



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS**

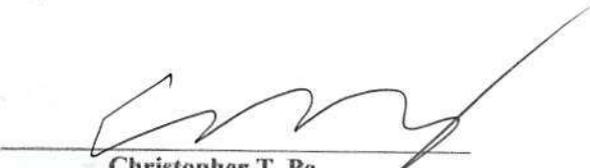
The management of Shakey's Pizza Asia Ventures, Inc. and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein as at December 31, 2020 and 2019, and each of the three years in the period ended December 31, 2020, in accordance with the Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein and submits the same to the stockholders or members.

Sycip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards of Auditing and its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.



Christopher T. Po
Chairman of the Board



Vicente L. Gregorio
President & Chief Executive Officer



Manuel T. Del Barrio
Vice President & Chief Financial Officer

28 APR 2021

Signed this ____ day of April, 2021



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Responsibility for Consolidated Financial Statements

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY) s.s.

SUBSCRIBE AND SWORN to before me this 28 APR 2021 affiant(s) exhibiting to me the
Passport Numbers, as follows:

Name	Passport No.	Date Issue	Place of Issue
Christopher T. Po	EC3438983	Feb. 11, 2015	DFA NCR East
Vicente L. Gregorio	EC5496727	Sept. 26, 2015	DFA NCR South
Manuel T. Del Barrio	EC2774494	Nov. 19, 2014	DFA NCR East

Notary Public

Doc. No. 291
Page No. 60
Book No. 96
Series of 2021.


RUBEN T.M. RAMIREZ
NOTARY PUBLIC
UNTIL DEC. 31, 2021
IBP NO. 142536 / 01-04-2021-CY 2021
ROLL NO. 28947 / MCLE 6 3-22-19
PTR NO. 8533046 / 01-04-2021/APPT. M-163
MAKATI CITY

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Shakey's Pizza Asia Ventures Inc.
15Km East Service Road corner Marian Road 2
Barangay San Martin de Porres, Parañaque City 1700

Opinion

We have audited the consolidated financial statements of Shakey's Pizza Asia Ventures Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Impairment Assessment of Goodwill and Trademarks

Under Philippine Accounting Standards 36, *Impairment of Assets*, the Group is required to annually test the amount of goodwill and trademarks with indefinite life for impairment. As at December 31, 2020, the Group's goodwill, mainly arising from its acquisition of the dough manufacturing and Peri-Peri businesses, amounting to ₱1,264.1 million and trademarks with indefinite life amounting to ₱5,549.3 million, are considered significant to the consolidated financial statements since these account for 56% of the Group's total assets. In addition, management's assessment requires significant judgment and is based on assumptions, specifically forecasted long-term revenue growth rate, operating expenses, gross margin and discount rate. These assumptions are also subject to higher level of estimation uncertainty due to the current economic conditions which have been impacted by the coronavirus pandemic.

The Group's disclosures about goodwill and trademarks with indefinite life are included in Notes 6 and 14 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's impairment assessment process and related controls. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions included forecasted long-term revenue growth rate, operating expenses, gross margin and discount rate. We compared the key assumptions used, such as forecasted long-term revenue growth rate, operating expenses and gross margin against the historical performance of the cash generating units and other relevant external data, taking into consideration the impact associated with the coronavirus pandemic. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about these assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect in the determination of the recoverable amount of goodwill and trademarks with indefinite life.

Finalization of Purchase Price Allocation of Peri-Peri Business

In June 2019, the Group acquired the Peri-Peri business for a total consideration of ₱774.5 million. The Group accounted for this acquisition as a business combination and the purchase price allocation (PPA) was determined on a provisional basis. As required by PFRS 3, *Business Combinations*, the Group shall recognize adjustments to the provisional amounts recognized as if the accounting for the business combination had been completed as of acquisition date. The final amount of goodwill arising from the acquisition amounted to ₱185.5 million. This transaction is a key audit matter as the amounts involved are material to the consolidated financial statements. The transaction also involves significant judgments and estimates such as the identification and determination of the fair values of the assets and liabilities acquired and the allocation of the purchase price to these assets and liabilities. Management judgment was required to determine that the acquisition has met the requirements of a business and management estimation was applied in the determination of the fair values of assets and liabilities acquired.

The Group disclosed the details of the acquisition of the business in Note 6 to the consolidated financial statements.



Audit response

We obtained and reviewed the related documents, including any arrangements entered into in connection with the transaction. We reviewed management's analysis and assessment of the transaction. We reviewed the final purchase price allocation prepared by the Group. We also involved our internal specialists in reviewing the valuation methodology and key inputs, such as revenue growth and discount rates related to the valuation of the trademark. We compared the revenue growth to the historical performance of the Peri-Peri business and industry data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the disclosures in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 17-A for the year ended December 31, 2020, but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to date of this auditor's report, and the SEC Form 20 IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2020, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

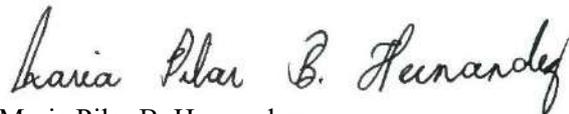


We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Maria Pilar B. Hernandez.

SYCIP GORRES VELAYO & CO.



Maria Pilar B. Hernandez
Partner

CPA Certificate No. 105007

SEC Accreditation No. 1558-AR-1 (Group A),
February 26, 2019, valid until February 25, 2022

Tax Identification No. 214-318-972

BIR Accreditation No. 08-001998-116-2019,
January 28, 2019, valid until January 27, 2022

PTR No. 8534306, January 4, 2021, Makati City

April 30, 2021



SHAKEY'S PIZZA ASIA VENTURES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash (Notes 8 and 31)	₱607,674,132	₱507,701,190
Trade and other receivables (Notes 9, 18 and 31)	561,004,570	709,483,495
Financial assets at fair value through profit or loss (Notes 12, 31 and 32)	120,000,000	120,000,000
Inventories (Note 10)	444,941,572	477,127,376
Prepaid expenses and other current assets (Note 11)	132,042,576	123,970,333
Total Current Assets	1,865,662,850	1,938,282,394
Noncurrent Assets		
Property and equipment (Note 13)	1,419,634,223	1,615,292,163
Intangible assets (Notes 6 and 14)	7,051,509,002	6,976,828,720
Right-of-use assets (Note 15)	1,311,464,060	1,413,623,270
Deferred input value-added tax	48,423,974	67,963,872
Deferred tax assets - net (Note 30)	350,172,528	154,972,558
Rental deposits (Notes 16, 31 and 32)	173,125,540	165,662,780
Total Noncurrent Assets	10,354,329,327	10,394,343,363
TOTAL ASSETS	₱12,219,992,177	₱12,332,625,757
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans payable (Notes 19 and 31)	₱1,050,000,000	₱550,000,000
Accounts payable and other current liabilities (Notes 17, 18 and 31)	801,171,873	964,311,116
Current portion of:		
Lease liabilities (Note 15)	211,544,249	224,333,251
Long-term loans payable (Notes 20 and 31)	48,099,942	48,120,934
Contract liabilities (Note 22)	16,020,186	18,517,499
Income tax payable	3,156,468	82,626,816
Total Current Liabilities	2,129,992,718	1,887,909,616
Noncurrent Liabilities		
Noncurrent current portion of:		
Lease liabilities (Note 15)	1,319,058,770	1,374,293,912
Long-term loans payable (Notes 20 and 31)	3,740,497,427	3,788,597,369
Contract liabilities (Note 22)	73,600,393	90,652,460
Accrued pension costs (Note 27)	131,238,332	78,310,299
Dealers' deposits and other noncurrent liabilities (Note 32)	41,240,550	44,355,755
Total Noncurrent Liabilities	5,305,635,472	5,376,209,795
Total Liabilities	7,435,628,190	7,264,119,411

(Forward)



	December 31	
	2020	2019
Equity		
Capital stock (Note 21)	₱1,531,321,053	₱1,531,321,053
Additional paid-in capital (Note 21)	1,353,554,797	1,353,554,797
Retained earnings (Note 21)	1,964,168,269	2,233,070,767
Other components of equity (Note 27)	(64,680,132)	(49,440,271)
Total Equity	4,784,363,987	5,068,506,346
TOTAL LIABILITIES AND EQUITY	₱12,219,992,177	₱12,332,625,757

See accompanying Notes to Consolidated Financial Statements.



SHAKEY'S PIZZA ASIA VENTURES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2020	2019	2018
REVENUE FROM CONTRACTS WITH CUSTOMERS (Notes 18 and 22)	₱5,296,771,546	₱8,239,093,787	₱7,578,718,618
COST OF SALES (Notes 18 and 23)	(4,364,157,309)	(5,827,018,168)	(5,399,319,411)
GROSS INCOME	932,614,237	2,412,075,619	2,179,399,207
GENERAL AND ADMINISTRATIVE EXPENSES (Note 24)	(972,712,600)	(1,051,602,075)	(973,225,277)
INTEREST EXPENSE (Note 28)	(333,303,573)	(311,472,803)	(188,515,123)
OTHER INCOME - Net (Note 29)	4,890,761	59,306,933	64,578,557
INCOME (LOSS) BEFORE INCOME TAX	(368,511,175)	1,108,307,674	1,082,237,364
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 30)			
Current	73,691,665	267,337,508	257,160,480
Deferred	(188,613,552)	(24,266,101)	(15,838,544)
	(114,921,887)	243,071,407	241,321,936
NET INCOME (LOSS)	(253,589,288)	865,236,267	840,915,428
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (net of tax) - Actuarial gain (loss) on defined benefit obligation (Note 27)	(21,826,279)	(94,811,325)	32,982,022
Tax effect (Note 27)	6,586,418	28,443,398	(9,894,607)
	(15,239,861)	(66,367,927)	23,087,415
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱268,829,149)	₱798,868,340	₱864,002,843
Basic/Diluted Earnings (Loss) Per Share (Note 35)	(₱0.17)	₱0.57	₱0.55

See accompanying Notes to Consolidated Financial Statements.



