiree's brand name by ₱6.4 million. Consequently, the business combination resulted in a gain from bargain purchase, as the fair values of the assets acquired exceeded the total consideration by ₱6.4 million.

The following are the restated fair values of the identifiable assets acquired and the resulting gain as at acquisition date:

	Note	Amount
Leasehold improvements	9	₱21,835,900
Brand name	10	11,188,398
Transportation equipment	9	1,010,083
Security deposit		720,000
Fair values of identifiable assets		34,754,381
Total consideration		28,317,474
Gain from bargain purchase		₱6,436,907

The Group believes it was able to acquire the assets of SLI for less than the fair values because previous management had limited resources and capability to expand.

The consolidated statement of financial position as at December 31, 2017 was not presented as the transaction occurred only in 2018, and thus has no impact on the 2017 balances.

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 effect of the pooling of interests amounting to ₱4.2 million recognized as part of "Other equity reserves" as at June, 2020 and December 31, 2019, 2018 and 2017 pertains to excess of the combined net assets of the subsidiaries amounting to ₱70.0 million over the consideration amounting to ₱65.8 million as at January 1, 2015.

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 non-controlling interests at the date of acquisition (₱68.4 million) over the aggregate acquisition costs (₱17.4 million) amounting to ₱51.0 million was recognized as "Other equity reserves" in the consolidated statements of financial position as at June 30, 2020 and December 31, 2019.

-

Acquisition of non-controlling interests in 2017 aggregated ₱59.0 million. In 2016, the Parent Company subscribed to additional 170,250 shares in NTI 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.

5. **Cash and Cash Equivalents**

This account consists of:

		June 30, 2020 (Unaudited)		Dec. 31, 2019 (Audited)
Cash on hand	₱	**619,859.00**	₱	2,394,334.00
Cash in bankd and short term placements		**679,115,885.00**		850,872,020.00
	₱	**679,735,744.00**	₱	853,266,354.00

Cash in banks earn interest at the prevailing bank deposit rates.

Short-term placements are made for three months depending on the immediate cash requirement of the Group and earns interest at the prevailing short-term placement rates.

Interest income earned amounted to ₱3.6 million, and ₱ .241 as of June 30, 2020 and 2019 respectively (see Note 21).

6. **Trade and Other Receivables**

This account consists of:

	2020	2019
Trade	**₱95,280,393**	₱83,210,054
Others	**10,170,159**	689,828
	100,125,667	83,899,882
Less allowance for doubtful accounts	**333,508**	333,508
	₱100,459,175	₱83,566,374

Trade receivables represent mainly outstanding receivables from franchisees. These are unsecured, noninterest-bearing and are normally collected on a 30-day term.

Please see below aging of receivables:

-

As at June 30, 2020					
	Total	Neither past Due of impaired	Less than one year	One year and over	Past Due and Impaired
Trade:					
Third Party	57,275,772	10,078,917	26,660,430	20,536,425	-
Related party	30,592,918	16,253,750	3,056,441	11,282,728	-
Tenants	2,086,458	1,706,572	-	-	-
	89,955,148	28,039,239	29,716,871	31,819,152	-
Advances to suppliers	6,926,607	6,927,791	-	-	-
Funds held in trust	-	689,828	-	-	-
Others	3,243,912	1,862,863	-	-	-
	100,125,667	37,519,721	29,716,871	31,819,152	-
Allowance for doubtful accounts	(333,508)	-	-	(333,508)	-
	100,459,175	48,002,697	13,249,038	27,962,727	

As at December 31, 2019					
	Total	Neither past Due of impaired	Less than one year	One year and over	Past Due and Impaired
Trade:					
Third Party	56,922,976	26,660,430	10,192,598	20,069,948	-
Related party	15,789,852	4,507,125	3,056,441	8,226,287	-
Tenants	1,706,572	1,706,572	-	-	-
	74,419,400	32,874,127	13,249,038	28,296,235	-
Advances to suppliers	6,927,791	6,927,791	-	-	-
Funds held in trust	689,828	689,828	-	-	-
Others	1,862,863	1,862,863	-	-	-
	83,899,882	42,354,609	13,249,038	28,296,235	-
Allowance for doubtful accounts	(333,508)	-	-	(333,508)	-
	83,566,374	42,354,609	13,249,038	27,962,727	

7. Merchandise Inventories

This account consists of:

	2020	2019
Food and beverages	**₱16,779,651**	₱28,746,503
Store supplies and others	**22,447,516**	21,161,151
	₱39,227,167	₱49,907,654

The Group's merchandise inventories are carried at cost, which is lower than its NRV. No inventory losses were recognized in June 2020 and 2019.

