

August 14, 2023

THE SECURITIES AND EXCHANGE COMMISSION

Markets and Securities Regulation Department
17/F SEC Headquarters
7907 Makati Avenue, Salcedo Village,
Barangay Bel-Air, Makati City, 1209

Attention: **Mr. Vicente Graciano P. Felizmenio, Jr.**
Director, Securities and Exchange Commission

PHILIPPINE STOCK EXCHANGE

6/F PSE Tower, 5th Avenue corner 28th Street
Bonifacio Global City, Taguig City

Attention: **Ms. Alexandra D. Tom Wong**
Officer-in-Charge, Disclosure Department

Subject: **FRUIT' SEC Form 17Q-Quarter Report 2023**

Dear Sir/Madam:

We hereby submit the SEC Form 17Q for the Quarter Report ending June 30, 2023 of Fruitas Holdings Inc. (FRUIT).

Attached here is the Unaudited Financial Statement as of June 30, 2023.


Hope you find everything in order.

Thank you.

Very truly yours,

FRUITAS HOLDINGS INC.

By:


Rushell A. Salvador
Compliance Officer

COVER SHEET

C S 2 0 1 5 0 3 0 1 4

SEC Registration Number

F R U I T A S H O L D I N G S , I N C .

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(Company's Full Name)

N O . 6 0 C O R D I L L E R A S T .

B R G Y . D O N A J O S E F A Q U E Z O N C I T Y

(Business Address: No., Street City / Town / Province)

CONTACT PERSON INFORMATION

RUSHELL A. SALVADOR

Contact Person

+(632) 8731-8886

Company Telephone Number

SEC FORM 17-Q

For the Quarter Ended June 30, 2023

1 2

Month

3 1

Day

Fiscal Year

FORM TYPE

0 7

Month

2 7

Day

Annual Meeting

[Empty box]

Secondary License Type, If Applicable

[Empty box]

Dept Requiring this Doc

[Empty box]

Amended Articles Number / Section

[Empty box]

Total No. of Stockholders

Total Amount of Borrowings

[Empty box]

Domestic

[Empty box]

Foreign

To be accomplished by SEC Personnel concerned

[Empty grid]

File Number

LCU

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

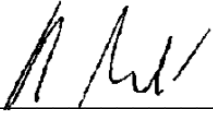
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended- 30 June 2023
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 |
|---------------------|---|
| <u>Common</u> | <u>2,133,680,000</u> |
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 EXCHANGE/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 []
-

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.



ROGELIO M. GUADALQUIVER
Chairman of the Board



LESTER C. YU
President and Chief Executive Officer



JUNEIL DOMINIC P. TORIO
Chief Finance Officer and Treasurer, IRO

August 14, 2023

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 1 5 0 3 0 1 4

COMPANY NAME

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

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

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

Form Type

A A C F S

Department requiring the report

C R M D

Secondary License Type, If Applicable

N / A

COMPANY INFORMATION

Company's Email Address

ipo.compliance@fruitasholdings.com

Company's Telephone Number/s

(02) 8 243-1741

Mobile Number

0967 7824 286

No. of Stockholders

124

Annual Meeting (Month / Day)

Every Second Monday of June

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Ms. Madelene Timbas-Sayson

Email Address

madelene.sayson@fruitasholdings.com

Telephone Number/s

(02) 8 243-1741

Mobile Number

-

CONTACT PERSON'S ADDRESS

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

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

NOTE 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 corp

FRUITAS HOLDINGS, INC. AND SUBSIDIARIES

[A Subsidiary of LUSH PROPERTIES, INC.]

Consolidated Financial Statements
As at June 30, 2023 and December 31, 2022 and for
the Years Ended June 30, 2023 and 2022

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

The following discussion should be read in conjunction with the Group's 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 2023 vs First half ended 2022

Key Highlights

Revenues

The Group generated revenues of ₱1.1 billion for the first half of 2023, a 44.67% or ₱351.8 million increase from the same period in 2022, which closed at ₱787.5 million. The increase was driven by the continuous store network expansion, stronger performance of the stores and addition of Ling Nam and Fly Kitchen to the Group.

Cost of Sales

Cost of sales for the first half, 2023 closed at ₱467.6 million, 54.11% or ₱164.2 million increase from the same period in 2022 which closed at ₱303.4 million. Despite inflationary pressures, gross profit margin in the first half of 2023 marginally declined versus the same period in 2022.

Operating Expenses

The Group's operating expenses settled at ₱618 million at the close of the first six months of 2023, a 41.56 % or an ₱181.4 million increase from the same period in 2022 which settled at ₱436.6 million. The increase was mainly attributed to the increased business volume during the first six months of 2023 and expansion undertaken by the Group.

Income Tax Expense/ Benefits

From ₱10.3 million current income tax last first half of 2022 to ₱12.7 million income tax for the same period in 2023. Increase in Income tax for the period ending June 30, 2023 was primarily due to the increase in revenues

Net income/(loss)

Net income for the period ending June 30, 2023 closed at ₱43.5 million compared to the same period of the prior year of ₱29.3 million, driven by the increase in revenues due to business expansion and leaner cost structure. The Group registered a 3.82% net income margin in first half of 2023, slightly higher than the 3.73% net income margin recorded in the same period in 2022.

Financial Condition as of JUNE 30, 2023 versus DECEMBER 2022

FRUIT had consolidated total assets of ₱2,004 million as of June 30, 2023, an increase of ₱45.3 million from the total assets of ₱ 1,959 million last December 31, 2022.

Cash and cash equivalents

As of end June 2023, cash and cash equivalents totaled ₱605.2 million, increased from ₱528.6 million as of end-2022. 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 ₱88.5 million as of June 2023 compared to ₱93.6 million as of end-2022, lower by 5.41% due to the collection efforts of the Group.

Inventories

As of March 2023, inventories increased to ₱51.5 million from ₱50.0 million as of end-2022. The slight increase is primarily attributed to the increase in raw material prices.

Property and Equipment

Consolidated net property and equipment stood at ₱392.0 million as of June 30, 2023. Acquisition of property and equipment for the first half of the year reached ₱98.8 million, which was invested in the building of new stores, additional transportation equipment, office and commissary improvements.

Intangible assets

Intangible assets increased to ₱218 million for the period ending June 30, 2023.

Trade and other payables

Trade and other payables increased by 8.73% for the period ending June 30, 2023 to ₱88.9 million driven by the increase in purchases caused by higher business volume.

Equity

As of June 30, 2023, the Group's consolidated equity increased to ₱1,566.0 million from ₱1,524.4 million as of end-2022.

Cash Flow Summary

Net cash provided by operating activities amounted to ₱152.4 million for the first half of 2023.

Net cash used for investing activities was ₱55.5 million during first half of 2023, driven by CAPEX.

Net cash used for financing activities was ₱20.3 million for the first half of 2023, mainly due to the roll forward of lease liabilities.

| | Interim First Half of 2023 | Interim First Half of 2022 |
|--------------------------------|-----------------------------------|-----------------------------------|
| Revenue Growth | 44.67% | 50.3% |
| Gross Profit Margin | 58.95% | 61.7% |
| Net Income/(loss) (in million) | 43.5 | 29 |
| | As of June 30, 2023 | As of December 31, 2022 |
| Current Ratio | 2.95x | 3.01x |
| Debt to Equity Ratio | 28.0% | 28.5% |

FRUITAS HOLDINGS INC. AND SUBSIDIARIES

(A Subsidiary of Lush Properties Inc.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | | Jun-2023 | | Dec-2022 |
|--|------|---|----------------------|---|----------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | 5 | ₱ | 605,198,399 | ₱ | 528,582,342 |
| Financial assets at fair value through profit and loss (FVPL) | 6 | | 62,106,226 | | 61,305,065 |
| Trade receivables | 7 | | 88,531,987 | | 93,598,650 |
| Due from related parties | 16 | | 117,042,515 | | 123,929,208 |
| Merchandise inventories | 8 | | 51,577,641 | | 49,918,349 |
| Deposits and advance rentals | 24 | | 104,332,036 | | 102,047,259 |
| Other current assets | 9 | | 36,136,730 | | 34,849,570 |
| Total Current Assets | | | 1,064,925,535 | | 994,230,443 |
| Noncurrent Assets | | | | | |
| Financial assets at fair value through other comprehensive income (FVOCI) | 6 | | 1,725,000 | | 1,725,000 |
| Investment properties | 10 | | 168,173,850 | | 168,173,850 |
| Property and equipment | 11 | | 392,141,869 | | 360,001,089 |
| Advances for asset acquisition | 24 | | - | | 54,000,000 |
| Right-of-use (ROU) assets | 24 | | 88,343,121 | | 113,480,249 |
| Intangible assets | 12 | | 217,999,243 | | 215,038,690 |
| Net deferred tax assets | | | 52,733,398 | | 52,733,398 |
| Other non-current assets | | | 18,694,265 | | - |
| Total Noncurrent Assets | | | 939,810,746 | | 965,152,276 |
| | | ₱ | 2,004,736,281 | ₱ | 1,959,382,719 |
| LIABILITIES AND EQUITY | | | | | |
| Current Liabilities | | | | | |
| Trade and other payables | 13 | ₱ | 88,861,318 | ₱ | 81,725,913 |
| Notes payable | 14 | | 218,450,000 | | 205,000,000 |
| Current portion of: | | | | | |
| Mortgage payable | 15 | | - | | 80,909 |
| Lease liabilities | 24 | | 42,752,568 | | 42,752,568 |
| Income tax payable | | | 10,785,841 | | 831,880 |
| Total Current Liabilities | | | 360,849,727 | | 330,391,270 |