SHAKEY'S PIZZA ASIA VENTURES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Cumulative Actuarial Gain (Loss) - Net of Tax	Total
Balances at January 1, 2020	₱1,531,321,053	₱1,353,554,797	₱2,233,070,767	(₱49,440,271)	₱5,068,506,346
Total comprehensive loss	–	–	(253,589,288)	(15,239,861)	(268,829,149)
Cash dividends (Note 21)	–	–	(15,313,210)	–	(15,313,210)
Balances at December 31, 2020	₱1,531,321,053	₱1,353,554,797	₱1,964,168,269	(₱64,680,132)	₱4,784,363,987
Balances at January 1, 2019, as previously reported	₱1,531,321,053	₱1,353,554,797	₱1,668,017,627	₱16,927,656	₱4,569,821,133
Effect of adoption of PFRS 16	–	–	(147,051,022)	–	(147,051,022)
Balances at January 1, 2019, as restated	1,531,321,053	1,353,554,797	1,520,966,605	16,927,656	4,422,770,111
Total comprehensive income (loss)	–	–	865,236,267	(66,367,927)	798,868,340
Cash dividends (Note 21)	–	–	(153,132,105)	–	(153,132,105)
Balances at December 31, 2019	₱1,531,321,053	₱1,353,554,797	₱2,233,070,767	(₱49,440,271)	₱5,068,506,346
Balances at January 1, 2018	₱1,531,321,053	₱1,353,554,797	₱980,234,304	(₱6,159,759)	₱3,858,950,395
Total comprehensive income	–	–	840,915,428	23,087,415	864,002,843
Cash dividends (Note 21)	–	–	(153,132,105)	–	(153,132,105)
Balances at December 31, 2018	₱1,531,321,053	₱1,353,554,797	₱1,668,017,627	₱16,927,656	₱4,569,821,133

See accompanying Notes to Consolidated Financial Statements.



SHAKEY'S PIZZA ASIA VENTURES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	(₱368,511,175)	₱1,108,307,674	₱1,082,237,364
Adjustments for:			
Depreciation and amortization (Note 26)	497,433,459	554,013,596	230,752,920
Interest expense (Note 28)	333,303,573	311,472,803	188,515,123
Provision for legal and other contingencies (Note 29)	34,779,970	–	2,253,030
Movements in:			
Accrued pension costs	31,101,754	(2,834,838)	(5,819,145)
Accrued rent	–	–	25,671,725
Loss (gain) on:			
Disposal of property and equipment (Note 29)	18,749,687	1,883,436	118,201
Pre-terminations of leases (Notes 15, 20 and 29)	(14,584,239)	–	–
Disposal of inventory	(5,498,534)	–	–
Accretion income (Notes 16 and 29)	(4,243,006)	(3,990,747)	(3,981,670)
Interest income (Notes 8 and 29)	(2,886,826)	(2,345,458)	(1,706,189)
Unrealized foreign exchange gain (loss) (Note 29)	332,437	(1,963,181)	(1,256,949)
Fair value gain on financial assets at fair value through profit or loss (FVPL) (Note 29)	(589,306)	(1,016,240)	–
Income before working capital changes	519,387,794	1,963,527,045	1,516,784,410
Decrease (increase) in:			
Trade and other receivables	148,478,925	(349,939,376)	78,002,176
Inventories	37,684,338	124,018,343	(234,939,140)
Prepaid expenses and other current assets	14,740,059	95,883,964	(8,063,520)
Increase (decrease) in:			
Accounts payable and other current liabilities	(195,597,433)	162,622,351	(208,035,606)
Contract liabilities (Note 36)	(23,430,428)	(9,656,214)	(7,036,891)
Cash generated from operations	501,263,255	1,986,456,113	1,136,711,429
Income taxes paid (including creditable withholding taxes)	(175,974,315)	(285,269,628)	(217,143,095)
Interest received	2,886,826	2,345,458	1,706,189
Net cash provided by operating activities	328,175,766	1,703,531,943	921,274,523
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Property and equipment (Notes 6 and 13)	(167,168,602)	(417,493,846)	(434,122,382)
Financial assets at FVPL (Note 12)	(120,000,000)	(270,139,412)	–
Software (Note 14)	(85,158,730)	(178,159,719)	–
Franchise right (Note 14)	(4,964,977)	–	–
Peri-Peri business (Note 6)	–	(774,521,166)	–
Proceeds from:			
Redemption of financial assets at FVPL	120,589,306	151,155,652	–
Disposal of property and equipment	10,455,402	56,159,830	29,737,309
Decrease (increase) in:			
Deferred input value-added tax	19,539,898	(4,512,041)	32,214,343
Rental and other deposits (Note 36)	(5,432,721)	(44,662,438)	(8,757,317)
Increase (decrease) in dealers' deposits and other noncurrent liabilities (Note 35)	(5,368,235)	(16,769,843)	32,256,215
Net cash used in investing activities	(237,508,659)	(1,498,942,983)	(348,671,832)

(Forward)



	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES (Note 36)			
Proceeds from short-term loans (Note 19)	₱1,500,000,000	₱800,000,000	₱-
Payments of:			
Lease liabilities (Note 15)	(203,225,951)	(278,999,874)	-
Short-term loans (Note 19)	(1,000,000,000)	(250,000,000)	(50,109,891)
Interest	(221,822,567)	(200,496,593)	(182,073,515)
Dividends (Note 21)	(15,313,210)	(153,132,105)	(153,132,105)
Long-term loans	(50,000,000)	(50,000,000)	-
Net cash provided by (used in) financing activities	9,638,272	(132,628,572)	(385,315,511)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(332,437)	1,963,181	1,496,101
NET INCREASE IN CASH	99,972,942	73,923,569	188,783,281
CASH AT BEGINNING OF YEAR (Note 8)	507,701,190	433,777,621	244,994,340
CASH AT END OF YEAR (Note 8)	₱607,674,132	₱507,701,190	₱433,777,621

See accompanying Notes to Consolidated Financial Statements.



SHAKEY'S PIZZA ASIA VENTURES INC.
Doing business under the name and style of Shakey's
AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Corporate Information

Shakey's Pizza Asia Ventures Inc. Doing business under the name and style of Shakey's (SPAVI or the Parent Company), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 14, 1974. The Parent Company and its subsidiaries (collectively referred to as "the Group") are involved primarily in the development, operations and franchising of fast casual restaurants under the trade names "Shakey's" and "Peri-Peri".

On December 15, 2016, the common shares of the Parent Company were listed and traded in the Philippine Stock Exchange (PSE) under the trading name "PIZZA".

The registered office address of the Parent Company is 15Km East Service Road corner Marian Road 2, Barangay San Martin de Porres, Parañaque City 1700.

Approval and Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements were approved and authorized for issuance by the Parent Company's Board of Directors (BOD) on April 30, 2021.

2. Basis of Preparation and Consolidation and Statement of Compliance

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) which are carried at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All values are rounded off to the nearest million, except those otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its wholly-owned subsidiaries as at December 31. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events with similar circumstances.

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and when it has the ability to affect those returns through its power over the investee.

Specifically, the Parent Company controls an investee if and only if the Parent Company has:

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



Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Parent Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

	Principal Activities	Place of Incorporation	Percentage of Ownership (%)
Bakemasters, Inc. (BMI) ^a	Manufacturer of pizza dough and pastries	Philippines	100%
Shakey's International Limited (SIL) ^a	Trademark	Hong Kong	100%
Shakey's Seacrest Incorporated (SSI) ^b	Trademark	Philippines	100%
Shakey's Pizza Regional Foods Limited (SPRFL) ^c	Trademark	Hong Kong	100%
Shakey's Pizza Commerce Inc. (SPCI) ^d	Trading of goods	Philippines	100%
Wow Brand Holdings, Inc. (WBHI) ^e	Restaurant business	Philippines	100%
Anchor Wood International Limited (AWIL) ^f	Trademark	British Virgin Islands	100%

^a Acquired on October 5, 2016 from SAFHI

^b Incorporated on June 29, 2016

^c Incorporated on November 25, 2016

^d Incorporated on November 25, 2017

^e Incorporated on April 25, 2019

^f Acquired on June 1, 2019 from EHL and was subsequently dissolved in June 19, 2020



3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Group.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Group enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.



- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

As of and for the year ended December 31, 2020, management has assessed that the lease concessions are not lease modifications since these are a direct consequence of the COVID-19 pandemic. As such, gain on lease concessions amounting to ₱138.4 million was recognized as reduction of amortization expenses included in “Cost of sales” in the 2020 consolidated statement of comprehensive income (see Note 15).

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Group shall also disclose information about:

- The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and



- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2021 and apply retrospectively, however, the Group is not required to restate prior periods.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and 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 the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.



- *Annual Improvements to PFRSs 2018-2020 Cycle*

- *Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

- *Amendments to PFRS 9, Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are 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 lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

- *Amendments to PAS 41, Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

Effective beginning on or after January 1, 2023

- *Amendments to PAS 1, Classification of Liabilities as Current or Non-current*
The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period



- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



4. Summary of Significant Accounting and Financial Reporting Policies

The following is the summary of significant accounting policies applied in preparing the consolidated financial statements:

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of comprehensive income. It is then considered in the determination of goodwill or gain on bargain purchase.

Acquisitions that do not constitute businesses are recognized as asset acquisitions. In such cases, the acquirer shall identify and recognize the individual identifiable assets acquired and liabilities assumed. The costs shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of acquisition. Such a transaction or event does not give rise to goodwill.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with the changes in fair value recognized in the consolidated statement of comprehensive income in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of comprehensive income.

If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because the fair values to be assigned to the acquiree's identifiable assets and liabilities can be determined only provisionally, the Group accounts for the combination using provisional values. Adjustments to those provisional values as a result of completing the initial accounting shall be made within twelve (12) months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date. Goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.



After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognized in accordance with the requirements for provisions in PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or the amount initially recognized less (when appropriate) cumulative amortization recognized in accordance with the requirements for revenue recognition.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs), to which the goodwill relates. When the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognized. When goodwill forms part of a CGU (group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting date, or;
- Cash unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting date, or;
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and noncurrent liabilities, respectively.



Financial Instruments

Financial Assets

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and FVPL.

The classification at initial recognition depends on the contractual cash flow characteristics of financial assets and the Group's business model for managing them. The initial measurement of financial assets, except for those classified as FVPL, includes the transaction cost. The exception is for trade receivables that do not contain a significant financing component. These are measured at the transaction price determined under PFRS 15, *Revenue*.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent Measurement. For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

The Group has no financial assets at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) and financial assets at FVOCI with recycling of cumulative gains and losses (debt instrument) as at December 31, 2020 and 2019.

Financial Assets at Amortized Cost (Debt Instruments). The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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.