Cost of merchandise inventories charged to "Direct costs" amounted to ₱181.6 million and ₱388.5 million in 2020 and 2019, respectively (see Note 18).

8. Other Current Assets

This account consists of:

		June 30, 2020 (Unaudited)		Dec. 31, 2019 (Audited)
Input vat	₱	**2,261,294.90**	₱	2,453,292.00
Creditable withholding tax		**22,825.04**		110,067.00
Advances to suppliers		**713,556.00**		713,556.00
Advances to officers and employees		**4,430,631.66**		3,849,829.00
Others		**1,535,533.05**		6,558,805.00
	₱	**8,963,840.65**	₱	13,685,549.00

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

Advances to suppliers were payments for goods pending delivery as at year-end.

9. Property and Equipment

The composition of and movements in this account follows:

June 2020

	Land	CIP	Leasehold and Land Improvements	Transporation Equipment	Office Furnitures, Fixtures and Equipment	Store Furnitures, Fixtures and Equipment	Total
Cost							
Balance at the beginning of year	₱ 32,600,000.00	₱ 3,212,152.00	₱ 124,174,868.00	₱ 33,316,198.00	₱ 19,559,312.00	₱ 178,319,732.00	₱ 391,182,262.00
Additions	-	3,212,002.60	6,539,655.59	2,011,891.96	11,917,791.09	3,026,477.04	26,707,818.28
Balance at end of year	32,600,000.00	6,424,154.60	130,714,523.59	35,328,089.96	31,477,103.09	181,346,209.04	417,890,080.28

	Land	CIP	Leasehold and Land Improvements	Transporation Equipment	Office Furnitures, Fixtures and Equipment	Store Furnitures, Fixtures and Equipment	Total
Accumulated Depreciation							
Balance at the beginning of year	₱ -	₱ -	₱ 64,189,898.00	₱ 9,229,773.00	₱ 7,840,103.00	₱ 87,135,599.00	₱ 168,395,373.00
Additions	-	-	14,146,981.65	2,503,874.55	1,165,160.41	28,202,907.48	46,018,924.09
Balance at end of year	-	-	78,336,879.65	11,733,647.55	9,005,263.41	115,338,506.48	214,414,297.09
Carrying amount	₱ 32,600,000.00	₱ 6,424,154.60	₱ 52,377,643.94	₱ 23,594,442.41	₱ 22,471,839.68	₱ 66,007,702.56	₱ 203,475,783.19

December 2019

	Land	CIP	Leasehold and Land Improvements	Transporation Equipment	Office Furnitures, Fixtures and Equipment	Store Furnitures, Fixtures and Equipment	Total
Cost							
Balance at the beginning of year	₱ 13,000,000.00	₱ -	₱ 108,386,609.00	₱ 21,215,577.00	₱ 11,735,524.00	₱ 120,391,840.00	₱ 274,729,550.00
Additions	19,600,000.00	3,212,152.00	15,788,259.00	12,100,621.00	7,823,788.00	57,927,892.00	116,452,712.00
Balance at end of year	32,600,000.00	3,212,152.00	124,174,868.00	33,316,198.00	19,559,312.00	178,319,732.00	391,182,262.00

	Land	CIP	Leasehold and Land Improvements	Transporation Equipment	Office Furnitures, Fixtures and Equipment	Store Furnitures, Fixtures and Equipment	Total
Accumulated Depreciation							
Balance at the beginning of year	₱ -	₱ -	₱ 38,904,290.00	₱ 5,276,016.00	₱ 3,751,520.00	₱ 44,056,032.00	₱ 91,987,858.00
Additions			25,285,608.00	3,953,757.00	4,088,583.00	43,079,567.00	76,407,515.00
Balance at end of year	-	-	64,189,898.00	9,229,773.00	7,840,103.00	87,135,599.00	168,395,373.00
Carrying amount	₱ 32,600,000.00	₱ 3,212,152.00	₱ 59,984,970.00	₱ 24,086,425.00	₱ 11,719,209.00	₱ 91,184,133.00	₱ 222,786,889.00

Additions in 2020 to leasehold improvements, transportation equipment and store equipment, furniture and fixtures amounting to ₱ 3.9 million, ₱ .113 million and 2.6 million, respectively, were related to the acquisition of the shares of Soykingdom Inc. and Cocodelivery Incorporated.