Noncurrent Liabilities

Noncurrent portion of:

| | | | |
|-------------------------------|----|--------------------|-------------|
| Lease liabilities | 24 | 62,870,298 | 89,957,285 |
| Security deposits | 24 | 771,128 | 771,128 |
| Retirement benefits liability | 17 | 14,217,930 | 13,897,930 |
| Total Noncurrent Liabilities | | 77,859,356 | 104,626,343 |
| Total Liabilities | | 438,709,083 | 435,017,613 |

Equity

| | | | |
|---------------------------------------|----|------------------------|-----------------|
| Capital stock | 18 | ₱ 213,368,000 | ₱ 213,368,000 |
| Additional paid-in capital | 18 | 777,837,044 | 777,837,044 |
| Retained earnings | 18 | 277,944,841 | 236,282,749 |
| Other equity reserves | 4 | 195,207,311 | 195,207,311 |
| Other comprehensive loss | | (808,668) | (808,668) |
| Equity Attributable to Equity Holders | | | |
| of the Parent Company | | 1,463,548,528 | 1,421,886,436 |
| Non-controlling interests | | 102,478,670 | 102,478,670 |
| | | 1,566,027,198 | 1,524,365,106 |
| | | ₱ 2,004,736,281 | ₱ 1,959,382,719 |

See accompanying Notes to Consolidated Financial Statements

FRUITAS HOLDINGS INC. AND SUBSIDIARIES

(A Subsidiary of Lush Properties Inc.)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | For the quarter ended June 2023 (unaudited) | For the quarter ended June 2022 (unaudited) | For the six months ended June 30, 2023 (unaudited) | For the six months ended June 30, 2022 (unaudited) |
|---|------|---|---|--|---|
| REVENUE | 19 | ₱ 624,113,870 | ₱ 457,023,129 | ₱ 1,139,292,580 | ₱ 787,498,897 |
| DIRECT COST | 20 | (256,367,591) | (178,552,955) | (467,630,968) | (303,439,408) |
| GROSS PROFIT | | 367,746,279 | 278,470,174 | 671,661,612 | 484,059,489 |
| SELLING AND DISTRIBUTION EXPENSES | 21 | (295,870,408) | (207,352,829) | (530,593,582) | (370,704,619) |
| GENERAL AND ADMINISTRATIVE EXPENSES | 22 | (47,089,714) | (36,209,467) | (87,475,539) | (65,923,117) |
| INTEREST EXPENSE | | (6,214,664) | (4,396,419) | (12,288,832) | (9,479,039) |
| OTHER INCOME-Net | 23 | 13,323,114 | 255,944 | 14,941,498 | 1,669,434 |
| INCOME (LOSS) BEFORE INCOME TAX | | 31,894,607 | 30,767,402 | 56,245,158 | 39,622,149 |
| PROVISION FOR (BENEFIT FROM) INCOME | | | | | |
| Current | | 7,520,837 | 7,812,746 | 12,707,980 | 10,276,952 |
| Deferred | | | | | |
| | | 7,520,837 | 7,812,746 | 12,707,980 | 10,276,952 |
| NET INCOME (LOSS) | | ₱ 24,373,770 | ₱ 22,954,656 | ₱ 43,537,177 | ₱ 29,345,197 |
| BASIC AND DILUTED EARNINGS PER SHARE | | ₱ 0.011 | ₱ 0.011 | ₱ 0.020 | ₱ 0.014 |

See accompanying Notes to Consolidated Financial Statements

FRUITAS HOLDINGS INC. AND SUBSIDIARIES

(A Subsidiary of Lush Properties Inc.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Jun-2023 | Jun-2022 |
|--|------|------------------------|-----------------|
| Capital Stock - ₱0.10 par value | | ₱ | ₱ |
| Authorized- 4,700,000,000 shares | 18 | 213,368,000 | 213,368,000 |
| Issued and outstanding-2,133,680,000 shares | | | |
| Additional Paid-in Capital | 18 | 777,837,044 | 777,837,044 |
| Retained Earnings | | | |
| Balance at beginning of year | | 236,282,749 | 180,382,329 |
| Net Income (loss) | | 43,537,177 | 29,345,197 |
| Cash Dividends of subsidiary to non controlling interest | | (1,875,085) | - |
| Balance at end of year | | 277,944,841 | 209,727,526 |
| Other Equity Reserves | | | |
| Balance at beginning of year | 4 | 195,207,311 | 51,252,779 |
| Equity Transaction resulting from the listing of a subsidiary | | | 161,463,702 |
| Acquisition of non-controlling interest | | | (16,252,542) |
| Balance at end of year | | 195,207,311 | 196,463,939 |
| Other Comprehensive Loss | | | |
| Balance at beginning of year | | (808,668) | (808,668) |
| Balance at end of year | | (808,668) | (808,668) |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | | 1,463,548,528 | 1,396,587,841 |
| NON-CONTROLLING INTEREST | | | |
| Balance at beginning of year | | 102,478,670 | |
| Share of non-controlling interest from listing of a subsidiary | | | 107,603,607 |
| Acquisition of non-controlling interest | | | (10,588,491) |
| Balance at end of year | | 102,478,670 | 97,015,116 |
| | | ₱ 1,566,027,198 | ₱ 1,493,602,957 |

See accompanying Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF CASHFLOW

| | Note | Jun-2023 | Jun-2022 |
|---|------|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income (loss) before income tax | | ₱ 56,245,158 | ₱ 30,767,402 |
| Adjustments for: | | | |
| Depreciation and amortization | 11 | 92,262,765 | 81,003,918 |
| Interest expense | | 12,288,832 | 9,479,039 |
| Fair value loss (gain) on: | | | |
| Financial assets at FVPL | 6 | (801,161) | - |
| Interest income | 5 | (2,313,830) | (181,494) |
| Retirement benefits cost | 17 | 1,620,000 | 870,000 |
| Operating income before working capital changes | | 159,301,764 | 121,938,866 |
| Decrease (increase) in: | | | |
| Trade receivables | | 5,066,663 | 1,477,235 |
| Merchandise inventories | | (1,659,292) | (1,927,196) |
| Deposits and advance rentals | | (2,284,777) | 5,013,675 |
| Other current assets | | (1,287,160) | (11,292,825) |
| Increase (decrease) in; | | | |
| Trade and other payables | | 7,135,405 | (11,053,535) |
| Net cash generated from (used for) operations | | 166,272,602 | 104,156,220 |
| Income taxes paid | | (3,906,491) | (1,260,291) |
| Interest paid | | (12,288,832) | (4,191,124) |
| Interest received | | 2,313,830 | 181,494 |
| Net cash provided by (used in) operating activities | | 152,391,109 | 98,886,299 |
| <i>(Forward)</i> | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisitions of: | | | |
| Property and equipment | 11 | (44,772,124) | (61,073,548) |
| Financial assets at FVPL | | - | - |
| A subsidiary, net of cash | | (14,163,284) | - |
| Intangible assets | 12 | (3,454,846) | - |
| Collections from related parties | | 6,886,693 | - |
| Advances to related parties | | - | (3,000,000) |
| Net cash provided by (used in) investing activities | | (55,503,561) | (64,073,548) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from: | | | |
| Issuance of shares to non-controlling interest | | - | 242,226,276 |
| Issuance of promissory notes | 14 | 98,000,000 | 40,000,000 |
| Payments of: | | | |
| Lease liabilities | 24 | (31,765,497) | (25,355,492) |
| Cash dividends of Subsidiary | | - | - |
| to Non controlling interest | | (1,875,085) | - |
| Notes payable | 14 | (84,550,000) | - |
| Mortgage payable | 15 | (80,909) | (624,141) |
| Net cash provided by (used in) financing activities | | (20,271,491) | 256,246,643 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | |
| | | - | - |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 76,616,057 | 291,059,394 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 528,582,342 | 318,431,017 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | ₱ 605,198,399 | ₱ 609,490,411 |

See accompanying Notes to Consolidated Financial Statements

FRUITAS HOLDINGS, INC. AND SUBSIDIARIES

(A Subsidiary of LUSH PROPERTIES, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2023 AND DECEMBER 31, 2022 AND FOR THE PERIOD ENDED
JUNE 30, 2023, AND JUNE 30, 2022

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. (<i>doing business under the name and style of De Original Jamaican Pattie Shop & Juice Bar</i>) (NTI) | June 20, 1990 |
| Balai Ni Fruitas, Inc. (<i>formerly: Buko ni Fruitas Inc.</i>) (BNFI) | May 17, 2005 |
| Fruitasgroup Incorporated (<i>doing business under the name and style of Bukoloco, Fruitasicecandy and 7,107 Halo Halo Islands</i>) (FGI) | July 13, 2010 |
| SoyKingdom, Inc. (SKI) | August 28, 2006 |
| CocoDelivery, Inc. (CDI) | September 6, 2018 |
| Fly Kitchen, Inc. (FKI) | October 1, 2019 |
| 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. On November 29, 2019, the common shares of the Parent Company were listed and traded in the Philippine Stock Exchange (PSE) through an initial public offering (IPO) under the trading name “FRUIT”.

The principal activities and percentage of ownership of the Parent Company’s subsidiaries as at June 30, 2023, December 31, 2022 and 2021 are presented below.

| Subsidiaries | Principal Activities | Principal Place of Business | Percentage of Ownership (%) | | |
|--------------|--|-----------------------------|-----------------------------|-------|------|
| | | | 2023 | 2022 | 2021 |
| Direct: | | | | | |
| | Production, processing and distribution of goods | | | | |
| NTI | | Philippines | 100 | 100 | 100 |
| FGI | Trading of goods | Philippines | 100 | 100 | 100 |
| SKI | Trading of goods | Philippines | 100 | 100 | 100 |
| CDI | Trading of goods | Philippines | 100 | 100 | 100 |
| BNFI | Trading of goods | Philippines | 74.92 | 74.92 | 100 |
| FKI** | Kitchen Operation | Philippines | 100 | - | - |
| Indirect: | | | | | |
| LNFI** | Restaurant Business | Philippines | 100 | - | - |
| GEIL | Holding company | British Virgin Islands | 100 | 100 | 100 |
| OLL | Holding company | Samoan Islands | 100 | 100 | 100 |

** acquired in 2023

Changes in Ownership Structure

FHI. As at June 30, 2023, and December 31, 2022, the Parent Company is 52.84% owned by LUSH PROPERTIES, INC. (LPI or the Ultimate Parent), a company incorporated and domiciled in the Philippines. LPI is engaged in leasing/real estate activities.