Financial assets at amortized cost are subsequently measured using effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at amortized cost are classified as current assets when the Group expects to realize the asset within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

As at December 31, 2020 and 2019, the Group's financial assets at amortized cost consist of cash, trade and other receivables and rental and other deposits included in "Rental deposits" in the consolidated statements of financial position (see Notes 8, 9 and 16).



Financial assets at FVPL. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of comprehensive income.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are recognized as other income in the consolidated statement of comprehensive income when the right of payment has been established. A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

As at December 31, 2020 and 2019, the Group has investment in unit investment trust fund (UITF) classified as financial assets at FVPL (see Note 12).

Impairment. The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering contractual cash flows.

Derecognition. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or



- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group 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 rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial Recognition and Measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include short-term and long-term loans payable, accounts payable and other current liabilities (excluding statutory liabilities) (see Notes 17, 19 and 20), and dealers' deposits and other noncurrent liabilities.

The Group has no financial liabilities at FVPL and derivatives designated as hedging instruments in an effective hedge.

Subsequent Measurement. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest expense in the consolidated statements of comprehensive income.

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged or 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive income.



Classification of Financial Instruments Between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- 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. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

“Day 1” Difference

Where the transaction price in a non-active market is different from the fair value from 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 unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference.

Debt Issue Costs

Debt issue costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Prepayment Option

If the Group revises its estimates of payments or receipts, the Group shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate calculated. The adjustment is recognized in the consolidated statement of comprehensive income as income or expense.

Fair Value Measurement

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.



The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- 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.

The fair value information is presented in Note 32.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to set-off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Cash

Cash includes cash on hand and in banks.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- | | |
|-------------------------------|---|
| Finished goods | - determined using the moving average method, cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs. |
| Raw materials and merchandise | - determined using the moving average method. |

NRV of finished goods is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. NRV of raw materials is the current replacement cost.

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the property and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to net income in the consolidated statement of comprehensive income in the year such 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 additional cost of property and equipment.

When each major repair and maintenance is performed, its cost is recognized in the carrying amount of the item of property and equipment as a replacement if the recognition criteria are satisfied. Such major repairs and maintenance is capitalized and amortized over the next major repairs and maintenance activity.

Each component of an item of property and equipment with a cost that is significant in relation to the total cost of the item of property and equipment is depreciated separately.

Depreciation and amortization commences once the assets are available for use. Depreciation and amortization are computed using the straight-line basis over the following estimated useful lives of the property and equipment:

<u>Category</u>	<u>Number of year(s)</u>
Building	15-20
Leasehold improvements	2-10 or term of the lease whichever is shorter
Furniture, fixtures and equipment	1-10
Machinery and equipment	1-3
Transportation equipment	2-7
Cost of shops and maintenance tools	3-10
Glassware and utensils	1

The useful lives and depreciation and amortization method are reviewed at each reporting date, and adjusted prospectively, if appropriate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income in the consolidated statement of comprehensive income in the year the asset is derecognized.

Fully depreciated assets are retained in the account until they are no longer used although no further depreciation is charged to current operations.

Construction in progress is stated at cost. This includes cost of construction and other direct costs related to the asset being constructed. Construction in progress is transferred to the related property and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed, and the property and equipment are ready for use. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Intangible Assets

The cost of intangible assets acquired in a business combination such as trademarks is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Following initial recognition, intangible assets are carried at cost less any accumulated amortization in the case of intangible assets with finite lives, and any accumulated impairment losses.

Intangible assets with finite lives such as software and franchise right are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a



finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

Amortization commences once the assets are available for use. Amortization are computed using the straight-line basis over the following estimated useful lives of the intangible assets with finite life:

<u>Category</u>	<u>Number of year(s)</u>
Software	10-15
Franchise right	7

Intangible assets with indefinite useful lives, such as goodwill and trademarks, are tested for impairment annually or more frequently if an indication of impairment exists either individually or at the CGU level. Such intangibles are not amortized. 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.

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income.

Impairment of Nonfinancial Assets

The Group assesses at each financial reporting date whether there is an indication that property and equipment, software, franchise right and right-of-use assets are impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value, less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each financial 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The 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 the consolidated statement of comprehensive income. After such a reversal, the depreciation and amortization are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.



The following criteria are also applied in assessing impairment of specific nonfinancial assets:

Trademarks and Goodwill. Goodwill and trademarks are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill and trademarks by assessing the recoverable amount of the CGU, to which the goodwill and trademarks relates. Where the recoverable amount of the cash-generating unit (or group of CGUs) is less than the carrying amount of the cash-generating unit (or group of CGUs) to which the goodwill and trademarks has been allocated, an impairment loss is recognized in the consolidated statement of comprehensive income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill and trademarks on December 31 of each year.

Dealers' Deposits

Dealers' deposits are initially recognized at fair value. The discount is recognized as deferred credits and amortized over the estimated remaining term of the deposits using the effective interest method.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax.

Additional Paid-in Capital (APIC). APIC represents the amount paid in excess of the par value of the shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in APIC as a deduction from proceeds, net of tax.

Retained Earnings. Retained earnings represent accumulated earnings of the Group less dividends declared and any adjustments arising from application of new accounting standards, policies or correction of errors applied retrospectively.

Dividends on Capital Stock

Cash dividends on common shares are recognized as liability and deducted from retained earnings upon declaration by the BOD.

Stock dividends on common shares are measured based on the total par value of declared stock dividend. Stock dividends are deducted from retained earnings when the BOD's declaration is ratified by the shareholders.

Cash dividends are recognized as liability and deducted from equity when declared. Stock dividends are treated as transfers from retained earnings to paid-in capital. The Group may declare dividends only out of its unrestricted retained earnings.

Other Components of Equity. Other components of equity comprise items of income and expense, including reclassification adjustments and actuarial gains and losses on pensions that are not recognized in net income in the consolidated statement of comprehensive income as required or permitted by other PFRS.

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group has



concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Restaurant Sales. Revenue from restaurant sales is recognized point in time when the related orders are served.

Sale of goods. Revenue from sales of goods consists of revenue from sale of materials and equipment. Transaction price of merchandise sales, which excludes discounts, returns, rebates and sales taxes, is normally received and recorded point in time.

Franchise Revenue. Initial franchise fee is recognized on a straight-line basis over the term of the franchise agreement, which ranges from 5 to 10 years. The transaction price for franchise agreement is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component. In instances where a significant financing component has been identified from its contracts with customers, this is recognized as interest expense in the consolidated statement of comprehensive income.

Other franchise revenues consisting of royalty fees and various reimbursements from franchisees are recognized when earned.

Interest Income. Revenue is recognized point in time as the interest accrues, using the EIR that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Contract Balances

Contract Assets. A contract asset is a conditional 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 consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. The Group has no contract assets as at December 31, 2020 and 2019.

Trade 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 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) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract. Further, the Group has a loyalty points program which allows customers to accumulate points that can be applied to customer purchases depending on the actual usage within the next financial year. The liability is recognized when the customer avails the Group's services using the loyalty card. Loyalty points are recognized as revenue upon actual usage or expiration whichever comes first.

Cost and Expenses Recognition

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Costs of sales and general and administrative expenses are recognized in net income in the consolidated statement of comprehensive income in the period these are incurred.



Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term between 2 to 25 years.

Right-of-use assets are subject to impairment. Refer to the accounting policies in section impairment of non-financial assets.

Lease liabilities. At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets. The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Lease Modification. Lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

A lessee shall account for a lease modification as a separate lease if both:

- The modification increases the scope of the lease by adding the right to use one or more underlying assets; and



- The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification a lessee shall:

- Allocate the consideration in the modified contract;
- Determine the lease term of the modified lease; and
- Remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, of the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined. The lessee shall account for the remeasurement of the lease liability by:
 - Decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognize in profit or loss any gain or loss relating to partial or full termination of the lease.
 - Making corresponding adjustment to the right-of-use asset for all other lease modifications.

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of COVID-19 pandemic is a lease modification and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and,
- There is no substantive change to other terms and conditions of the lease.

Rent concession received from lessors are accounted for as negative variable lease payments in profit or loss.

Pension

The Group has a funded, noncontributory defined benefit retirement plan covering substantially all of its qualified employees. The plan requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Defined Benefit Plans. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit obligation or asset
- Remeasurements of net defined benefit obligation or asset



Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of cost of sales and general and administrative expenses in the consolidated statements of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit obligation or asset is the change during the period in the net defined benefit obligation or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

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 reporting date.

Foreign Currency-denominated Transactions

Foreign currency-denominated transactions are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at reporting date. Exchange rate differences arising on the settlement and restatement of monetary items at rates different from those at which they were initially recorded are recognized in net income in the consolidated statement of comprehensive income in the year such differences arise. Nonmonetary items denominated in foreign currencies are measured on a historical cost basis and translated using the exchange rate at the date of transaction.

Income Tax

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. The Group's current tax expense is calculated using 30% regular corporate income tax (RCIT) rate or 2% minimum corporate income tax (MCIT) rate, whichever is higher. BMI, SSI and SPCI use Optional Standard Deduction (OSD), while the Parent Company and the remaining subsidiaries incorporated in the Philippines use itemized deductions in the computation of their respective taxable income.

Net Operating Loss Carryover (NOLCO). NOLCO is recognized in accordance with the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(b) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from taxable income for the next five (5) consecutive taxable years immediately following the year of such loss.



MCIT. MCIT is calculated as 2% of gross income of any domestic and resident foreign corporation beginning the fourth taxable year immediately following the taxable year in which such corporation commenced its business operation. Any excess of the MCIT over the normal income tax shall be carried forward and credited against the normal income tax for three (3) immediately succeeding taxable year.

Deferred Tax. Deferred tax is provided, using the liability method, on all temporary differences at 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, carryforward benefits of unused tax credits from excess MCIT over the RCIT and unused tax losses in the form of NOLCO, to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences, and the carryforward benefits from MCIT and NOLCO 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 future taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets, if any, are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

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

Value-added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of sales tax except:

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

The net amount of tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the consolidated statement of financial position.

Deferred Input VAT

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



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, the total input VAT will be allowable as credit against output VAT in the month of acquisition.