In 2019, the Group purchased parcels of land amounting to ₱19.6 million to be used for the expansion of operations in Visayas and Mindanao.

CIP represents a warehouse under construction. The construction is estimated to be completed within one year and the estimated cost to complete the construction amounted to ₱10.7 million as at December 31, 2019.

Depreciation and amortization are summarized as follows:

	June 30, 2020 (Unaudited)	June 30, 2019 (Audited)
Property and equipment	₱ **43,712,503.88**	₱ 34,596,836.00
ROU Assets	**15,068,323.57**	12,591,437.00
Intangible assets	**391,183.20**	285,897.00
	₱ **59,172,010.64**	₱ 47,474,170.00

Depreciation and amortization are charged to the following:

	June 30, 2020 (Unaudited)	June 30, 2019 (Audited)
Selling and distribution expenses	₱ **34,594,039.00**	₱ 38,455,985.00
General and administrative expenses	**20,498,507.00**	5,392,185.00
Direct cost	**4,079,464.64**	3,626,000.00
	₱ **59,172,010.64**	₱ 47,474,170.00

10. **Intangible Assets**

This account consists of:

2020

		Brand Names		Software License		Goodwill		Total
Cost								
Balance at the beginning of year	₱	**211,348,448.00**	₱	**5,193,830.00**	₱	**-**	₱	**216,542,278.00**
Additions				**118,928.57**		**8,173,778.00**		**8,292,706.57**
Balance at end of year		**211,348,448.00**		**5,312,758.57**		**8,173,778.00**		**224,834,984.57**
Accumulated Depreciation								
Balance at the beginning of year	₱	**-**	₱	**2,156,490.00**	₱	**-**	₱	**2,156,490.00**
Additions				**391,183.04**		**-**		**391,183.04**
Balance at end of year		**-**		**2,547,673.04**		**-**		**2,547,673.04**
Carrying amount	₱	**211,348,448.00**	₱	**2,765,085.53**	₱	**8,173,778.00**	₱	**222,287,311.53**

2019

		Brand Names		Software License		Goodwill		Total
Cost								
Balance at the beginning of year	₱	211,348,448.00	₱	4,439,813.00	₱	-	₱	215,788,261.00
Additions				754,017.00		-		754,017.00
Balance at end of year		211,348,448.00		5,193,830.00		-		216,542,278.00
Accumulated Depreciation								
Balance at the beginning of year	₱	-	₱	1,479,410.00	₱	-	₱	1,479,410.00
Additions				677,080.00				677,080.00
Balance at end of year		-		2,156,490.00		-		2,156,490.00
Carrying amount	₱	211,348,448.00	₱	3,037,340.00	₱	-	₱	214,385,788.00

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 fair value of the net assets of GEIL and OLL is approximately equal to the consideration amounting to ₱200.2 million.

In 2018, the Group also recognized brand name amounting to ₱11.2 million following the completion of the acquisition of *Sabroso Lechon* brand from SLI (see Note 4).

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 fair values of the brand names were determined based on a valuation using cash flow projections (value-in-use) covering a five-year period based on long-range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The growth rates are consistent with the long-term average growth rate for the industry which ranges from 4% to 13%.

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. The discount rates applied to after-tax cash flow projections ranges from 15.6% to 17.6% in 2019 and 2018. The recoverable amount of each CGU, calculated using value in use, exceeded the carrying amount of the CGU as at December 31, 2019 and 2018.

Management believes that any reasonably possible change in the key assumptions on which the Group's recoverable amount is based would not cause the Group's carrying amount to exceed its recoverable amount.

Software License
In 2018, the useful life of certain intangible asset was shortened from the useful life of four years to one year based on management review of the operational efficiency of the intangible asset resulting to an additional amortization of ₱1.2 million.

11. **Trade and Other Payables**

This account consists of the following;

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

Accrued expenses - consist mainly of professional fees, rentals and unpaid salaries which are noninterest-bearing and are normally settled in the next financial year.