NTI. In June 2020, the Parent Company subscribed to additional 63,430 common shares at ₱255.00 per share or for ₱16.2 million.

In February 2020, NTI acquired the rights, title and interest to the assets of two stores of Kxn Kuxina Food Corporation (“Kuxina”), operating under the names and styles of Kuxina Ihaw Na! and Kuxina Filipino Fusion. Kuxina serves Filipino food dishes complementing the current brands of the Group. The assets acquired aggregated ₱1.0 million (see Note 4).

BNFI. In June 2021, BNFI acquired the assets and the brand name *Balai Pandesal* from Balai Pandesal Corporation (BPC). The acquisition was completed following the execution of the Deed of Absolute Sale and the Deed of Assignment of the registered trademark and the payment of ₱11.2 million. The Group accounted for the acquisition of the assets of Balai as an acquisition of a business since it has acquired an integrated set of business processes in addition to the group of assets acquired (see Note 4).

On December 27, 2021, the stockholder and the BOD of BNFI authorized the share offering of BNFI common shares with the PSE. This was approved by the SEC and PSE on May 24, 2022 and May 26, 2022, respectively. On June 30, 2022, 325.0 million common shares were approved listed on PSE. On the same date, the Parent Company sold 87.5 million shares as secondary offering. And in November 2022, the Parent Company reacquired 37.5 million shares. As a result of the listing of BNFI’s common shares, the Parent Company’s equity interest decreased from 100% to 74.92% in 2022 (see Note 4).

FGI. In November 2019, FGI’s BOD and stockholders approved another increase in FGI’s authorized capital stock from ₱100.0 million divided into 1,000,000 shares at ₱100.00 par value a share to ₱125.0 million divided into 1,230,000 common shares at ₱100.00 par value a share and 200,000 redeemable preferred shares at ₱10.00 par value a share. In relation to the increase, the Parent Company subscribed to additional 200,000 common shares and 80,000 preferred shares of FGI at ₱400.00 and ₱1,000.00 a share, respectively, for ₱160.0 million.

In 2020, the Parent Company subscribed to additional 40,000 common shares at ₱400.00 a share or for ₱16.0 million. On February 2, 2021, the SEC approved the increase in authorized capital stock of FGI to ₱125.0 million.

SKI. In February 2020, the Parent Company acquired 100% of the outstanding shares of SKI for ₱8.6 million. SKI, a domestic company, is engaged in the retail of soy-bean related products.

In 2022, SKI subscribe to 10,000,000 million shares at ₱1.00 share or for ₱10.0 million of Lingnam Food Inc.

CDI. In March 2020, the Parent Company acquired 100% of the outstanding shares of CDI for ₱1.1 million. CDI, a domestic company, is engaged in distribution of fresh coconut water.

FKI. In June 2023, the Parent Company acquired 100% of the outstanding shares of FKI for ₱ 14.68 million. FKI, a domestic company, is engaged in establishing, operating and maintaining kitchens, coffee shops, refreshment parlors, cocktail lounges and cater food retail and wholesale.

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 compliance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretation from International Financial Reporting Interpretations Committee issued by the Philippine Financial and Sustainability Reporting Standards Council (formerly Financial Reporting Standards Council) and adopted by the SEC, including SEC pronouncements.

Bases of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL), financial assets at fair value through other comprehensive income (FVOCI), investment properties which are measured at fair value and retirement benefits and lease liabilities measured at present value 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.

Further information about the assumptions made in measuring fair values is included in Notes 10 and 29 to the consolidated financial statements.

Adoption of Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS effective January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments will replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendments include an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or IFRIC 21, *Levies*, instead of the Conceptual Framework. The requirement will ensure that the liabilities recognized in a business combination will remain the same as those recognized applying the current requirements in PFRS 3. The amendments also clarified that an acquirer shall not recognize contingent assets acquired in a business combination. The amendments should be applied prospectively.
- Amendment to PFRS 16, *Leases - COVID-19-Related Rent Concessions beyond June 30, 2021* – In 2020, PFRS 16 was amended to provide practical expedient to lessees from applying the requirements on lease modifications for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for a change that is not a lease modification, e.g., as a variable lease payment. This amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted, and covers eligible rent concessions until June 30, 2021.

Due to continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allows lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022. The 2021 amendment is mandatory for entities that elected to apply the previous amendment. Accordingly, the Group has applied the amendment in the current year financial statements.

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applied the amendments.
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as applicable. Accordingly, the comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS 2018 to 2020 Cycle:
 - Amendment to PFRS 9, *Financial Instruments - Fees in the '10 percent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity shall include when it applies the '10 percent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendment.
 - Amendment to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

The adoption of the amended PFRS did not materially affect the consolidated financial statements of the Group. Additional disclosures were included in the consolidated financial statements, as necessary.

Amended PFRS in Issue But Not Yet Effective or Adopted

Relevant amended PFRS, which are effective as at December 31, 2022 but have not been applied in preparing the consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements*, and PFRS Practice Statement 2, *Making Materiality Judgments – Disclosure Initiative – Accounting Policies* - The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.
- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments should be applied on a modified retrospective basis. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2024-

- Amendments to PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity’s right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management’s intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Company shall also apply Amendments to PAS 1 - *Noncurrent Liabilities with Covenants* for that period.

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 applicable.

Basis of Consolidation

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

Subsidiaries

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

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

Non-controlling interests

Non-controlling interests represent the portion of net results and net assets not held by the Parent Company. They are presented in the consolidated statements of financial position within equity, apart from equity attributable to equity holders of the Parent Company and are separately disclosed in the consolidated statements of comprehensive income. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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.

A change in the ownership interest of a subsidiary, without a change in control, is accounted for as an equity transaction. Upon the loss of control, the Group derecognizes the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Gain or loss arising from the loss of control is recognized in profit or loss. If the Group retains an interest in the previous subsidiary, then such interest is measured at fair value at the date control is lost. Subsequently, it is accounted for as an equity-accounted investee or as financial assets at FVOCI depending on the level of interest retained.

Non-controlling Interests. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group, presented within equity in the consolidated statements of financial position, separately from equity attributable to equity holders of the Parent Company. Non-controlling interests represent the interests of minority shareholders of BNFI.

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 statements of comprehensive income or as a change to other comprehensive income. If the contingent consideration is not within the scope of PFRS 9, it is measured in accordance with appropriate PFRS. Contingent consideration that is classified as equity is not remeasured until it is finally settled and accounted for within equity.

If necessary information, such as 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 statements 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 at the date of business combination.

Financial Assets and Liabilities

Recognition and Measurement

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

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments is at fair value plus transaction costs, unless it is carried at fair value through profit or loss (FVPL), in which case transaction costs are immediately expensed.

“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, 2023 and December 31, 2022, the Group has no financial instruments classified as 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, 2023 and December 31, 2022, the Group’s cash and cash equivalents, trade 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 investments that are 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 Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

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

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the "Gain (loss) on change in fair value at FVPL" under "Other income (loss)" account in the separate statements of comprehensive income.

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

Financial Assets at FVOCI. For debt instruments that meet the contractual cash flow characteristic and are not designated at FVPL under the fair value option, the financial assets shall be measured at FVOCI 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 selling the financial assets; 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.

For equity instruments, the Group may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in other comprehensive income and presented in the equity section of the separate statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

As at June 30, 2023 and December 31, 2022, the Company has classified its investments in club shares as financial assets at FVOCI.

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, 2023 and December 31, 2022, the Group's trade and other payables (except statutory payable), notes payable, mortgage payable, lease liabilities, security deposits 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.

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

Impairment

The Group records an allowance for expected credit losses (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.

For trade receivables, the Company has applied the simplified approach and has calculated ECL based on the lifetime ECL. The Company 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.

For other financial assets at amortized cost, the Group has applied the general approach and ECL computation is based on the 12-month ECL, which pertains to the portion of lifetime ECL that results 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 statements 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 statements 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 statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements 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 cost of merchandise inventories includes all costs of purchase and other costs incurred to bring the merchandise inventories to their present location and condition. 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 are 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. Deposits and advances 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.

Other Current 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.

Spare Parts, Materials and Supplies. Spare parts, materials and supplies are initially recorded as assets and measured at transaction amounts. Subsequently, these are recognized in profit or loss as these are consumed in operations or expired.

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.

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 “Input VAT” or “Output VAT” presented as part of “Statutory payable” under “Trade and other payables” in the consolidated statements of financial position.

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 any impairment in value and recognized to corresponding asset or expense account when the goods or services for which the advances were made are received.

Deferred Input VAT. Deferred input VAT represents the unamortized amount of input VAT on capital goods and input VAT on the unpaid portion of availed services.

In accordance with Revenue Regulations (RR) No. 16-2005, input VAT on purchases or imports of the Group of capital goods (depreciable assets for income tax purposes) made prior to January 1, 2022 with an aggregate acquisition cost (exclusive of VAT) in each of the calendar month exceeding 1.0 million made is claimed as credit against output VAT over 60 months or the estimated useful lives of capital goods, whichever is shorter.