Earnings (Loss) Per Share (EPS)

Basic EPS is computed based on weighted average number of issued and outstanding common shares during each year after giving retroactive effect to stock dividends declared during the year. Diluted EPS is computed as if the stock options were exercised as at the beginning of the year and as if the funds obtained from exercise were used to purchase common shares at the average market price during the year. Outstanding stock options will have a dilutive effect under the treasury stock method only when the fair value of the underlying common shares during the period exceeds the exercise price of the option. Where the outstanding stock options have no dilutive effect and the Group does not have any potential common share nor other instruments that may entitle the holder to common shares, diluted EPS is the same as basic EPS.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 7 to the consolidated financial statements.

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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provisions due to the passage of time is recognized as interest expense.

Contingencies

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

Events After the Reporting Period

Post year-end events that provide additional information about the Group's financial position at reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements, when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.



Judgments

In the process of applying the Group's accounting policies, management has made judgments which have significant effect on the amounts recognized in the consolidated financial statements and accompanying notes. The judgments are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements.

Acquisition of Investments Qualified as a Business Combination. In applying the requirements of PFRS 3, an entity or an asset being acquired has to be assessed whether it constitutes a business. The assessment requires identification of inputs and processes applied to these inputs to generate outputs or economic benefits. As discussed in Note 6, the acquisition of Peri-Peri Business in 2019 was considered a business and was accounted for as a business combination.

The fair values of the identifiable net assets acquired related to the Peri-Peri Business amounted to ₱589.0 million. The acquisition of Peri-Peri Business resulted in the recognition of additional goodwill amounting to ₱185.5 million (see Notes 6 and 14).

Right to Access - Performance Obligation Satisfied Over Time. The Group determines whether it provides a dealer/franchisee with either:

- a right to access the Group's intellectual property through a "Trademark Licensing and Franchise Agreement" throughout the term of the franchise agreement for which revenue is recognized over the term of the franchise agreement, or
- a right to use the Group's intellectual property a "Trademark Licensing and Franchise Agreement" as it exists at the point in time the franchise license is granted for which revenue is recognized at the point in time the franchisee can first use and benefit from the franchise license.

In assessing whether the nature of the Group's promise in granting a "Trademark Licensing and Franchise Agreement" is to provide a right to access the Group's intellectual property (i.e., franchise license), the Group considers whether all of the following criteria are met:

- the franchise agreement requires, or the franchisee reasonably expects that the Group will undertake activities that will significantly affect the franchise license to which the franchisee has rights (e.g., advertisements, promotions, campaigns, etc.);
- the rights granted by the franchise license directly expose the franchisee to any positive or negative effects of the Group's activities;
- those activities do not result in the transfer of a good or service to the franchisee as those activities occur.

The Group determined that it has met the all of the criteria mentioned above and concluded that it provides its franchisees with a right to access the Group's franchise license throughout the term of the franchise agreement. Accordingly, revenue from granting franchise license is recognized over the term of the franchise agreement.

Determination of lease term of contracts with renewal and termination options - Group as a Lessee (effective January 1, 2019). The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).



As at December 31, 2020 and 2019, the Group's right-of-use assets amounted to ₱1,311.5 million and ₱1,413.6 million, respectively, and the Group's lease liabilities as at those dates amounted to ₱1,530.6 million and ₱1,598.6 million, respectively. In 2020, the Group recognized amortization of right-of-use assets and interest expense on lease liabilities amounting to ₱148.4 million and ₱105.8 million, respectively, and in 2019, the Group recognized amortization of right-of-use assets and interest expense on lease liabilities amounting to ₱224.1 million and ₱102.3 million, respectively (see Note 15).

Evaluation of Operating Lease Commitments - Group as Lessee (effective prior to January 1, 2019). The Group has entered into long-term leases of store spaces. Management has determined that all the significant risks and rewards of ownership of the property which the Group leases, remain with the lessor because of the following factors; (a) the Group will not acquire ownership of the leased property upon termination of the lease; (b) at the inception of the lease, the present value of the minimum lease payments by the Group is substantially lower than the fair value of the leased asset; (c) the lease term is for the major part of the economic life of the asset and, (d) the Group was not given an option to purchase the asset at a price that is sufficiently lower than the fair value at the date the option becomes exercisable. Accordingly, the said leases are accounted for as operating leases.

Rent expense amounted to ₱440.0 million in 2018 (see Notes 23 and 24).

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Purchase Price Allocation in Business Combinations. The Group accounts for the acquired business using the acquisition method which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any difference in the purchase price and the fair values of the net assets acquired is recorded as either goodwill, a separate account in the consolidated statement of financial position (or subsumed in the investment for acquisition of an associate), or gain on bargain purchase in profit or loss. Thus, the numerous judgments made in estimating the fair value to be assigned to the acquiree's assets and liabilities can materially affect the Group's financial position and performance.

The Group's acquisition of Peri-Peri Business resulted in the recognition of goodwill. The carrying value of goodwill as at December 31, 2020 and 2019 related to the said acquisition amounted to ₱185.5 million (see Notes 6 and 14).

Leases - Estimating the incremental borrowing rate. The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liability. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.



As at December 31, 2020 and 2019, the Group's lease liabilities amounted to ₱1,530.6 million and ₱1,598.6 million, respectively (see Note 15).

Determination of Fair Value of Financial Instruments. Where the fair value of financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of financial assets and financial liabilities are disclosed in Note 32.

Impairment of Trade and Other Receivables and Rental and Other Deposits. The Group uses a provision matrix to calculate ECLs for its trade and other receivables and rental and other deposits. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forward-looking information, and ECLs is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's receivables is disclosed in Note 9.

Other than the considerations on the impact of COVID-19 on macroeconomic factors used as inputs to the ECL calculation, there have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

The carrying value of trade and other receivables amounted to ₱561.0 million and ₱709.5 million as at December 31, 2020 and 2019, respectively (see Note 9). Allowance for ECL amounted to ₱6.1 million and ₱6.2 million as at December 31, 2020 and 2019, respectively. In 2020, 2019 and 2018, provision for ECL amounted to nil, ₱0.2 million and nil, respectively, while recovery of allowance for ECL amounted to ₱0.1 million, ₱0.4 million and nil, respectively (see Note 9).

The carrying value of rental and other deposits amounted to ₱173.1 million and ₱165.7 million as at December 31, 2020 and 2019, respectively (see Note 16). Allowance for unrecoverable rental and other deposits amounted to ₱3.3 million as at December 31, 2020 and 2019. No provision for unrecoverable deposits was recognized in 2020 and 2019 while provision for unrecoverable deposit in 2018 amounted to ₱1.2 million (see Notes 16 and 24).

Evaluation of Net Realizable Value of Inventories. The Group writes down the cost of inventories whenever net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in prices level or other causes such as the impact of COVID-19 pandemic. The lower of cost and net realizable value of inventories is reviewed at each reporting date. Inventory items identified to be obsolete and unusable are also written off and charged as expense in net income in the consolidated statement of comprehensive income.



There was no provision for inventory obsolescence in 2020, 2019 and 2018. The carrying values of inventories amounted to ₱444.9 million and ₱477.1 million, net of allowance for inventory obsolescence of ₱4.3 million as at December 31, 2020 and 2019, respectively (see Note 10).

Estimation of Useful Lives of Property and Equipment. The useful lives of property and equipment are estimated based on the economic lives of the property and equipment and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of the property and equipment are reviewed at reporting date and are 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 property and equipment. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

There are no changes in the estimation of useful lives of property and equipment in 2020 and 2019. The carrying value of property and equipment amounted to ₱1,419.6 million and ₱1,615.3 million as at December 31, 2020 and 2019, respectively (see Note 13).

Determination of Impairment of Nonfinancial Assets. Impairment review is performed when certain impairment indicators are present. Management considered the impact of COVID-19 in its impairment assessment on the Group's property and equipment, software, franchise right and right-of-use assets and has identified the related lease pre-termination costs, if any.

Determining the value in use of property and equipment, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements.

Based on the assessment of management, the Group's nonfinancial assets do not have any indication of impairment as at December 31, 2020 and 2019. No impairment loss was recognized in 2020, 2019 and 2018. The carrying value the Group's nonfinancial assets is as follows:

	2020	2019
Property and equipment (see Note 13)	₱1,419,634,223	₱1,615,292,163
Software (see Note 14)	233,331,243	163,438,617
Franchise right (see Note 14)	4,787,656	-
Right-of-use assets (see Note 15)	1,311,464,060	1,413,623,270
	₱2,969,217,182	₱3,192,354,050

Recoverability of Goodwill and Trademarks with Indefinite Life. The Group performs recoverability testing annually or more frequently when there are indications of impairment for goodwill and trademarks with indefinite lives. Goodwill acquired through business combination has been allocated to one CGU which is also the operating entity acquired through business combination and to which the goodwill relates. Recoverability testing requires an estimation of the value in use or fair value less cost of disposal of the CGU to which goodwill and trademarks with indefinite life are allocated. Estimating the recoverable amount of the CGU involves significant assumptions about the future results of the business such as long-term revenue growth rate, operating expenses, gross margin and discount rate which were applied to cash flow forecasts. In addition, the assumptions are also subjected to a higher level of estimation uncertainty due to the current economic conditions which have been impacted by the COVID-19 pandemic. The cash flow forecasts were based on financial budgets approved by the BOD covering a five-year period.



The impairment on goodwill and trademark is determined by comparing: (a) the carrying amount of the cash-generating unit; and (b) the present value of the annual projected cash flows for five years and the present value of the terminal value computed under the discounted cash flow method.

The key assumptions used in the impairment test of goodwill and trademarks with indefinite life are as follows:

a. Gross Revenue

On the average, gross revenue of the CGU over the next five years were projected to grow in line with the economy or with nominal Gross Domestic Product. This assumes that the market share of the subsidiaries in their respective industries will be flat on the assumption that the industries also grow at par with the economy. Historically, the business growth had a direct correlation with economic growth. A 6.2% perpetuity growth rate was assumed at the end of the five-year forecast period.

b. Operating Expenses

On the average, operating expenses were projected to increase in relation to revenue growth.

c. Gross Margins

Increased efficiencies over the next five years are expected to result in margin improvements.

d. Discount Rate

The discount rate used to arrive at the present value of future cash flows was the Group's Weighted Average Cost of Capital (WACC). WACC was based on the appropriate weights of debt and equity, which were multiplied with the assumed costs of debt and equity. The discount rates applied to the cash flow projections range from 10.5 to 10.9% and 12.2% to 14.2% in 2020 and 2019, respectively.