Statutory payable -pertains to obligations to government agencies such as SSS, HDMF, PHIC, output VAT and withholding taxes that are normally settled in the following month.

12. **Notes Payable**

In 2019, the Group issued promissory notes amounting to ₱187.3 million to local commercial banks at interest rates ranging from 4.25% to 9.50% per annum. The principal amount will mature in 2021 and payable in equal installments.

In 2018, the Group issued short-term promissory notes to local commercial banks to finance its working capital requirements aggregating ₱246.7 million. The notes bear interest at rates ranging from 3.13% to 5.50% per annum and interest is payable on a monthly basis. In 2019, the outstanding balances of the notes were rolled over under similar terms.

Movements in this account follow:

	2020	2019
Balance at beginning of year	**₱191,104,137**	₱311,314,104
Issuances	-	187,326,411
Payments	**(31,568,775)**	(307,536,378)
Balance at end of year	**159,535,362**	191,104,137
Less current portion	**101,176,349**	115,834,240
Noncurrent portion	**₱58,359,013**	₱75,269,897

Interest charged to operations amounted to ₱ 9.3 million and to ₱ 19.9 million in 2020 and 2019, respectively.

The schedule of maturities of notes payable is as follows:

	Amount
2020	₱101,176,349
2021	58,359,013
	₱159,535,362

13. **Mortgage Payable**

The Group obtained loans from local commercial banks to finance its acquisition of transportation equipment.

Movements in this account follow:

	2019	2019
Balance at beginning of year	**₱4,670,660**	₱5,961,408
Availments	**-**	1,564,000
Payments	**(1,047,603)**	(2,854,748)
Balance at end of year	**3,623,057**	4,670,660
Less current portion	**2,169,651**	2,321,815
Noncurrent portion	**₱1,453,406**	₱2,348,845

The loans are payable in monthly installments up to May 2023 with effective interests ranging from 7.35% to 14.56% per annum.

The loans are secured by a chattel mortgage on the transportation equipment with total carrying amount of ₱8.2 million and ₱9.7 million as at December 31, 2019 and 2018, respectively (see Note 9).

The schedule of maturities of mortgage payable is as follows:

	Amount
2021	751,381
2022	492,276
2023	209,749
	₱1,453,406

14. **Related Party Transactions**

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

	Nature of	Amount of Transactions		Outstanding Balance	
Related Parties	Transactions	**June 2020**	Dec 2019	**2020**	2019
Due from Related Parties					
Entities Under Common					
Management	Advances	**₱ 1,550,000**	₱260,477,832		
	Collections	**(96,839)**	(186,303,675)	**₱116,198,479**	₱114,745,318
Due to Related Parties					
Stockholders	Payments	**₱ (4,583,211)**	(₱18,659,472)		
	Advances	**4,233,374**	-	**₱-**	₱349,837
Entities Under Common					
Management	Payment	(313,984)	(78,124,253)		
	Advances	-	75,331,166	-	313,984
				₱-	₱663,821

Terms and Conditions of Transactions with Related Parties

Outstanding balances are unsecured, noninterest-bearing and settled in cash upon demand. 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 2020 and 2019.

Intercompany transactions eliminated in consolidation pertain to due to/from related parties, intercompany revenue and dividend income. Total due to/from related parties eliminated amounted to ₱320.9 million as at June 30, 2020. Intercompany revenue eliminated amounted to ₱24.3 million and ₱59.5 million in 2020 and 2019, 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 latest actuarial report is dated December 31, 2019.

The table below summarizes the components of retirement benefits expense recognized in the consolidated statements of comprehensive income (see Note 20).

		2020		2019
Current service cost	₱	**1,759,025**	₱	1,759,025
Interest cost		**125,180**		125,180
Increase in transitional liability		**53,122**		53,122
	₱	**1,937,327**	₱	1,937,327

Movements in the retirement benefits liability follow:

	2020	2019
Balance at beginning of year	**₱2,229,865**	₱2,229,865
Current service cost	**1,759,025**	1,759,025
Actuarial loss	**1,240,238**	1,240,238
Interest cost	**125,180**	125,18
Increase in transitional liability	**53,122**	53,122
Balance at end of year	**₱5,407,430**	₱5,407,430

The principal assumptions used in determining the Group's retirement benefits liability in 2019 and 2018 are as follows:

	2019	2018
Discount rate	**5.1%**	5.8%
Future salary increases	**3.0%**	4.0%

The projected unit credit method was applied to all the benefits without using one-year term cost.