Deferred input VAT that is expected to be realized within 12 months after the financial reporting period is classified as current asset. Otherwise, it is classified as noncurrent asset.

Where the aggregate acquisition cost (exclusive of VAT) of the existing or finished depreciable capital goods purchased or imported during any calendar month does not exceed 1.0 million or if the purchase was made on or after January 1, 2022, the total input VAT will be allowable as credit against output VAT in the month of acquisition.

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.

Investment Properties

Investment properties represent a parcel of land, land improvements, and building and building improvements, which are held to earn rental and are not for sale in the ordinary course of business or for administrative purposes.

The investment properties are initially measured at cost. Cost comprises its purchase price, after deducting discounts and rebates, and other directly attributable costs to its working condition and location for its intended use. Subsequent to initial recognition, investment properties are stated at fair value. Any gain or loss resulting from a change in the fair value of the investment properties is recognized in profit or loss as “Gain from change in fair value of investment properties” presented in the consolidated statements of comprehensive income. Fair value is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment properties.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner-occupation or commencement of an operating lease to another party or ending of the construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sell.

Investment properties are derecognized when either these have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the year of retirement or disposal.

For tax purposes, the Group's investment properties are carried at cost less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the investment properties:

| <u>Asset Type</u> | <u>Useful Life (in years)</u> |
|------------------------------------|-------------------------------|
| Land improvements | 5 |
| Building and building improvements | 5 - 20 |

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 structures 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. CIP will be reclassified to the appropriate items of property and equipment 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:

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

The 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.

Advances for Asset Acquisition

Advances for asset acquisition are recognized whenever the Company pays in advance for its purchase of assets. The advances are measured at transaction amount less any impairment in value and will be reclassified to proper asset account upon completeness of the turnover of assets to the Company.

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 to 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 the results of operations, 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 cumulative 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.

Earnings (Loss) per Share

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

Diluted earnings (loss) per share is computed by adjusting the weighted average number of common shares outstanding to assume conversion of all the potentially dilutive common shares into common shares.

The Parent Company has no potentially dilutive common shares.

Revenue Recognition

Revenue

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

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

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

Service Fees. Service fees are recognized when the related delivery services are rendered.

Other Sources of Income

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, 2023 and December 31, 2022, 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, 2023 and December 31, 2022, 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, 2023 and December 31, 2022, 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

The Group assesses whether the contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified asset 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 eight 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 are measured using that functional currency. Transactions in foreign currencies are initially recorded using the prevailing exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at the reporting date. All differences are taken to the consolidated statements of comprehensive income. For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses in the year such are realized.

The assets and liabilities of GEIL and OLL are translated into 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 in 2023 and 2022.

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.

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.

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 the 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 the 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 not restate the financial information in the consolidated financial statements for periods prior to the reorganization of the entities under common control. 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 the 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.

Classifying Financial Instruments. The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

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 revenue, 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 a Property. The Group determines whether a property is classified as investment properties or property and equipment:

- Investment properties which pertain to parcels of land which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.
- Property and equipment are tangible items that are held for use in the delivering or supply of goods or services and are expected to be used for more than one period. These are properties which are owner-occupied and are substantially for use of the Group or in the operations.

Properties classified as investment properties and property and equipment are disclosed in Notes 10 and 11, respectively.

Classifying Lease Commitments - Group as a Lessor. 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 - 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, 2023 and December 31, 2022 is disclosed in Note 24.

Assessing the ECL of Trade 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 receivables as at June 30, 2023 and December 31, 2022 is disclosed in Note 7.

Assessing the ECL on Other Financial Assets at Amortized Cost. The Group determines the allowance for ECL using a 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 2023 and 2022. 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:

| <u>Asset Type</u> | <u>Note</u> | <u>Jun-2023</u> | <u>Dec-2022</u> |
|---------------------------|-------------|---------------------|-----------------|
| Cash and cash equivalents | 5 | ₱605,198,399 | ₱528,582,342 |
| Due from related parties | 16 | 117,042,515 | 123,929,208 |
| Construction bond | 9 | 3,249,066 | 3,185,750 |

Estimating the Fair Value of Financial Instruments. When the fair values of financial assets and financial liabilities recorded in the statements of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the earnings method. The inputs to this method are based on future maintainable earnings and price earnings ratio, but where these are not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

The fair value of the Group's financial assets at FVPL amounted to ₱62 million and ₱61.3 million as at June 30, 2023 and December 31, 2022, respectively. The financial assets at FVPL amounting to ₱1.7 million as at June 30, 2023 and December 31, 2022 are to be held indefinitely and will be sold in response to liquidity requirements; hence, the Group classified it as financial assets at FVOCI (see Note 6).

Estimating the 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 as at June 30, 2023 and December 31, 2022 are disclosed in Note 24.

Assessing the Renewal Options of Lease Commitments. The Group's lease commitments contain renewal options exercisable by the Group prior the end of the non-cancelable contract period. Where practicable, the Group seeks to include the renewal options to provide operational flexibility. The Group assessed at lease commencement that it is not reasonably certain that the Group will exercise the renewal options. A reassessment is made whether it is reasonably certain to exercise the renewal 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 inventory loss was recognized in 2023 and 2022. The carrying amount of merchandise inventories as at June 30, 2023 and December 31, 2022 is disclosed in Note 8.

Estimating the Fair Value of Investment Properties. Investment properties are measured at fair value. The Group works closely with external qualified appraisers who performed the valuation using appropriate valuation techniques. The appraiser used a valuation technique based on comparable market data adjusted as necessary to reflect the specific assets' location and condition and, estimated expected future cash flows, yields, occupancy rates, discount rates, replacement costs and remaining economic life. The valuation techniques and inputs used in the fair value measurement of investment properties are disclosed in Note 10.

For the purpose of fair value determination and disclosure, the Group determines the nature, characteristics and risks of the investment properties and the level of the fair value hierarchy.

Details of investment properties are disclosed in Note 10.

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. There were no changes in the estimated useful lives in 2023, and 2022.

The carrying amounts of property and equipment, intangible assets and ROU assets as at June 30, 2023 and December 31, 2022 are disclosed in Notes 11, 12 and 24, 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, 2023 and December 31, 2022 are greater than the corresponding carrying amounts of the CGUs as at the same dates.

No impairment loss was recognized in 2023, and 2022. The carrying amount of brand names as at June 30, 2023 and December 31, 2022 is disclosed in Note 12.

Assessing the 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.

Estimating the 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 17 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, 2023 and December 31, 2022 is disclosed in Note 17.

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 Business Acquisition and Group Reorganization

Business Acquisition

Fly Kitchen. In June 2023 the Group acquired the net assets of Fly Kitchen Inc. for a total consideration of ₱ 14.68 million

Lingnam. In March 2023, the Group acquired the assets and the brand name of Ling Nam from LN Banaue Inc and Peter K. Fung. The acquisition was completed following the execution of the Deed of Absolute Sale and the Deed of Assignment of the registered trademark and the payment of the related consideration amounting to ₱60 million.

Balai. In June 2021, the Group acquired the assets and the brand name Balai Pandesal from BPC. The acquisition was completed following the execution of the Deed of Absolute Sale and the Deed of Assignment of the registered trademark and the payment of the related consideration amounting to ₱11.2 million. The Group accounted for the acquisition of the assets of Balai as an acquisition of a business since it has acquired an integrated set of business processes in addition to the group of assets acquired.

Fair values of the net assets acquired are as follows

| | Amount |
|-------------------------------|------------|
| Store equipment | ₱6,449,000 |
| Intangible assets | 3,000,000 |
| Transportation equipment | 970,000 |
| Merchandise inventories | 801,000 |
| Fair values of the net assets | 11,220,000 |
| Total consideration | 11,220,000 |
| Difference | ₱- |

The outstanding payable related to the acquisition amounted to ₱2.8 million as at December 31, 2021 (see Note 13). This was paid in 2022.

SKI. As discussed in Note 1, the Group acquired the net assets of SKI for a total consideration of ₱8.6 million in February 2020. Fair values of the net assets acquired are as follows:

| | Amount |
|---------------------------|------------|
| Cash | ₱2,394,378 |
| Inventories | 442,490 |
| Other current assets | 88,889 |
| Property and equipment | 5,724,812 |
| Trade and other payables | (50,569) |
| Fair values of net assets | 8,600,000 |
| Total consideration | 8,600,000 |
| Difference | ₱- |

Kuxina. On February 1, 2020, the Group acquired the rights, title and interest to the assets of the two owned-stores of Kuxina, operating under the names and styles of “Kuxina Ihaw Na!” and “Kuxina Filipino Fusion” and continuing the franchise agreements of eight other stores. Kuxina serves Filipino food dishes complementing the current brands of the Group. The assets acquired aggregated ₱1.0 million.

Group Reorganization

The acquisition by the Parent Company of the subsidiaries (FGI, BNFI, NTI) was considered as a group reorganization of entities under common control. Accordingly, the acquisition is accounted for based on the carrying amounts of the assets and liabilities of the subsidiaries. Accordingly, no goodwill was recognized. The effect of the pooling of interests amounting to ₱55.2 million was recognized as part of “Other equity reserves”.

As discussed in Note 1, the Parent Company acquired 100% of the outstanding shares of CDI for ₱1.1 million in March 2020. The Parent Company and CDI are entities under common control. Accordingly, the acquisition is accounted for based on the carrying amounts of the assets and liabilities of CDI.