The carrying amount of goodwill and trademarks with indefinite life are as follows:

	2020	2019
Goodwill (see Note 14)	₱1,264,082,949	₱1,264,082,949
Trademarks (see Note 14)	5,549,307,154	5,549,307,154
	₱6,813,390,103	₱6,813,390,103

The recoverable amount of the CGUs to which the goodwill and trademarks with indefinite lives are allocated is greater than its carrying amount. No impairment loss was recognized on goodwill and trademarks for the years ended December 31, 2020, 2019 and 2018.

Determination of Pension Costs. The cost of defined benefit pension plans and present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Accrued pension cost amounted to ₱131.2 million and ₱78.3 million as at December 31, 2020 and 2019, respectively, (see Notes 25 and 27).



The discount rate is derived by discounting all expected benefit payments using interest rates of government bonds that correspond to the timing of benefit payments, after which, a single discount rate is computed considering the aggregate amount of all discounted values.

The mortality rate is based on publicly available mortality tables in the Philippines and is modified accordingly with estimates of mortality improvements. Future salary and pension increases are based on expected future inflation rates in the Philippines.

Further details about the assumptions used are provided in Note 27.

Recoverability of Deferred Tax Assets. The Group performs an annual evaluation of the realizability of deferred tax assets in determining the portion of deferred tax assets which should be recognized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the following period. This forecast is based on the Group's past results and future expectations on revenue and expenses. The effect of COVID-19 pandemic on the macroeconomic factors are also used in developing the assumptions. The Group computes for deferred tax using the 30% corporate tax rate except for its subsidiaries BMI, SPCI and SSI which compute for deferred tax using the OSD effective tax rate of 18%.

Deferred tax assets recognized amounted to ₱357.0 million and ₱162.7 million as at December 31, 2020 and December 31, 2019, respectively (see Note 30).

Evaluation of Claims Under Legal and Other Contingencies. The Group is involved in certain legal actions and claims. The Group's estimate of the probable costs for the resolution of possible legal actions and claims has been developed in consultation with outside legal counsel handling the Group's defense in these matters and is based upon thorough analysis of potential results. Management believes that the ultimate liability or loss recorded in the consolidated financial statements with respect to such obligations, claims and disputes is adequate.

The Group recognized provisions for legal and other contingencies amounting to ₱34.8 million in 2020, nil in 2019 and ₱2.3 million in 2018 (see Notes 29 and 34).

6. Business Combination

Acquisition of Peri-Peri Business

On April 2, 2019, SPAVI and I-Foods, Inc. (IFI) entered into a purchase agreement (the "Agreement") for the rights, title and interest to the Peri-Peri (P2) Business, including the properties, assets, and rights which are related to or are used in the P2 Business.

P2 Business is a casual and full-service restaurant brand in the Philippines. The restaurant offers variety of food and sauces such as peri-peri chicken, pizza and pasta.

On June 1, 2019 (the acquisition date), SPAVI and WBHI, a newly-incorporated subsidiary, executed a deed of assignment, wherein SPAVI, assigned, transferred and conveyed all its rights under the Agreement, except with respect to SPAVI's rights under the Agreement pertaining to Trademarks, Know-How and Confidential Information, and Intellectual Properties (collectively, the "Intangible Assets") of the P2 Business, to WBHI. Subsequently, WBHI and IFI executed a deed of absolute sale of assets wherein I-Foods sold, transferred and conveyed to WBHI the title, rights, material and physical possession of, and interest in, the assets related to the P2 Business for ₱212.3 million. On the same date, as part of the acquisition of the P2 business, SPAVI acquired 100% ownership of AWIL, which is the owner of the intangible assets relevant to the P2 Business for ₱562.2 million.



Total consideration for the acquisition of the P2 business amounted to ₱774.5 million.

The purchase price consideration has been allocated based on relative fair values at date of acquisition as follows:

	Carrying Values	Fair Values Recognized
Current Assets -		
Inventories	₱4,000,000	₱4,000,000
Noncurrent Assets		
Property and equipment	13,390,023	13,390,023
Trademark	562,197,552	562,197,552
Rental deposits	9,456,662	9,456,662
<u>Total Noncurrent Assets</u>	<u>585,044,237</u>	<u>585,044,237</u>
<u>Identifiable Net Assets Acquired</u>	<u>₱589,044,237</u>	<u>₱589,044,237</u>
Identifiable Net Assets Acquired		₱589,044,237
Goodwill from the acquisition		185,476,929
<u>Purchase consideration transferred</u>		<u>₱774,521,166</u>
Cash flow from an investing activity:		
Cash payment		₱774,521,166
Net cash acquired from subsidiary		-
<u>Net cash outflow</u>		<u>₱774,521,166</u>

The fair values of the identifiable assets acquired from IFI amounted to ₱26.8 million. The fair value of property and equipment amounting to ₱13.4 million was measured using the replacement cost method while the fair value of the trademark amounting to ₱562.2 million was measured using the relief from royalty method. The revenue growth and discount rates used to measure the fair value of trademark are 3.0% and 13.9%, respectively.

In 2020, the fair values of the assets acquired, and liabilities assumed were finalized, no changes from the initial recognition were recognized by the Group.

The goodwill of ₱185.5 million reflects the expected growth in the Group's restaurant business and Group management attributes the goodwill to achieving synergies and economies of scale arising from its common processes from its existing operations and contacts with suppliers and other partners to improve cost and efficiency (see Note 14). The goodwill is not deductible for tax purposes.

The revenue from contracts with customer and net loss included in the consolidated statement of comprehensive income for the year ended December 31, 2020 contributed by the acquisition of P2 Business amounted to ₱221.0 million and ₱37.4 million, respectively, while the revenue from contracts with customer and net profit contributed by the acquisition for the period ended December 31, 2019 amounted to ₱205.4 million and ₱26.4 million, respectively.

Had the acquisition taken place on January 1, 2019, the consolidated statement of comprehensive income of the Group would have included revenue from contracts with customers of ₱221.0 million and net loss of ₱37.4 million for the year ended December 31, 2020 and revenue from contracts with customers of ₱444.6 million and net profit of ₱32.8 million for the year ended December 31, 2019.



7. Segment Information

Segment information is prepared on the following bases:

Business Segments

For management purposes, the Group is organized into three business activities - Restaurant sales, franchise and royalty fees and commissary sales. This segmentation is the basis upon which the Group reports its primary segment information.

- Restaurant sales comprise revenues from restaurant activities and sale of merchandise and equipment to franchisees.
- Franchise and royalty fees represents payment of subdealers for use of the Shakey's brand.
- Commissary sales comprise third party sales other than aforementioned activities.

Inter-segment Transactions

Segment revenue, segment expenses and operating results include transfers among business segments. The transfers are accounted for at competitive market prices charged to unrelated customers for similar services. Such transfers are eliminated upon consolidation.

The Group's chief operating decision maker, monitors operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit and loss in the consolidated financial statements.

On a consolidated basis, the Group's performance is evaluated based on consolidated net income for the year, EBITDA and EBITDA margin. EBITDA margin pertains to EBITDA divided by gross revenues.

EBITDA and EBITDA margin are non-PFRSs measures.

The following table shows the reconciliation of the consolidated EBITDA to consolidated net income:

	Years Ended December 31		
	2020	2019	2018
Consolidated EBITDA	₱ 459,339,031	₱1,971,448,615	₱1,499,799,218
Depreciation and amortization (Note 26)	(497,433,459)	(554,013,596)	(230,752,920)
Benefit from (provision for) income tax (Note 30)	114,921,887	(243,071,407)	(241,321,936)
Interest expense (Note 28)	(333,303,573)	(311,472,803)	(188,515,123)
Interest income (Notes 8 and 29)	2,886,826	2,345,458	1,706,189
Consolidated net income (loss)	(₱253,589,288)	₱865,236,267	₱840,915,428



Business Segment Data

The following tables present revenue and income information and certain assets and liabilities information regarding business segments for each of the three years in the period ended December 31:

	Restaurant			Franchise and Royalty Fees			Commissary and Others			Eliminations			Consolidated		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Revenue from contracts with customers	₱6,248,779,788	₱10,045,004,683	₱8,789,271,213	₱255,117,257	₱537,342,436	₱441,725,390	₱370,489,536	₱579,836,760	₱511,290,978	(₱1,577,615,035)	(₱2,923,090,092)	(₱2,163,568,963)	₱5,296,771,546	₱8,239,093,787	₱7,578,718,618
Net income (loss)	(₱292,343,354)	₱1,295,963,269	₱634,646,258	₱182,651,564	₱382,917,607	₱412,612,256	₱34,863,740	₱90,679,009	₱87,961,189	(₱178,761,238)	(₱904,323,618)	(₱294,304,275)	(₱253,589,288)	₱865,236,267	₱840,915,428
Interest expense	324,239,685	301,976,511	187,504,411	736,725	1,058,206	1,010,712	8,327,163	8,438,086	–	–	–	–	333,303,573	311,472,803	188,515,123
Interest income	(2,700,192)	(2,267,428)	(1,645,757)	(1,641)	(35,751)	(27,407)	(184,993)	(42,279)	(33,025)	–	–	–	(2,886,826)	(2,345,458)	(1,706,189)
Income tax	(197,578,504)	74,748,204	198,857,562	61,628,337	142,020,695	25,040,030	18,339,731	26,302,508	20,409,255	2,688,549	–	(2,984,911)	(114,921,887)	243,071,407	241,321,936
Depreciation and amortization	462,862,745	514,352,918	195,756,829	–	–	–	34,570,714	39,660,678	32,361,764	–	–	2,634,327	497,433,459	554,013,596	230,752,920
EBITDA	₱294,480,380	₱2,184,773,474	₱1,215,119,303	₱245,014,985	₱525,960,757	₱438,635,591	₱95,916,355	₱165,038,002	₱140,699,183	(₱176,072,689)	(₱904,323,618)	(₱294,654,859)	₱459,339,031	₱1,971,448,615	₱1,499,799,218
EBITDA Margin													8.67%	23.93%	19.79%
Assets and Liabilities															
Operating assets	₱12,360,967,559	₱13,049,648,512	₱11,246,793,548	₱81,988,104	₱3,936,383,054	₱1,395,553,680	₱1,844,940,471	₱522,557,825	₱430,753,630	(₱2,418,076,485)	(₱5,330,936,192)	(₱3,470,966,300)	₱11,869,819,649	₱12,177,653,199	₱9,602,134,558
Deferred tax assets	347,966,523	121,321,456	35,400,241	–	17,699,942	–	5,152,962	16,209,568	3,815,079	(2,946,957)	(258,408)	(8,170,656)	350,172,528	154,972,558	31,044,664
Total assets	₱12,708,934,082	₱13,170,969,968	₱11,282,193,789	₱81,988,104	₱3,954,082,996	₱1,395,553,680	₱1,850,093,433	₱538,767,393	₱434,568,709	(₱2,421,023,442)	(₱5,331,194,600)	(₱3,479,136,956)	₱12,219,992,177	₱12,332,625,757	₱9,633,179,222
Operating liabilities	₱3,048,861,506	₱3,623,219,246	₱2,937,858,969	₱193,377,235	₱2,162,919,678	₱138,487,842	₱184,477,811	₱208,042,348	₱191,050,056	(₱775,079,841)	(₱3,116,780,164)	(₱2,089,454,697)	₱2,651,636,711	₱2,877,401,108	₱1,177,942,170
Interest-bearing loans and borrowings	4,838,597,369	4,386,718,303	3,884,935,066	–	–	–	–	–	480,853	–	–	–	4,838,597,369	4,386,718,303	3,885,415,919
Total liabilities	₱7,887,458,875	₱8,009,937,549	₱6,822,794,035	₱193,377,235	₱2,162,919,678	₱138,487,842	₱184,477,811	₱208,042,348	₱191,530,909	(₱775,079,841)	(₱3,116,780,164)	(₱2,089,454,697)	₱7,490,234,080	₱7,264,119,411	₱5,063,358,089