This sensitivity analysis shows the impact of changes in key actuarial assumptions in 2019.

	Effect on Retirement Benefits Liability	
	Discount Rate	Salary Projected Rate
+1%	(₱921,979)	₱1,254,060
-1%	1,210,409	(920,853)

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 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 benefits liability as at December 31, 2019 and 2018 is 27 years and 28 years, respectively.

Cumulative remeasurement loss on retirement benefit liability recognized on OCI is as follows:

	As of June 2020		
	Cumulative net loss	**Deferred tax**	**Net**
Balance at beginning of year	**₱66,126**	**(₱19,838)**	**₱46,288**
Remeasurement loss	**1,240,238**	**(372,071)**	**868,167**
Balance at end of year	**₱1,306,364**	**(₱391,909)**	**₱914,455**

The table below shows the maturity profile of the undiscounted benefit payments:

	As of June 2020	2019
Less than one year	**₱661,230**	₱661,230
One year to less than five years	**1,470,520**	1,470,520
Five years to less than ten years	**1,235,976**	1,235,976
Ten years to less than fifteen years	**6,643,124**	6,643,124
Fifteen years to less than twenty years	**10,283,899**	10,283,899
Twenty years and above	**276,003,847**	276,003,847

16. **Equity**

Capital Stock

This account consists of:

	2020	2019
Authorized Capital Stock		
Common - =P0.10 par value		
Balance at beginning of year	**4,700,000,000**	4,700,000,000
Reclassification to preferred stock	**-**	-
Effect of stock split	**-**	-
Balance at end of year	**4,700,000,000**	4,700,000,000
Preferred value= P.01 par value		
Balance at beginning of year	**3,000,000,000**	3,000,000,000
Reclassification from common stock	**-**	-
Balance at end of year	**3,000,000,000**	3,000,000,000
	7,700,000,000	7,700,000,000
Issued and outstanding common		
Balance at beginning of year	**1,600,000,000**	1,600,000,000
Issuances	**533,680,000**	533,680,000
Effect of stock split	**-**	-
Balance at end of year	**2,133,680,000**	2,133,680,000

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 500,000,000 shares to 5,000,000,000 shares.

On February 26, 2018, the SEC approved the i) increase in the Parent Company's total authorized capital stock to ₱500.0 million divided into (a) 3,000,000,000 preferred shares at ₱0.01 par value a share, and (b) 4,700,000,000 common shares at ₱0.10 par value a share; and ii) reclassification of 3,000,000,000 common shares to preferred shares.

On August 24, 2019, the stockholders and the BOD authorized the Parent Company's Public Offering of its common shares with the PSE. This was approved by the SEC and the PSE on October 17, 2019 and October 23, 2019, respectively. On November 29, 2019, the Parent Company's 533,660,000 common shares were officially listed on the PSE with an Oversubscription Option of up to 68,340,000 common shares at an offer price of ₱1.68 a share.

The Offer Period was from November 18, 2019 to November 22, 2019. The trading of the shares commenced on November 29, 2019.

Preferred Shares
The features of the preferred shares follow: guaranteed dividend yield of 2.5% per annum; Voting, cumulative and non-participating; and shall not be convertible into common share.

Additional Paid-in Capital
Additional paid-in capital represents the excess of the amounts received over the par value of the shares issued, net of directly attributable transaction costs on the Parent Company's IPO. Details are as follows:

Proceeds in excess of par value	₱843,182,800
IPO expenses	65,345,756
Additional paid-in capital	₱777,837,044

IPO expenses were charged as follows:

Additional paid-in capital	₱65,345,756
General and administrative expenses	6,891,892
Input VAT	975,843
Deferred input VAT	444,435
	₱73,657,926

IPO expenses include professional, listing, underwriting and advertising fees.

Retained Earnings
The Parent Company's BOD and stockholders declared the following cash dividends:

		Amount Declared	
Date of Declaration	Stockholders of Record	Per Share	Total
June 27, 2019	**June 30, 2019**	**₱0.0088**	**₱14,000,000**
December 27, 2018	December 27, 2018	₱0.0284	₱45,500,320
November 2, 2017	November 2, 2017	₱0.0820	₱118,326,841

Cash dividends declared in 2018 were paid in March 2019.