The carrying amounts of the assets and liabilities of CDI as at acquisition date are as follows:

| | Amount |
|--|--------------|
| Cash | ₱460,714 |
| Other current assets | 44,714 |
| Property and equipment | 2,973,258 |
| Accounts payable and other current liabilities | (1,757,301) |
| Advances from a related party | (4,536,203) |
| Net assets acquired | (2,814,818) |
| Amount paid by the Parent Company | 1,124,985 |
| Other equity reserve | (₱3,939,803) |

Changes in ownership interest without a loss of control

As discussed in Note 1, the common shares of BNFI were listed in the PSE and 325.0 million new common shares were issued at an offer price of ₱0.70 a share. Expenses incurred during the listing process amounted to ₱23.7 million. This resulted to a decrease in ownership interest of the Parent Company from 100% to 78.26% and the effect is as follows:

| | |
|--|---------------------|
| Gross proceeds | ₱227,500,000 |
| <u>Less expenses charged to APIC of BNFI</u> | <u>20,939,319</u> |
| Net proceeds | 206,560,681 |
| Share of non-controlling interest | (84,779,540) |
| <u>Other equity reserve</u> | <u>₱121,781,141</u> |

On the same day, the Parent Company disposed 87.5 million common shares of BNFI for a total consideration amounting to ₱61.3 million. Thus, further reducing the ownership interest to 72.41% and the effect is as follows:

| | |
|--|---------------------|
| Net proceeds | ₱61,250,000 |
| <u>Share of non-controlling interest</u> | <u>(22,824,067)</u> |
| <u>Other equity reserve</u> | <u>₱38,425,933</u> |

And in November 2022, the Parent Company acquired 37.5 million common shares of BNFI through the PSE for a total consideration of ₱26.5 million. Accordingly, the acquisition increased the ownership interest to 74.92% and the effect is as follows:

| | |
|--|----------------------|
| Carrying amount of Non-controlling interest acquired | ₱10,247,458 |
| <u>Acquisition costs</u> | <u>(26,500,000)</u> |
| <u>Other equity reserve</u> | <u>(₱16,252,542)</u> |

The decrease/increase in the Parent Company's ownership interest did not result in a loss of control. Accordingly, no gain or loss was recognized on the consolidated statements of comprehensive income.

5. Cash and Cash Equivalents

This account consists of:

| | Jun-2023 | Dec-2022 |
|-----------------------|---------------------|---------------------|
| Cash on hand | ₱6,122,179 | ₱4,306,465 |
| Cash in banks | 476,084,671 | 403,229,661 |
| Short-term placements | 122,991,549 | 121,046,216 |
| | ₱605,198,399 | ₱528,582,342 |

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 earn interest at the prevailing short-term placement rates.

Interest income earned amounted to ₱ 2.3 million, and ₱.181 million in June 2023 and 2022, respectively (see Note 23).

6. Financial Assets at FVPL and FVOCI

Financial Assets at FVPL

Investments in UITFs are held for trading. Hence, these have been classified as financial assets at FVPL.

Movements in investments at FVPL are as follows:

| | Note | Jun-2023 | Dec-2022 |
|---|------|--------------------|--------------------|
| Balance at beginning of year | | ₱61,305,065 | ₱67,545,325 |
| Additions | | 801,161 | 1,537,912 |
| Unrealized gain (loss) on changes in fair value | 23 | - | (7,778,172) |
| Balance at end of year | | ₱62,106,226 | ₱61,305,065 |

Financial Assets at FVOCI

Financial asset at FVOCI pertains to the investment in club shares amounting to ₱1.7 million.

The Company designated its investment in club shares as financial asset at FVOCI because the Company intends to hold this investment for the long term and for strategic purposes. The Company has assessed that the cost of the recently acquired investment approximates its fair value as at June 30, 2023.

7. Trade Receivables

This account consists of:

| | Jun-2023 | Dec-2022 |
|------------------------|--------------------|--------------------|
| Trade | ₱91,769,987 | ₱96,836,650 |
| Less allowance for ECL | 3,238,000 | 3,238,000 |
| | ₱88,531,987 | ₱93,598,650 |

Movements in the allowance for ECL are as follows:

| | Jun-2023 | Dec-2022 |
|------------------------------|------------|------------|
| Balance at beginning of year | ₱3,238,000 | ₱3,238,000 |
| Write-off | - | - |
| Balance at end of year | ₱3,238,000 | ₱3,238,000 |

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

Below is the aging of receivables.

| | As at June 30, 2023 | | | | |
|---------------------------------|---------------------|---------------------------------|-----------------------|----------------------|--------------------------|
| | Total | Neither past Due of impaired | Less than one year | One year and over | Past Due and Impaired |
| Trade: | | | | | |
| Third Party | 73,554,610 | 39,063,937 | 31,576,969 | 2,913,703 | - |
| Related party | 7,194,438 | - | 7,194,438 | | - |
| Tenants | 62,891 | 62,891 | | | |
| | 80,811,938 | 39,063,937 | 38,771,407 | 2,913,703 | - |
| Advances to suppliers | 4,434,158 | 4,434,158 | | - | - |
| Others | 6,523,891 | 6,523,891 | | - | - |
| | 91,769,986 | 50,021,986 | 38,771,407 | 2,913,703 | - |
| Allowance for doubtful accounts | - | - | - | - | 3,238,000 |
| | 88,531,986 | 50,021,986 | 38,771,407 | 2,913,703 | - |

| | As at December 31, 2022 | | | | |
|---------------------------------|-------------------------|---------------------------------|-----------------------|----------------------|--------------------------|
| | Total | Neither past Due of impaired | Less than one year | One year and over | Past Due and Impaired |
| Trade: | | | | | |
| Third Party | 77,186,527 | 39,659,813 | 34,188,138 | 3,338,575 | - |
| Related party | 7,447,331 | | 7,447,331 | | - |
| Tenants | 272,680 | 272,680 | | | - |
| | 84,906,538 | 39,932,493 | 41,635,469 | 3,338,575 | - |
| Advances to suppliers | 5,372,184 | 5,372,184 | - | - | - |
| Others | 6,557,928 | 6,557,928 | - | - | - |
| | 96,836,650 | 51,862,605 | 41,635,469 | 3,338,575 | - |
| Allowance for doubtful accounts | - | - | - | - | 3,238,000 |
| | 93,598,650 | 51,862,605 | 41,635,469 | 3,338,575 | - |

8. Merchandise Inventories

This account consist of:

| | Jun-2023 | Dec-2022 |
|---------------------------|--------------------|-------------|
| Food and beverages | ₱36,286,256 | ₱30,359,215 |
| Store supplies and others | 15,291,385 | 19,559,134 |
| | ₱51,577,641 | ₱49,918,349 |

The Group's merchandise inventories are carried at cost, which is lower than its NRV. No inventory losses were recognized in 2023 and 2022.

Cost of merchandise inventories charged to "Direct costs" amounted to ₱426 million and ₱268 million, in 2023 and 2022, respectively (see Note 20).

9. Other Current Assets

This account consists of:

| | Jun-2023 | Dec-2022 |
|-------------------------------------|--------------------|-------------|
| Advances to officers and employees | ₱13,799,132 | ₱15,391,437 |
| Spare parts, materials and supplies | 5,400,323 | 5,400,323 |
| CWTs | 5,412,507 | 4,824,852 |
| Input VAT | 759,435 | 3,995,299 |
| Construction bond | 3,249,066 | 3,185,750 |
| Advances to suppliers | 774,308 | 774,308 |
| Prepayments | 6,183,584 | 241,541 |
| Others | 558,375 | 1,036,060 |
| | ₱36,136,730 | ₱34,849,570 |

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

Construction bond is collectible once the improvement is completed and transferred by the Group to the lessor.

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

Prepayments mainly consist of insurance, taxes and licenses and advertising.

10. Investment Properties

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

| | June-2023 | | | |
|--|---------------|-------------------|------------------------------------|---------------|
| | Land | Land Improvements | Building and Building Improvements | Total |
| Cost | | | | |
| Balance at the beginning of year | ₱ 95,393,047 | ₱ 577,500 | ₱ 31,404,503 | ₱ 127,375,050 |
| Cumulative Fair Value Changes | | | | |
| Balance at beginning of year | 43,123,803 | (160,500) | (2,164,503) | 40,798,800 |
| Gain (loss) from changes in fair value | | | | - |
| Balance at end of year | 43,123,803 | (160,500) | (2,164,503) | 40,798,800 |
| Carrying amount | ₱ 138,516,850 | ₱ 417,000 | ₱ 29,240,000 | ₱ 168,173,850 |

| | Dec-2022 | | | |
|--|---------------|-------------------|------------------------------------|---------------|
| | Land | Land Improvements | Building and Building Improvements | Total |
| Cost | | | | |
| Balance at the beginning of year | ₱ 95,393,047 | ₱ 577,500 | ₱ 31,404,503 | ₱ 127,375,050 |
| Cumulative Fair Value Changes | | | | |
| Balance at beginning of year | 41,759,553 | (115,500) | (1,582,503) | 40,061,550 |
| Gain (loss) from changes in fair value | 1,364,250 | (45,000) | (582,000) | 737,250 |
| Balance at end of year | 43,123,803 | (160,500) | (2,164,503) | 40,798,800 |
| Carrying amount | ₱ 138,516,850 | ₱ 417,000 | ₱ 29,240,000 | ₱ 168,173,850 |

In November 2020, the Group purchased a parcel of land with a building located in Sta. Mesa, Manila for ₱126.9 million. Related input VAT amounted to ₱15.0 million.

Fair Value

Land. The fair value of the Group's land is ₱138.5 million and ₱137.2 million as at June 30, 2023. The fair value of the land was determined by an independent property appraiser in 2022 and 2021. The inputs used to determine the market value of the investment properties using the sales comparison approach include location characteristics, size, time element, quality and marketability. Accordingly, the fair value measurement used is classified as Level 3 in 2022 and 2021, respectively.

Land Improvements, Building and Building Improvements. The fair value of land improvements, building and building improvements is categorized under Level 3 using the cost approach wherein the appraised value was based on the cost of constructing an equivalent new structure less depreciation adjustments.