Restaurant sales are attributable to revenues from the general public, which are generated through the Group's store outlets while franchise and royalty fees and commissary and others are derived from various franchisees of the Group's trade names. Consequently, the Group has no concentrations of revenues from a single customer or franchisee in 2020, 2019 and 2018.

The Group's international operations (through SIL and SPFRL) are considered to be immaterial in relation to the consolidated financial statements. Total assets and revenues are 0.07% and 0.09% in 2020 and 0.11% and 0.12% in 2019, of the consolidated assets and revenues, respectively, of the Group.



8. Cash

	2020	2019
Cash on hand	₱54,049,698	₱230,247,235
Cash in banks	553,624,434	277,453,955
	₱607,674,132	₱507,701,190

Cash in banks earn interest at the respective bank deposit rates. Interest income on cash amounted to ₱2.9 million, ₱2.3 million, and ₱1.7 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 29).

9. Trade and Other Receivables

	2020	2019
Trade:		
Franchisee	₱99,739,093	₱149,747,542
Third parties	157,501,221	294,181,141
Related parties (see Note 18)	32,689,608	14,174,813
Royalty receivable (see Note 33)	37,339,494	45,801,490
Receivable from:		
National Advertising Fund (NAF)	140,304,750	100,878,240
Franchisees	24,372,171	52,700,724
Employees	13,157,850	17,333,159
Advances to third parties	10,311,752	-
Others	51,707,638	40,885,393
	567,123,577	715,702,502
Less allowance for ECL	(6,119,007)	(6,219,007)
	₱561,004,570	₱709,483,495

Below are the terms and conditions of the financial assets:

- Trade receivables are non-interest bearing and are normally collectible within 10 days.
- Royalty receivable is being collected from dealers on the 20th day of the following month.
- Receivable from NAF pertains to reimbursable advertising and promotion expenses from dealers which will be applied on future dealer remittances.
- Receivable from franchisees pertains to receivables for transactions other than sale of goods such as management fees, freight and gas expenses and are non-interest bearing and generally have 30 to 45 days' term.
- Receivables from employees, which represent mainly salary loan, are interest-free and are being collected through salary deduction for a period ranging from 6 months to 1 year.
- Other receivables consist mainly of receivables from cooperatives and freight charges which are non-interest bearing and generally have 30 to 45 days' term.
- For terms and conditions of related party receivables, refer to Note 18.



The movements of allowance for ECL are as follows:

	2020			2019		
	Trade and Others	Receivables from Employees	Total	Trade and Others	Receivables from Employees	Total
Balance at beginning of year	₱4,973,440	₱1,245,567	₱6,219,007	₱4,973,440	₱1,499,477	₱6,472,917
Provision for ECL (see Note 24)	-	-	-	-	190,000	190,000
Reversal of ECL (see Note 29)	-	(100,000)	(100,000)	-	(443,910)	(443,910)
Accounts written-off	-	-	-	-	-	-
Balance at year-end	₱4,973,440	₱1,145,567	₱6,119,007	₱4,973,440	₱1,245,567	₱6,219,007

For the years ended December 31, 2020, 2019 and 2018, the Group used the simplified provision matrix approach in estimating the ECL on trade and other receivables. Based on the assessments made, the Group recognized provision for ECL amounting to nil in 2020, ₱0.2 million in 2019 and nil in 2018 (see Note 24), while recovery of allowance for ECL amounted to ₱0.1 million in 2020, ₱0.4 million in 2019 and nil in 2018 (see Note 29).

10. Inventories

	2020	2019
At cost -		
Finished goods	₱4,443,221	₱6,290,604
Raw materials - food	18,127,413	19,349,890
At NRV:		
Merchandise	417,026,575	442,073,542
Raw materials - packaging	5,344,363	9,413,340
	₱444,941,572	₱477,127,376

The cost of the inventories carried at NRV follows:

	2020	2019
Merchandise	₱440,633,066	₱465,680,033
Raw materials – packaging	5,419,554	9,488,531
	₱446,052,620	₱475,168,564

The cost of merchandise and materials charged to cost of sales in the consolidated statements of comprehensive income amounted to ₱2,204.6 million in 2020, ₱3,125.3 million in 2019, and ₱2,765.9 million in 2018 (see Note 23).

Allowance for inventory obsolescence amounted to ₱4.3 million as at December 31, 2020 and 2019, respectively.

No reversal and provision for inventory obsolescence was recognized in 2020, 2019 and 2018.



11. Prepaid Expenses and Other Current Assets

	2020	2019
Prepaid expenses	₱57,591,809	₱36,328,604
Advances to suppliers	47,222,941	83,226,205
Prepaid taxes	27,227,826	4,415,524
	₱132,042,576	₱123,970,333

Advances to suppliers represent payments for items purchased or goods yet to be delivered or services to be rendered.

Prepaid expenses pertain to advance payments for insurance and dues and subscription and are amortized monthly over a period of one year.

12. Financial Assets at FVPL

Movements of this account are as follows:

	2020	2019
Cost:		
Balance at beginning of year	₱120,000,000	₱-
Additions	120,000,000	270,139,412
Redemption	(120,000,000)	(150,139,412)
Balance at end of year	120,000,000	120,000,000
Accumulated Unrealized Fair Value Change		
Balance at beginning of year	-	-
Fair value gain (see Note 29)	589,306	1,016,240
Redemption	(589,306)	(1,016,240)
Balance at end of year	-	-
Net carrying value at end of year	₱120,000,000	₱120,000,000

The Group's investments in financial assets at FVPL consist of UITF, which have no holding period and are callable any time.

Fair value gain on financial assets at FVPL included in "Other Income" of the consolidated financial statements amounted to ₱0.6 million in 2020 and ₱1.0 million in 2019 and nil in 2018 (see Note 29).



13. Property and Equipment

	Building	Leasehold Improvements	Furniture, Fixtures and Equipment	Machinery and Equipment	Transportation Equipment	Cost of Shops and Maintenance Tools	Glassware and Utensils	Construction in-progress	Total
Cost									
Balance at December 31, 2018	₱243,395,836	₱1,217,518,546	₱1,277,948,237	₱198,978,742	₱40,299,314	₱50,207	₱7,078,924	₱169,357,129	₱3,154,626,935
Additions	4,753,617	146,983,189	168,285,723	10,212,203	3,974,338	3,017,026	5,482,205	88,175,568	430,883,869
Disposals	(18,141,282)	(41,552,757)	(44,804,701)	–	(4,077,679)	–	–	–	(108,576,419)
Reclassification	19,421,448	51,098,472	63,473,488	–	34,911	1,969	2,516,183	(136,546,471)	–
Balance at December 31, 2019	249,429,619	1,374,047,450	1,464,902,747	209,190,945	40,230,884	3,069,202	15,077,312	120,986,226	3,476,934,385
Additions	3,375,257	63,869,452	61,564,185	16,591,092	2,623,805	15,893,038	3,251,773	–	167,168,602
Disposals	(263,870)	(299,263,918)	(378,630,778)	–	(17,269,699)	(1,772,295)	–	–	(697,200,560)
Reclassification	4,559,627	64,848,723	4,059,459	–	–	–	–	(73,467,809)	–
Balance at December 31, 2020	₱257,100,633	₱1,203,501,707	₱1,151,895,613	₱225,782,037	₱25,584,990	₱17,189,945	₱18,329,085	₱47,518,417	₱2,946,902,427
Accumulated Depreciation									
Balance at December 31, 2018	₱15,267,852	₱737,168,965	₱760,370,113	₱51,679,864	₱27,762,027	₱8,351	₱4,703,913	₱–	₱1,596,961,085
Depreciation (see Notes 23, 24 and 26)	17,628,190	127,936,848	133,312,821	27,044,532	4,510,750	521,700	4,259,449	–	315,214,290
Disposals	(2,768,749)	(16,979,749)	(28,336,577)	–	(2,448,078)	–	–	–	(50,533,153)
Balance at December 31, 2019	30,127,293	848,126,064	865,346,357	78,724,396	29,824,699	530,051	8,963,362	–	1,861,642,222
Depreciation (see Notes 23, 24 and 26)	18,016,234	114,962,173	150,940,176	26,522,906	3,663,397	11,272,401	8,244,166	–	333,621,453
Disposals	(263,870)	(276,747,559)	(372,506,186)	–	(17,269,684)	(1,208,172)	–	–	(667,995,471)
Balance at December 31, 2020	₱47,879,657	₱686,340,678	₱643,780,347	₱105,247,302	₱16,218,412	₱10,594,280	₱17,207,528	₱–	₱1,527,268,204
Net Book Value									
Balance at December 31, 2019	₱219,302,326	₱525,921,386	₱599,556,390	₱130,466,549	₱10,406,185	₱2,539,151	₱6,113,950	₱120,986,226	₱1,615,292,163
Balance at December 31, 2020	209,220,976	517,161,029	508,115,266	120,534,735	9,366,578	6,595,665	1,121,557	47,518,417	1,419,634,223



There are no idle assets as at December 31, 2020 and 2019. The Group has no property and equipment that are used as collateral for existing loans payable.