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

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

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

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

The debt-to-equity ratios are as follows:

	2020	2019
Total debt	**₱454,283,158**	₱484,818,811
Total equity	**1,322,774,875**	1,311,594,562
Debt-to-equity ratio	**0.34:1**	0.37:1

Pursuant to the PSE's rules on minimum public ownership, at least 10% of the issued and outstanding shares of a listed company must be owned and held by the public. The public ownership is about 31.85% and 20% as at June 30, 2020 and December 31, 2019, respectively.

The total number of shareholders of the Company as at June 30, 2020 is 127.

17. **Revenue**

This account consists of:

		June 30, 2020 (Unaudited)		June 30, 2019 (Audited)
Net sales	₱	**450,704,853.75**	₱	922,269,981.00
Franchise fees		**9,296,429.00**		14,821,643.00
Rental Income		**2,052,830.00**		4,096,716.00
	₱	**462,054,112.75**	₱	941,188,340.00

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

18. **Direct Costs**

This account consists of:

		June 30, 2020 (Unaudited)		June 30, 2019 (Audited)
Merchandise inventories at beginning of year	₱	**49,907,654.00**	₱	52,024,675.00
Purchases		**162,693,130.92**		367,884,481.00
Cost of goods available for sale		**212,600,784.92**		419,909,156.00
Merchandise inventories at end of year		**39,227,167.11**		43,626,116.00
Merchandise invetories-used		**173,373,617.81**		376,283,040.00
Direct labor		**5,338,036.57**		9,735,000.00
Manufacturing overhead		**2,951,399.10**		2,510,000.00
Cost of goods sold		**181,663,053.48**		388,528,040.00
Amortization of ROU asset		**4,079,464.64**		3,626,000.00
	₱	**185,742,518.12**	₱	392,154,040.00

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

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

19. **Selling and Distribution Expenses**

This account consists of:

	Note		June 30, 2020 (Unaudited)		June 30, 2019 (Audited)
Transporation and Travel		₱	5,781,243	₱	11,459,543
Contract Services			16,393,650		32,525,972
Salaries, wages and other employee benefits			70,445,866		124,969,000
Utilities			13,219,236		28,360,328
Rent			60,564,264		120,438,177
Advertising			13,551,239		13,286,853
Depreciation	9		27,324,933		32,539,726
Amortization	9		7,269,106		5,916,259
Repairs and Maintenance			3,616,892		6,764,605
Store supplies			3,047,054		6,522,096
Insurance			792,966		1,622,921
Agency fees			-		1,284,407
Management fees			2,766,793		2,877,191
Training			1,245,240		1,253,848
Miscellaneous			49,399		1,000,003
		₱	**226,067,879**	₱	390,820,929

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

Outside services pertain to salaries of service crews from agencies.

20. **General and Administrative Expenses**

This account consists of:

	Note		**June 30, 2020 (Unaudited)**		June 30, 2019 (Audited)
Retirement benefits	15	₱		₱	482,773
Contract Services			2,583,691		
Salaries, wages and other employee benefits			18,471,722		25,346,268
Professional Fees			3,356,063		4,467,257
Office Supplies			-		3,998,298
Taxes and Licenses			16,431,943		18,275,929
Representation expense			2,652,377		4,204,770
Management fee			-		81,943
Rent			5,855,418		4,065,865
Director's fee			526,034		-
Depreciation	9		16,387,571		2,056,687
Amortization	9		4,110,936		3,335,498
Training			26,797		133,950
Bank charges			303,638		131,199
Utilities			1,403,796		-
Others			2,143,130		2,602,068
Donations			3,462,725		
		₱	**77,715,841**	₱	69,182,505

21. **Other Income** - Net

This account consists of:

		June 30, 2020 (Unaudited)		June 30, 2019 (Audited)
Interest Income	₱	**3,604,737**	₱	241,251
Others		**10,300,967**		4,837,667
	₱	**13,905,704**	₱	5,078,918

Others consist mainly of outlets' cash overages and fees charged to lessees for utilities incurred on leased spaces on food parks; it also includes the gain in market value of certain investments as of June 30, 2020.