The fair value of the land improvements, building and building improvements was determined by an independent firm of appraisers as at December 31, 2022.

Description of key inputs to valuation on land follows:

| Location | Significant unobservable Inputs | Range (weighted average) | |
|-----------------------------------|---|--------------------------------------|------------------------------|
| | | 2022 | 2021 |
| Sampaloc District, City of Manila | Selling price per square meter Value adjustments | ₱152,300/sq. m. 5% to 15% | ₱150,000/sq. m. 5% to 15% |

The significant unobservable inputs to fair valuation are as follows:

Price per square meter: Estimated value prevailing in the real estate market depending on the location, area, shape and time element.

Value adjustments: Adjustments are made to bring the comparative values in approximation to the investment properties taking into account external factors (market conditions, competitiveness, economic condition/demand/growth, time element) and internal factors (location, size/shape/terrain and development).

In valuing the land using sales comparison approach, records of recent sales and offerings of similar land are analyzed and comparisons were made for such factors as size, characteristic of the lot, location, quality and prospective use.

Sensitivity Analysis. Generally, significant increases (decreases) in useful life of assets (excluding land) would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in factors that contributed in the physical deterioration and all relevant forms of obsolescence in isolation would result in a significantly lower (higher) fair value measurement.

11. Property and Equipment

The composition of and movements in this account follows:

| | June-2023 | | | | | | Total |
|--------------------------------------|--------------------|-----------|------------------------|--------------------------|--|---|---------------------|
| | Land | CIP | Leasehold Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Store Furniture, Fixtures and Equipment | |
| Cost | | | | | | | |
| Balance at beginning of year | ₱32,600,000 | ₱- | ₱261,522,408 | ₱77,550,250 | ₱53,294,882 | ₱396,436,780 | ₱821,404,320 |
| Additions | 4,908,750 | - | 23,331,197 | 9,519,646 | 2,289,484 | 58,723,047 | 98,772,124 |
| Reclassifications | - | - | - | - | - | - | - |
| Balance at end of year | 37,508,750 | - | 284,853,605 | 87,069,896 | 55,584,366 | 455,159,827 | 920,176,444 |
| Accumulated | | | | | | | |
| Depreciation and Amortization | | | | | | | |
| Balance at beginning of year | - | - | 148,703,254 | 32,153,905 | 41,324,155 | 239,221,917 | 461,403,231 |
| Depreciation and amortization | - | - | 8,696,307 | 10,174,194 | 1,352,544 | 46,408,299 | 66,631,344 |
| Balance at end of year | - | - | 157,399,561 | 42,328,099 | 42,676,699 | 285,630,216 | 528,034,575 |
| Carrying Amount | ₱37,508,750 | ₱- | ₱127,454,044 | ₱44,741,797 | ₱ 12,907,667 | ₱169,529,611 | ₱392,141,869 |

| 2022 | | | | | | | |
|--|-------------|--------------|------------------------|--------------------------|--|---|--------------|
| | Land | CIP | Leasehold Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Store Furniture, Fixtures and Equipment | Total |
| Cost | | | | | | | |
| Balance at beginning of year | ₱32,600,000 | ₱28,828,082 | ₱188,013,186 | ₱53,873,511 | ₱27,399,060 | ₱369,999,117 | ₱700,712,956 |
| Additions | - | - | 54,194,081 | 23,676,739 | 25,895,822 | 16,924,722 | 120,691,364 |
| Reclassifications | - | (28,828,082) | 19,315,141 | - | - | 9,512,941 | - |
| Balance at end of year | 32,600,000 | - | 261,522,408 | 77,550,250 | 53,294,882 | 396,436,780 | 821,404,320 |
| Accumulated Depreciation and Amortization | | | | | | | |
| Balance at beginning of year | - | - | 118,863,748 | 20,544,036 | 22,631,411 | 196,989,621 | 359,028,816 |
| Depreciation and amortization | - | - | 29,839,506 | 11,609,869 | 18,692,744 | 42,232,296 | 102,374,415 |
| Balance at end of year | - | - | 148,703,254 | 32,153,905 | 41,324,155 | 239,221,917 | 461,403,231 |
| Carrying Amount | ₱32,600,000 | ₱- | ₱112,819,154 | ₱45,396,345 | ₱11,970,727 | ₱157,214,863 | ₱360,001,089 |

CIP represents leasehold improvements of store spaces under construction and store furniture and fixtures. As at December 31, 2022, the estimated cost to complete is ₱2.3 million and to be expected to be completed within one year.

Depreciation and amortization are summarized as follows:

| | Note | June-2023 | June-2022 |
|------------------------|------|---------------------|-------------|
| Property and equipment | | ₱66,631,344 | ₱56,625,287 |
| ROU assets | 24 | 25,137,128 | 23,893,698 |
| Intangible assets | 12 | 494,293 | 484,933 |
| | | ₱ 92,262,765 | ₱81,003,918 |

Depreciation and amortization are charged to the following:

| | Note | June-2023 | June-2022 |
|-----------------------------------|------|---------------------|-------------|
| Selling and distribution expenses | 21 | ₱ 81,482,931 | ₱69,801,519 |
| Direct costs | 20 | 5,490,133 | 6,585,777 |
| General and administrative | 22 | 5,289,701 | 4,616,622 |
| | | ₱ 92,262,765 | ₱81,003,918 |

12. Intangible Assets

This account consists of:

| June-2023 | | | | |
|----------------------------------|------|---------------|------------------|---------------|
| | Note | Brand Names | Software License | Total |
| Cost | | | | |
| Balance at the beginning of year | | ₱ 214,348,448 | ₱ 5,193,830 | ₱ 219,542,278 |
| Additions | | 3,000,000 | 454,846 | 3,454,846 |
| | | 217,348,448 | 5,648,676 | 222,997,124 |
| Accumulated Amortization | | | | |
| Balance at beginning of year | | - | 4,503,588 | 4,503,588 |
| Amortization | | - | 494,293 | 494,293 |
| Balance at end of year | | - | 4,997,881 | 4,997,881 |
| Carrying amount | | ₱ 217,348,448 | ₱ 650,795 | ₱ 217,999,243 |

| Dec-2022 | | | | |
|----------------------------------|------|---------------|------------------|---------------|
| | Note | Brand Names | Software License | Total |
| Cost | | | | |
| Balance at the beginning of year | | ₱ 214,348,448 | ₱ 5,193,830 | ₱ 219,542,278 |
| Accumulated Amortization | | | | |
| Balance at beginning of year | | - | 3,721,222 | 3,721,222 |
| Amortization | | - | 782,366 | 782,366 |
| Balance at end of year | | - | 4,503,588 | 4,503,588 |
| Carrying amount | | ₱ 214,348,448 | ₱ 690,242 | ₱ 215,038,690 |

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 recognized a brand name amounting to ₱11.2 million following the completion of the acquisition of *Sabroso Lechon* brand from SLI.

In 2021, the Group also recognized a brand name amounting to ₱3.0 million following the acquisition of the *Balai Pandesal* brand from Balai (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 is 12.0% to 11.5% in 2022 and 2021, respectively. The recoverable amount of each CGU, calculated using value in use, exceeded the carrying amount of the CGU as at December 31, 2022 and 2021.

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

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

13. Trade and Other Payables

This account consists of:

| | Note | June-2023 | Dec-2022 |
|-------------------|------|--------------------|-------------|
| Trade | | ₱44,228,262 | ₱44,010,626 |
| Accrued expenses: | | | |
| Rental | | 12,434,940 | 15,679,650 |
| Others | | 5,771,358 | 5,773,979 |
| Statutory payable | | 26,426,758 | 16,261,658 |
| | | ₱88,861,318 | ₱81,725,913 |

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

Accrued expenses consist mainly of rentals, unpaid salaries and professional fees 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.

14. Notes Payable

Movements in this account follow:

| | June-2023 | | Dec-2022 | |
|----------------------------------|-----------|--------------|----------|--------------|
| Balance at the beginning of year | ₱ | 205,000,000 | ₱ | 184,580,500 |
| Availments | | 98,000,000 | | 40,000,000 |
| Payments | | (84,550,000) | | (19,580,500) |
| Balance at year end | ₱ | 218,450,000 | ₱ | 205,000,000 |

15. Mortgage Payable

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

Movement in this account are as follows:

| | June-2023 | | Dec-2022 | |
|----------------------------------|-----------|----------|----------|-------------|
| Balance at the beginning of year | ₱ | 80,909 | ₱ | 1,804,277 |
| Payments | | (80,909) | | (1,723,368) |
| Balance at year end | | - | | 80,909 |
| Les: Current portion | | - | | 80,909 |
| Balance at year end | ₱ | - | ₱ | - |

16. Related Party Transactions

The Group, in the normal course of business, has advances with its related parties under common management for working capital amounting to ₱117 million and ₱ 123.9 million, as at June 30, 2023 and December 31, 2022, respectively.

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 operate. There were no impairment losses recognized in 2023 and 2022.

17. 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 retirement benefits are based on years of service and compensation on the last year of employment as determined by an external actuary using the projected credit unit method.

The latest actuarial valuation of the plan was made in 2021 by an independent actuary. The Group did not obtain an actuarial valuation in 2022 because the management has assessed that the effect on the consolidated financial statements of the difference between the retirement benefits expense recognized by the Group and that resulting from actuarial valuation will not be significant.