Net book value of property and equipment transferred to franchisees as part of the franchising agreement amounted to ₱6.4 million in 2020 and ₱58.0 million in 2019.

Property and equipment amounting to ₱13.4 million were acquired as part of the net assets acquired from IFI for the P2 Business (see Note 6).

14. Intangible Assets

The Group's intangible assets consist of:

	2020	2019
Goodwill	₱1,264,082,949	₱1,264,082,949
Trademarks with indefinite life	5,549,307,154	5,549,307,154
Software costs	233,331,243	163,438,617
Franchise right	4,787,656	—
	₱7,051,509,002	₱6,976,828,720

In 2016, goodwill amounting to ₱1,078.6 million was recognized in connection with its acquisition of BMI while trademarks amounting to ₱4,987.1 million related to its pizza business was recognized and treated as acquisition of assets based on relevant accounting standards since such transaction did not qualify as an acquisition of a business.

In 2019, the Group acquired the Peri-Peri business from I-Foods, Inc. including the properties, assets and rights which are related to or are used in the said business (Note 6). Such transaction was accounted for as an acquisition of a business and additional goodwill and trademarks amounting to ₱185.5 million and ₱562.2 million, respectively, were recorded as at the date of acquisition.

The movements in the Group's goodwill and trademarks with indefinite life are as follows:

	Goodwill	Trademarks with Indefinite Life	Total
Balance as at December 31, 2018	₱1,078,606,020	₱4,987,109,602	₱6,065,715,622
Additions (see Note 6)	185,476,929	562,197,552	747,674,481
Balance as at December 31, 2020 and 2019	₱1,264,082,949	₱5,549,307,154	₱6,813,390,103

On August 24, 2020, the Group entered into a master franchise agreement for a consideration of ₱5.0 million (\$0.1 million) with Supertea (Int) Pte. Ltd. (Supertea), whereby Supertea granted the Group the following:

- the exclusive right and license to develop and operate the Business, provide the services and sell the products, from the R&B Tea Outlets;
- the exclusive right and license, subject to the fulfillment of certain conditions, to grant franchisees for R&B Tea Outlet to third parties (Sub-Franchisees) by entering into sub-franchise agreements in the form approved and/or provided by Supertea in writing; and
- the non-exclusive right and license to use the Intellectual Property strictly in connection with the aforesaid.



The license does not include the right to sell, provide or distribute any products or services through channels other than the R&B Outlets, or selected outlets as set out in the master franchise agreement.

The master franchise agreement is effective from August 20, 2020 and continue for the initial term of seven (7) years, unless otherwise terminated or renewed.

The details of the Group's intangible assets with finite life are as follows:

	Software	Franchise Right
Cost		
Balance at December 31, 2018	P-	P-
Additions	178,159,719	-
Balance at December 31, 2019	178,159,719	-
Additions	85,158,730	4,964,977
Balance at December 31, 2020	₱263,318,449	₱4,964,977
Accumulated Amortization		
Balance at December 31, 2018	P-	P-
Amortization (see Note 26)	14,721,101	-
Balance at December 31, 2019	14,721,101	-
Amortization (see Note 26)	15,266,104	177,321
Balance at December 31, 2020	₱29,987,206	₱177,321
Net Book Value		
Balance at December 31, 2020	₱233,331,243	₱4,787,656
Balance at December 31, 2019	163,438,617	-

15. Right-of-Use Assets and Lease Liabilities

Group as a lessee

The Group has lease contracts for land for the use of its office spaces and stores. Lease contracts of office spaces usually have terms of 20 to 25 years while leases of stores usually have terms of 3 to 15 years.

The Group also has certain leases of stores with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The rollforward analysis of right-of-use assets follows:

	2020	2019
Cost		
Balance at beginning of year	₱1,637,933,084	₱1,219,622,052
Additions (see Note 16)	261,876,559	418,311,032
Pre-terminations	(90,855,829)	-
Balance at end of year	1,808,953,814	1,637,933,084

(Forward)



	2020	2019
Accumulated Amortization		
Balance at beginning of year	₱224,309,814	₱231,610
Amortization (see Notes 23, 24 and 26)	148,368,580	224,078,204
Lease concessions	138,357,193	-
Pre-terminations	(13,545,833)	-
Balance at end of year	497,489,754	224,309,814
Net Book Value	₱1,311,464,060	₱1,413,623,270

The rollforward analysis of lease liabilities follows:

	2020	2019
Balance at beginning of year	₱1,598,627,163	₱1,376,144,109
Additions	259,663,593	399,140,025
Interest expense (see Note 28)	105,789,642	102,342,903
Payments	(203,225,951)	(278,999,874)
Pre-terminations	(91,894,235)	-
Lease concessions	(138,357,193)	-
Balance at end of year	1,530,603,019	1,598,627,163
Current portion of lease liabilities	211,544,249	224,333,251
Lease liabilities -net of current portion	₱1,319,058,770	₱1,374,293,912

The Group has lease contracts for stores that contains variable payments based on the gross sales. The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments:

As at December 31, 2020			
	Fixed Payments	Variable Payments	Total
Fixed	₱147,711,286	₱-	₱147,711,286
Variable rent with minimum payment	81,106,019	55,043,751	136,149,770
Variable rent only	-	903,476	903,476
	₱228,817,305	₱55,947,227	₱284,764,532

As at December 31, 2019			
	Fixed Payments	Variable Payments	Total
Fixed	₱431,406,549	₱-	₱431,406,549
Variable rent with minimum payment	165,344,157	90,502,097	255,846,254
Variable rent only	-	717,434	717,434
	₱596,750,706	₱91,219,531	₱687,970,237

Shown below is the maturity analysis of the undiscounted lease payments:

	2020	2019
1 year	₱305,080,184	₱325,174,775
more than 1 years to 2 years	261,208,767	275,259,744
more than 2 years to 3 years	223,630,545	232,378,672
more than 3 years to 4 years	183,415,290	196,452,826
more than 5 years	1,293,618,928	1,255,148,889



Rent expense on short-term leases and leases of low-value assets amounted to ₱93.1 million and ₱168.8 million as of December 31, 2020 and 2019, respectively (see Notes 23 and 24).

16. Rental deposits

	2020	2019
Rental deposits	₱176,422,833	₱168,960,073
Less: allowance for unrecoverable deposits	3,297,293	3,297,293
	₱173,125,540	₱165,662,780

The Group's rental deposits are refundable at the end of the lease term which range from 3 years to 15 years. Accordingly, rental deposits are discounted based on comparable rates for similar financial instruments with rates ranging from 3.19% to 5.70% for the years ended December 31, 2020 and 2019. The excess of the principal amount of the deposit over its fair value is accounted for as right-of-use asset and amortized over the lease term on a straight-line basis while interest on the deposit is accounted for using the effective interest rate method.

The Group uses a provision matrix to calculate ECLs for rental and other deposits. No provision was recognized in 2020 while recovery of allowance for unrecoverable deposit in 2019 amounted to ₱25,000 and provisions for unrecoverable deposits amounted to ₱1.2 million in 2018 (see Note 24).

The accretion income from rental deposits amounted to ₱4.24 million in 2020, ₱3.4 million in 2019 and ₱3.4 million in 2018 (see Note 29).

17. Accounts Payable and Other Current Liabilities

	2020	2019
Trade:		
Suppliers	₱372,469,808	₱391,578,727
Related parties (see Note 18)	56,154,616	47,904,387
Nontrade	50,961,628	255,510,351
Accrued expenses:		
Suppliers	104,160,624	47,662,656
Utilities	42,924,172	25,065,336
Salaries and wages	48,596,636	78,842,303
Customers loyalty	15,112,737	6,528,910
Interest	5,225,000	5,293,750
Others	105,566,652	105,924,696
	₱801,171,873	₱964,311,116

Below are the terms and conditions of the financial liabilities:

- Trade payables are non-interest bearing and are normally settled in 30 to 90 days' term.
- Nontrade payables consist mainly of reimbursable expenses to officers and employees, payable to contractors and employment agencies which are normally settled in 30 to 90 days' term.
- Accrued expenses, which consist mainly of accrual of rent expense of stores, utilities, employee benefits and incentives, freight, commissions and storage costs are normally settled in 30 to 90 days' term.
- Customers loyalty pertain to accumulated points which are generally applied to customer purchases within the next financial year. Revenue is recognized upon actual usage or expiration whichever comes first.



- Other payables are normally settled in 15 to 45 days' term.
- For terms and conditions of related party payables, refer to Note 18.

Other payables consist of the following:

	2020	2019
Provision (see Note 34)	₱37,033,000	₱2,253,030
Output VAT	27,841,838	66,176,826
Customers' deposits	11,719,001	5,918,618
Withholding tax payable	10,580,738	9,365,058
Due to cooperative	8,305,794	8,318,311
SSS, Philhealth and Pag-ibig payable	5,633,872	3,475,353
Fun certificates payable	2,631,055	3,697,885
Others	1,821,354	6,719,615
	₱105,566,652	₱105,924,696



18. Related Party 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 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.

Approval requirements and limits on the amount and extent of related party transactions

Material related party transactions (MRPT) refers to any related party transactions, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of the Group's total consolidated assets based on its latest audited consolidated financial statements.

All individual MRPT shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the Independent Directors voting to approve the MRPT. In case that a majority of the Independent Directors' vote is not secured, the MRPT may be ratified by the vote of the stockholders representing at least two thirds (2/3) of the outstanding capital stock.