22. **Significant Agreements**

Group as Lessee - Short-term Lease

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

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

	2020	2019
Rental deposits	**₱97,297,683**	₱93,358,862
Advance rentals, prepayments and others	**34,431,045**	9,157,356
	₱131,728,728	₱102,516,218

The rental deposits will be applied against any unpaid rentals and other expenses related to the lease upon termination while the advance rentals will be utilized as rental payments for the last two to three months of the lease term.

Rental expense is charged to operations as follows:

		2020		2019
Selling and distribution expenses	₱	**44,286,117**	₱	53,077,345
General and administrative expenses		**5,059,175**		5,696,994
Direct cost		**-**		-
	₱	**49,345,292**	₱	58,774,339

The Group entered into noncancellable leases on outlets spaces, land and building with lease terms ranging from three to ten years subject to renewal. These leases have a fixed monthly rental subject to escalation clause.

The balance of and movements in ROU assets as at June 30, 2020 follow:

	Note	Outlets Spaces	L a n d and Building	Total
Cost				
Balance at beginning of year,				
as previously presented		₱–	₱–	₱–
Adoption of PFRS 16, *Leases*	2	43,305,702	71,888,908	115,194,610
Additions		-	-	-
Balance at end of year		43,305,702	71,888,908	115,194,610
Accumulated Amortization				
Amortization	9	(7,269,106)	(7,799,218)	(15,068,324)
Carrying Amount		₱36,036,596	₱64,089,690	₱100,126,286

The balance of and movements in lease liabilities as at June 30, 2020 follow:

	Note	Outlets Spaces	Land and Building	Total
Balance at beginning of year, as previously presented		₱–	₱–	₱–
Adoption of PFRS 16, *Leases*	22	46,430,167	73,792,164	120,222,331
Balance at beginning of year, as restated		46,430,167	70,968,768	117,398,935
Additions		39,211	-	39,211
Rental payments		(5,110,869)	(6,393,879)	(11,504,748)
Interest		1,007,981	1,776,204	2,784,185
Balance at end of year		42,366,490	66,351,093	108,717,583
Less current portion		11,245,073	15,047,072	26,292,145
Noncurrent portion		₱31,121,417	₱51,304,021	₱82,425,438

The incremental borrowing rates applied to the lease liabilities range from 10.87% to 11.00%, depending on the lease term. ROU assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

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.

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 million and ₱4 million in June 2020 and 2019, respectively. (See Note 17)

Franchise Agreements

The Group has granted its franchisees the right to operate outlets under various brands for acquired periods and subject to the terms and conditions specified in the franchise agreements. The agreements are renewable at the option of the Group. The agreements provide for an initial franchise fee payable upon execution of the agreements. The non-refundable initial franchise fee payment covers the renovation of franchisee's unit, signage, promotional materials and equipment. Franchise fees recognized as part of "Revenue" in the consolidated statements of comprehensive income amounted to ₱9.3 million and ₱14.8 million in 2020 and 2019, respectively (see Note 17).

23. **Events After the Reporting Period**

Impact of COVID-19. In March 2020, the COVID-19 outbreak was declared to be a global pandemic by the World Health Organization and the Group temporarily closed its Group-operated stores across the country beginning March 16, 2020, and expects these stores to remain closed until further notice. The Group plans to follow the guidance of local governments and health organization to determine when it can reopen these stores. As the situation continues to evolve rapidly, the Group is not currently able to predict the timing of store reopening, which may occur on a location- by-location basis.

As the community quarantine eases, the Group expects to see material improvement in sales as compared to the peak of the Enhanced Community Quarantine imposed throughout the country. Although the Group anticipates that COVID-19 will have a material impact on its business operations, including the duration and impact on overall customer demand, the impact cannot be reasonably estimated at this time.

As a precautionary measure, in March 2020, the Group took additional steps to reduce discretionary spending and other expenditures, rolled out procedures to ensure continuous delivery of their products using their newly acquired subsidiary, Cocodelivery Inc. (CDI) and repurpose or upgrade some stores into delivery hubs. The Group continues to monitor the situation closely and may implement further measures to provide additional flexibility and improve the Group's cash position and liquidity.

Notwithstanding the situation, management believes that with the Group's strong financial condition and ability to obtain short-term or long-term borrowings, the Group can continue as a going concern.