The table below summarizes the components of retirement benefits expense recognized in the consolidated statements of comprehensive income (see Note 22).

| | June-2023 | Jun-2022 |
|----------------------|-------------------|-----------|
| Current service cost | ₱1,620,000 | ₱870,000 |
| Interest cost | - | - |
| | ₱1,620,000 | ₱ 870,000 |

Movements in the retirement benefits liability are as follows:

| | June-2023 | Dec-2022 |
|------------------------------|--------------------|-------------|
| Balance at beginning of year | ₱13,897,930 | ₱10,709,389 |
| Current service cost | 1,620,000 | 2,663,431 |
| Payments | (1,300,000) | 515,110 |
| Actuarial gain | - | - |
| Balance at end of year | ₱14,217,930 | ₱13,897,930 |

The principal assumptions used in determining the Group's retirement benefits liability as at June 30, 2023 and December 31, 2022 are as follows:

| | |
|-------------------------|------|
| Discount rate | 4.2% |
| Future salary increases | 3.0% |

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 2023.

| | Effect on Retirement Benefits Liability | |
|-----|--|--------------------------|
| | Discount Rate | Salary Projected Rate |
| +1% | (₱2,459,410) | ₱3,253,929 |
| -1% | 3,193,870 | (2,539,971) |

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 June 30, 2023 and December 31, 2022 is 25 years.

18. Equity

Capital Stock

This account consists of:

| | Number of Shares | | Amount | |
|--------------------------------------|----------------------|---------------|-------------------------|------------------|
| | June-2023 | Dec-2022 | June-2023 | Dec-2022 |
| Authorized Capital Stock | | | | |
| Common- ₱0.10 par value | | | ₱ | ₱ |
| Balance at beginning and end of year | 4,700,000,000 | 4,700,000,000 | 470,000,000.00 | 470,000,000.00 |
| Preferred- ₱0.01 par value | | | | |
| Balance at beginning and end of year | 3,000,000,000 | 3,000,000,000 | 30,000,000.00 | 30,000,000.00 |
| | 7,700,000,000 | 7,700,000,000 | ₱ 500,000,000 | ₱ 500,000,000 |
| Issued and Outstanding-Common | | | | |
| Balance at beginning and end of year | 2,133,680,000 | 2,133,680,000 | ₱ 213,368,000.00 | ₱ 213,368,000.00 |

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 November 29, 2019, the Parent Company's common shares were listed on the PSE. As at December 31, 2022, 2021 and 2020, 2,133,680,000 common shares are listed in the PSE.

Preferred Shares

The salient 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 amounting to ₱777.8 million.

Retained Earnings

The Parent Company's BOD and stockholders declared cash dividends to stockholders of record on August 27, 2020 for ₱0.01 a share for a total of ₱21,336,800 which were paid on September 18, 2020.

In 2022, the Parent Company's BOD and stockholders declared cash dividends to stockholders of record on August 8, 2022 for ₱0.01 a share for a total of ₱21,336,800 which were paid on September 1, 2022.

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:

| | June-2023 | Dec-2022 |
|----------------------|----------------------|---------------|
| Total debt | ₱438,709,083 | ₱435,017,613 |
| Total equity | 1,566,027,198 | 1,524,365,106 |
| Debt-to-equity ratio | 0.28:1 | 0.29:1 |

Pursuant to the PSE's rules on minimum public ownership, at least 15.00% of the issued and outstanding shares of a listed company must be owned and held by the public. The public ownership is about 40.75% as at March 31, 2023 and December 31, 2022, respectively.

The total number of shareholders of the Parent Company as at March 31, 2023 and December 31, 2022 is 124.

19. Revenue

This account consists of:

| | Note | June-2023 | Jun-2022 |
|--------------------|------|-----------------------|--------------|
| Net sales | | ₱1,134,308,773 | ₱785,917,606 |
| Franchise revenues | 24 | 1,587,536 | 270,000 |
| Rental income | 24 | 3,396,271 | 1,311,291 |
| | | ₱1,139,292,580 | ₱787,498,897 |

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.

20. Direct Costs

This account consists of:

| | Note | June-2023 | Jun-2022 |
|---|------|---------------|---------------|
| Direct materials used | 8 | ₱ 425,919,574 | ₱ 268,209,347 |
| Salaries, wages and other employee benefits | | 34,845,017 | 26,284,991 |
| Depreciation and amortization | 11 | 5,490,133 | 6,585,777 |
| Utilities | | 1,376,244 | 2,359,293 |
| | | ₱ 467,630,968 | ₱ 303,439,408 |

Salaries, wages and other employee benefits pertain to outside services and salaries and wages of personnel performing tasks directly related to the production of merchandise inventories.

21. Selling and Distribution Expenses

This account consists of:

| | Note | Jun-2023 | Jun-2022 |
|---|------|---------------|---------------|
| Salaries, wages and other employee benefits | | ₱ 182,999,564 | ₱ 122,541,151 |
| Rental | | 106,648,561 | 68,120,307 |
| Depreciation and amortization | 11 | 81,482,931 | 69,801,519 |
| Outside services | | 44,820,978 | 28,118,039 |
| Utilities | | 44,863,504 | 30,711,879 |
| Transportation and travel | | 18,312,306 | 13,685,251 |
| Management fees | | 6,607,085 | 5,740,971 |
| Repairs and maintenance | | 7,241,877 | 6,472,848 |
| Advertisement | | 9,475,010 | 6,759,119 |
| Distribution supplies | | 3,189,813 | 4,577,836 |
| Training and development | | 5,096,338 | 1,230,838 |
| Insurance | | 1,814,858 | 1,243,992 |
| Others | | 18,040,756 | 11,700,869 |
| | | ₱ 530,593,581 | ₱ 370,704,619 |

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

Outside services pertain to salaries of service crews from agencies.

22. General and Administrative Expenses

This account consists of:

| | Note | Jun-2023 | Jun-2022 |
|---|------|---------------------|--------------|
| Taxes and licenses | | ₱19,768,433 | ₱17,739,842 |
| Salaries, wages and other employees' benefits | | 23,986,251 | 16,896,880 |
| Depreciation and amortization | 11 | 5,289,701 | 4,616,622 |
| Professional fees | | 3,036,160 | 2,935,279 |
| Representation | | 10,333,988 | 5,882,603 |
| Rental | | 4,699,528 | 4,513,285 |
| Office supplies | | - | - |
| Outside services | | 5,956,383 | 4,966,506 |
| Utilities | | 3,105,857 | 2,239,130 |
| Retirement benefits cost | 17 | 1,620,000 | 870,000 |
| Management fees | | | |
| Training | | | |
| Provision for impairment loss | | | |
| Others | | 9,679,238 | 5,262,970 |
| | | ₱ 87,475,539 | ₱ 65,923,117 |

23. Other Income

This account consists of:

| | Note | Jun-2023 | Jun-2022 |
|--|------|---------------------|------------|
| Interest income | 5 | ₱ 2,313,829 | ₱ 181,494 |
| Gain (loss) from: | | | |
| Change in fair value of financial assets at FVPL | 6 | | - |
| Rent concessions | | | - |
| Dividend Income | | 613,691 | 635,714 |
| Unrealized foreign exchange gain | | - | - |
| Others | | 12,013,978 | 852,226 |
| | | ₱ 14,941,498 | ₱1,669,434 |

Others consist mainly of outlets' cash overages and fees charged to lessees for utilities incurred on leased spaces on food parks.

24. Significant Agreements

Acquisition of Assets Agreement

In June 2022, the Group entered into an agreement with a third party to purchase the latter's assets. The acquisition is expected to be completed upon substantial fulfillment of the closing of the Contract to and upon full payment of the total consideration.

Advances paid by the Company amounted to ₱54.0 million as at December 31, 2022.

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:

| | Jun-2023 | Dec-2022 |
|-----------------|---------------------|---------------------|
| Rental deposits | ₱96,458,663 | ₱ 93,653,547 |
| Advance rentals | 7,873,373 | 8,393,712 |
| | ₱104,332,036 | ₱102,047,259 |

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:

| | Note | Jun-2023 | Jun-2022 |
|-------------------------------------|------|----------------------|--------------------|
| Selling and distribution expenses | 21 | ₱ 106,648,561 | ₱68,120,307 |
| General and administrative expenses | 22 | 4,699,528 | 4,513,285 |
| | | ₱ 111,348,089 | ₱72,633,592 |

Group as Lessee - Long-term Lease

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 are as follows:

| | Note | 2023 | | |
|------------------------------|------|--------------------|--------------------|--------------------|
| | | Outlets Spaces | Land and Building | Total |
| Cost | | | | |
| Balance at beginning of year | | ₱106,444,958 | ₱123,949,865 | ₱230,394,823 |
| Additions | | - | - | - |
| Retirement of lease | | - | - | - |
| Termination of lease | | - | - | - |
| Balance at end of year | | 106,444,958 | 123,949,865 | 230,394,823 |

| | | 2023 | | |
|---------------------------------|------|--------------------|--------------------|--------------------|
| | Note | Outlets Spaces | Land and Building | Total |
| Accumulated Amortization | | | | |
| Balance at beginning of year | | 52,974,594 | 63,939,980 | 116,914,574 |
| Amortization | 11 | 3,606,706 | 21,530,422 | 25,137,128 |
| Retirement of lease | | - | - | - |
| Termination of lease | | - | - | - |
| Balance at end of year | | 56,581,300 | 85,470,402 | 142,051,702 |
| Carrying Amount | | ₱49,863,658 | ₱38,470,463 | ₱88,343,121 |

| | | 2022 | | |
|---------------------------------|------|----------------|-------------------|--------------|
| | Note | Outlets Spaces | Land and Building | Total |
| Cost | | | | |
| Balance at beginning of year | | ₱105,600,885 | ₱107,228,339 | ₱212,829,224 |
| Additions | | 22,375,771 | 16,721,526 | 39,097,297 |
| Termination of lease | | (21,531,698) | - | (21,531,698) |
| Balance at end of year | | 106,444,958 | 123,949,865 | 230,394,823 |
| Accumulated Amortization | | | | |
| Balance at beginning of year | | 35,279,796 | 45,842,622 | 81,122,418 |
| Amortization | 11 | 30,998,216 | 18,097,358 | 49,095,574 |
| Termination of lease | | (13,303,418) | - | (13,303,418) |
| Balance at end of year | | 52,974,594 | 63,939,980 | 116,914,574 |
| Carrying Amount | | ₱53,470,364 | ₱60,009,885 | ₱113,480,249 |

The balance of and movements in lease liabilities are as follows:

| | | June-2023 | | |
|------------------------------|------|----------------|-------------------|--------------|
| | Note | Outlets Spaces | Land and Building | Total |
| Balance at beginning of year | | ₱65,349,896 | ₱67,359,957 | ₱132,709,853 |
| Additions | | - | - | - |
| Rental payments | | (16,122,214) | (15,643,283) | (31,765,497) |
| Termination of lease | | - | - | - |
| Interest | | 2,227,258 | 2,451,253 | 4,678,511 |
| Gain from rent concessions | | - | - | - |
| Balance at end of year | | 51,464,940 | 54,167,927 | 105,622,867 |
| Less current portion | | 19,278,317 | 23,474,251 | 42,752,568 |
| Noncurrent portion | | ₱32,186,623 | ₱30,693,676 | ₱62,870,299 |

| | | Dec-2022 | | |
|------------------------------|------|----------------|-------------------|--------------|
| | Note | Outlets Spaces | Land and Building | Total |
| Balance at beginning of year | | ₱77,812,333 | ₱71,972,672 | ₱149,785,005 |
| Additions | | 24,595,799 | 15,782,926 | 40,378,725 |
| Rental payments | | (32,844,660) | (24,723,968) | (57,568,628) |
| Termination of lease | | (8,527,645) | - | (8,527,645) |
| Interest | | 4,950,487 | 5,543,695 | 10,494,182 |
| Gain from rent concessions | | (636,418) | (1,215,368) | (1,851,786) |
| Balance at end of year | | 65,349,896 | 67,359,957 | 132,709,853 |
| Less current portion | | 19,278,317 | 23,474,251 | 42,752,568 |
| Noncurrent portion | | ₱46,071,579 | ₱43,885,706 | ₱89,957,285 |

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.

COVID-19-Related Rent Concessions - amendment to PFRS 16 Leases

In 2021 and 2020, many lessors provided rent concessions to the Group as a result of the COVID-19 pandemic. Rent concessions include rent holidays or rent reductions for a certain period of time. The Group elected not to assess whether a COVID-19 related rent concession from a lessor is a lease modification but has applied the practical expedient to all rent concessions that meet the conditions for the practical expedient.

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.

In 2021, the Group leased out certain commercial spaces of its building to several parties under various noncancellable operating lease agreements with a term of one year to five years, renewable upon mutual agreement by the parties.

Security Deposits amounting to ₱ 771,128 as at June 30, 2023 and December 31, 2022, respectively are non-interest bearing and will be refunded at the end of the lease term.

Rental income amounted to ₱3.4 million, and ₱1.3 million, in 2023 and 2022, respectively (see Note 19).

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 revenue recognized as part of "Revenue" in the consolidated statements of comprehensive income amounted to ₱1.6 million, and ₱.270 million in 2023, and 2022, respectively (see Note 19).

25. Financial Instruments Risk Management Objectives and Policies

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

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

Credit Risk

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

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

| | June-2023 | Dec-2022 |
|---------------------------|---------------------|-----------------|
| Cash and cash equivalents | ₱605,198,399 | ₱528,582,342 |
| Financial assets at FVPL | 62,106,226 | 61,305,065 |
| Financial assets at FVOCI | 1,725,000 | 1,725,000 |
| Trade receivables | 88,531,987 | 93,598,650 |
| Due from related parties | 117,042,515 | 123,929,208 |
| Construction bond * | 3,249,066 | 3,185,750 |
| | ₱877,853,193 | ₱812,326,015 |

*Presented under "Other current asset" account

The Group deals only with reputable banks and customer to limit this risk. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The compliance with credit limits by customers is regularly monitored by management.

The tables below show the credit quality of financial assets:

| June 2023 | | | | | | | |
|-------------------------------|------------|----------------|----------------|----------------|---------------------------|--------------|------------------|
| Neither Past Due nor impaired | | | | | | | |
| | High Grade | | Standard Grade | | Past Due but Not Impaired | | Total |
| | | | | | | | |
| Cash and cash equivalents | ₱ | 605,198,399 | ₱ | - | ₱ | - | ₱ 605,198,399 |
| Financial assets at FVPL | | 62,106,226 | | - | | - | 62,106,226 |
| Financial assets at FVOCI | | 1,725,000 | | - | | - | 1,725,000 |
| Trade receivables | | - | | 88,531,987 | | 3,238,000 | 91,769,987 |
| Due from related parties | | - | | 117,042,515 | | - | 117,042,515 |
| Construction bond | | - | | 3,249,066 | | - | 3,249,066 |
| | ₱ | 669,029,625.18 | ₱ | 208,823,567.72 | ₱ | 3,238,000.00 | ₱ 881,091,192.90 |

| Dec-2022 | | | | | | | |
|-------------------------------|------------|----------------|----------------|----------------|---------------------------|--------------|------------------|
| Neither Past Due nor impaired | | | | | | | |
| | High Grade | | Standard Grade | | Past Due but Not Impaired | | Total |
| | | | | | | | |
| Cash and cash equivalents | ₱ | 528,582,342 | ₱ | - | ₱ | - | ₱ 528,582,342 |
| Financial assets at FVPL | | 61,305,065 | | - | | - | 61,305,065 |
| Financial assets at FVOCI | | 1,725,000 | | - | | - | 1,725,000 |
| Trade receivables | | - | | 90,360,650 | | 3,238,000 | 93,598,650 |
| Due from related parties | | - | | 123,929,208 | | - | 123,929,208 |
| Construction bond | | - | | 3,185,750 | | - | 3,185,750 |
| | ₱ | 591,612,407.00 | ₱ | 217,475,608.00 | ₱ | 3,238,000.00 | ₱ 812,326,015.00 |

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

- *High Grade.* Pertains to counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions and companies. Credit quality was determined based on the credit standing of the counterparty.
- *Standard Grade.* Other financial assets not belonging to high grade financial assets are included in this category.

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

Trade receivables arise mainly from transactions with its approved franchisees. Franchisees are subject to stringent financial, credit, and legal verification process. In addition, trade receivable balances are monitored on an on-going basis to ensure timely collections. Allowance for expected credit loss for trade receivables amounted to ₱3.2 million as at June 30, 2023 and December 31, 2022, respectively. Management assessed that the allowance is sufficient to cover the ECL of trade receivables of the Group.

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

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

- Cash and cash equivalents are deposited with reputable counterparty banks that possess good credit ratings.
- For construction bond and due from related parties, the Group considered the available liquid assets of the related parties and financial capacity of the third party service provider to refund the construction bond once the construction contract is completed.

Interest Rate Risk

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

The management has assessed that any variation in the interest rate will not have a material impact on the net profit or loss of the Group.

Liquidity Risk

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

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

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

26. Fair Value Measurement

The table below presents the carrying amounts and fair values of the Group's financial instruments as follows:

| | June-2023 | | Dec-2022 | |
|---|---------------------|---------------------|-----------------|--------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets at Amortized Cost | | | | |
| Cash and cash equivalents | ₱605,198,399 | ₱605,198,399 | ₱528,582,342 | ₱528,582,342 |
| Trade receivables | 88,531,987 | 88,531,987 | 93,598,650 | 93,598,650 |
| Due from related parties | 117,042,515 | 117,042,515 | 123,929,208 | 123,929,208 |
| Construction bond | 3,249,066 | 3,249,066 | 3,185,750 | 3,185,750 |
| Financial Assets at FVPL | 62,106,226 | 62,106,226 | 61,305,065 | 61,305,065 |
| Financial Assets at FVOCI | 1,725,000 | 1,725,000 | 1,725,000 | 1,725,000 |
| | ₱877,853,193 | ₱877,853,193 | ₱812,326,015 | ₱812,326,015 |

| | Mar-2023 | | Dec-2022 | |
|--|---------------------|---------------------|-----------------|--------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Liabilities at Amortized Cost | | | | |
| Trade and other payables* | ₱62,434,560 | ₱62,434,560 | ₱65,464,255 | ₱65,464,255 |
| Notes payable | 218,450,000 | 218,450,000 | 205,000,000 | 205,000,000 |
| Lease liabilities | 105,622,866 | 105,622,866 | 132,709,853 | 132,709,853 |
| Mortgage payable | - | - | 80,909 | 80,909 |
| | ₱386,507,426 | ₱386,507,426 | ₱403,255,017 | ₱403,255,017 |

* Excluding statutory payable.

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

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

Financial Assets at FVPL. The fair value of investments at FVPL classified as Level 1 was determined using the quoted market prices as published by the trust company.

Financial Assets at FVOCI. The fair value of investment in club shares designated as financial assets at FVOCI is classified under Level 3 of the fair value hierarchy.

Lease Liabilities and Mortgage Payable. Fair value is determined based on the discounted cash flow analysis using effective interest rates for similar types of instruments. These financial instruments are classified under Level 2 of the fair value hierarchy groups of the financial statements (significant observable inputs). The rate applied to mortgage payable range from 2.42% to 3.76%, while rates applied to lease liabilities range from 7.30% to 8.35%.

27. Operating Segment Information

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

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

Outlet stores sales are attributable to revenue from the general public, which are generated through the Group's store outlets. Consequently, the Group has no concentrations of revenue from a single customer in 2023 and 2022.