Aggregate RPT transactions within a 12-month period that meets or breaches the materiality threshold shall require the same BOD approval mentioned above.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2020, 2019 and 2018, the Group has not recorded any impairment of receivables on amounts owed by the related parties. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The Group, in the normal course of business, has significant transactions with the following companies which have common members of BOD and stockholders as the Group:

Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance		Terms	Conditions
				Receivable (see Note 9)	Payable (see Note 17)		
Century Pacific Group Inc. (CPGI, Ultimate Parent Company)							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost-plus basis	2020 2019	₱6,969,986 9,967,147	₱3,082,080 866,584		₱- 30-day; non-interest bearing	Unsecured

(Forward)



Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance		Terms	Conditions
				Receivable (see Note 9)	Payable (see Note 17)		
Companies with common members of BOD and stockholders as the Group							
The Pacific Meat Company Inc. (PMCI)							
Sales	Sale of goods at prices (normally on cost-plus basis) mutually agreed upon by both parties	2020 2019	₱39,380,782 5,743,038	₱14,801,958 5,549,078	– –	30-day; non-interest bearing	Unsecured; not impaired
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost-plus basis	2020 2019	111,576,250 58,760,886	– –	49,190,062 34,066,172	30-day; non-interest bearing	Unsecured
DBE Project Inc. (DBE)							
Trade sales and service income	Sale of goods at prices (normally on cost-plus basis) mutually agreed upon by both parties	2020 2019	397,313 5,190,188	2,700,958 2,310,744	– –	30-day; non-interest bearing	Unsecured; not impaired
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost-plus basis	2020 2019	– 9,242	– –	333,045 333,045	30-day; non-interest bearing	Unsecured
Snow Mountain Dairy Corporation (SMDC)							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost-plus basis	2020 2019	1,630,697 3,318,003	– –	367,200 993,219	30-day; non-interest bearing	Unsecured
Century Pacific Food Inc. (CPFI)							
Sales	Sale of goods at prices (normally on cost-plus basis) mutually agreed upon by both parties	2020 2019	22,520,290 17,766,410	12,104,612 5,448,407	– –	30-day; non-interest bearing	Unsecured; not impaired
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost-plus basis	2020 2019	18,825,526 26,710,470	– –	6,264,309 12,511,951	30-day; non-interest bearing	Unsecured
			2020	₱32,689,608	₱56,154,616		
			2019	14,174,813	47,904,387		



Compensation of Key Management Personnel

The salaries and pension costs of key management personnel in 2020 and 2019 are as follows:

	2020	2019
Salaries	₱314,154,418	₱280,868,844
Pension costs	42,533,969	40,033,402
	₱356,688,387	₱320,902,246

There are no other short-term and long-term benefits given to the key management personnel.

19. Short-term Loans Payable

	2020	2019
Balance at beginning of year	₱550,000,000	₱-
Additions	1,500,000,000	800,000,000
Payments	(1,000,000,000)	(250,000,000)
Balance at end of year	₱1,050,000,000	₱550,000,000

The Group acquired several short-term loans amounting to ₱1,500.0 million with interest ranging from 3.50% to 5.50% per annum in 2020 and ₱800.0 million with interest of 5.40% per annum in 2019.

Interest expense pertaining to short-term loans amounting to ₱39.5 million, ₱21.7 million and nil was recognized for the years ended December 31, 2020, 2019 and 2018 respectively (see Note 28).

20. Long-term Loans Payable

Long-term facility loan

On June 8, 2016, the Group entered into an Omnibus Loan and Security Agreement (OLSA) with BDO Unibank, Inc. (the Lender) and SAFHI. The lender provided a term loan facility in the principal amount of ₱5,000.0 million.

The breakdown of the loan is as follows:

	2020	2019
Principal	₱3,800,000,000	₱3,850,000,000
Less unamortized debt issue costs	11,402,631	13,281,697
	3,788,597,369	3,836,718,303
Less current portion of loan payable	48,099,942	48,120,934
Noncurrent portion	₱3,740,497,427	₱3,788,597,369

The loan is payable within 10 years to commence on the 12th month following the availment date. Payments shall be made in 18 consecutive semi-annual installments of ₱25.0 million and a final payment of ₱4,550.0 million.

The loan's interest is to be fixed at the higher of 5-year PDST-R2 plus a spread of 0.75% or 4.5% floor rate for the first 5 years, to be repriced at the last 5 years. Management has assessed that the interest rate floor on the loan is an embedded derivative which is not for bifurcation since the market rate approximates the floor rate at the transaction date.



The loan facility also contains a prepayment provision which allows the Group to make optional prepayment in the amount calculated by the lender comprising (i) the outstanding principal amount of the Loan to be prepaid, and (ii) any accrued interest on the principal amount of the Loan being prepaid computed as of the date of prepayment. The prepayment option was assessed as closely related to the loan and thus, was not bifurcated.

On December 22, 2016, the Group notified BDO of its intention to prepay the loan amounting to ₱1,000.0 million. The exercise of the prepayment option resulted in the revision of estimated future payments and change in the carrying amount of the financial liability. On January 3, 2017, the Group prepaid portion of the loan amounting to ₱1,000.0 million and the corresponding break funding fee and prepayment penalty amounting to ₱21.4 million.

As long as any portion of the loan is outstanding and until payment in full of all amounts payable by the Group under the loan documents are made, the Group is required to comply with certain affirmative covenants, unless the Lender shall otherwise give its consent in writing:

- a. Ensure that at all times its obligations will constitute its secured, direct, unconditional and unsubordinated obligations, and any of its residual obligation not satisfied out of the proceeds of the Collateral shall rank and will rank at all times at least paripassu in priority of payment and in all other respects with all its unsecured obligations, save for such obligations in respect of which a statutory preference is established solely by operation of law.
- b. The net proceeds from the loan shall be used for the purpose of refinancing the bridge loan.
- c. Financial covenant during the term of the Term Loan:
 - i. its Debt Service Coverage Ratio is at least 1.2x. Debt Service Coverage Ratio is as of the date of determination, the ratio of EBITDA less regular dividends and advances to shareholders over Debt Service. For purposes hereof, "EBITDA" means operating profit before interest, taxes, depreciation and amortization, each item determined in accordance with PFRSs, and the term "Debt Service" means the aggregate amount of the succeeding year's principal amortization for the Loan, interest, fees and other financial charges made or due in respect thereof payable by the Borrower, provided that one (1) year prior to the maturity of the Loan, "Debt Service Coverage Ratio" shall mean the ratio of sum of the beginning cash balance and EBITDA less regular dividends and advances to shareholders over Debt Service;
 - ii. its Debt to Equity Ratio does not exceed 5.0x within the first two years from the Borrowing under the Term Loan and 4.0x thereafter.

The foregoing financial covenant shall be tested every six months based on annual audited or unaudited semi-annual consolidated financial statements. On January 27, 2017, the OLSA was amended to include June 30, 2017 as the commencement date for the testing for the financial covenant ratios.

- d. Within the period required, open and establish the Debt Service Reserve Account (DSRA); and ensure that the funds deposited in the DSRA is at all times maintained in accordance with the agreement. As at December 31, 2020 and 2019, the balances of DSRA has been applied to the loan balance.
- e. Prior to the assignment or transfer of any trade names, copyrights, trademarks, patents and other intellectual property rights or licenses currently held by the Group or any wholly-owned subsidiary of the Group, the Group shall pledge in favor of the Lender, under the terms and



conditions of the Pledge under the Omnibus loan and security Agreement, all the outstanding shares of the Group in such wholly-owned subsidiary.

As at December 31, 2020 and 2019, the Group is in compliance with the aforementioned affirmative covenants.

Interest expense amounting to ₱181.6 million, ₱178.9 million and ₱182.0 million were recognized for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 28).

21. Equity

Capital Stock

	Number of shares	Amount
Authorized capital stock - ₱1 par value:	2,000,000,000	₱2,000,000,000
Issued and outstanding capital stock - ₱1 par value	1,531,321,053	1,531,321,053

Below is the Parent Company's track record of the registration of securities:

Date of SEC Order Rendered Effective or Permit to Sell	Event	Authorized Capital Stock	Issued Shares	Issue Price
	Registered and Listed Shares (Original Shares)	2,000,000,000	1,179,321,053	₱1.00
December 1, 2016	Initial Public Offering (IPO)			
	Primary	2,000,000,000	104,000,000	11.26
	Secondary	2,000,000,000	202,000,000	11.26
	Over-allotment Option	2,000,000,000	46,000,000	11.26

The issued and outstanding shares as at December 31, 2020 and 2019 are held by 38 and 31 equity holders, respectively.

Retained Earnings

Details of cash dividends declared in 2020, 2019 and 2018 are as follows:

Date of Declaration	Dividend		Record Date
	Rate (per share)	Amount	
August 16, 2018	₱0.10	₱153,132,105	October 10, 2018
June 20, 2019	0.10	153,132,105	July 19, 2019
July 15, 2020	0.01	15,313,210	August 14, 2020

There are no outstanding dividends payable as at December 31, 2020 and 2019. Cash declared and paid for 2020 and 2019 amounted to ₱15.3 million and ₱153.1 million, respectively.

Undistributed earnings of the subsidiaries included in the Group's retained earnings amounting to ₱191.2 million and ₱235.4 million as at December 31, 2020 and 2019, respectively, are not currently available for dividend distribution.



APIC

Amount received in excess of the par values of the shares issued amounting to ₱1,353.6 million were recognized as "APIC".

22. Revenue from Contracts with Customers

Set out below is the disaggregation of the Group's revenue from contracts with customers for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Revenue source:			
Restaurant sales	₱3,829,454,422	₱6,017,118,710	₱5,773,153,864
Sale of goods	1,219,937,901	1,843,208,026	1,502,533,237
Royalty and franchise fees (see Note 33)	247,379,223	378,767,051	302,614,112
Other income	-	-	417,405
	₱5,296,771,546	₱8,239,093,787	₱7,578,718,618
Timing of recognition:			
Goods transferred at a point in time	₱5,265,608,468	₱8,215,705,312	₱7,558,966,013
Services rendered over time	31,163,078	23,388,475	19,752,605
	₱5,296,771,546	₱8,239,093,787	₱7,578,718,618

Contract liabilities

Below are the details of contract liabilities as at December 31, 2020 and 2019:

	2020	2019
Initial franchise fee	₱89,620,579	₱109,169,959
Less current portion	16,020,186	18,517,499
Noncurrent portion	₱73,600,393	₱90,652,460

Movements of contract liabilities arising from initial franchise fees as at and for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Balance as at January 1	₱109,169,959	₱112,600,227
Amortization of initial franchise fees	(31,163,078)	(23,388,475)
Initial franchise fees received	7,732,650	13,732,261
Accretion of interest expense (see Note 28)	3,881,048	6,225,946
Balance as at December 31	₱89,620,579	₱109,169,959



As at December 31, 2020, the amounts of initial franchise fees allocated to remaining performance obligations, its accretion of interest expense in the succeeding years, and contract liabilities arising from initial franchise fees are as follows:

	Unamortized initial franchise fees	Accretion of interest expense	Contract liabilities from initial franchise fees
Within one year	₱16,020,186	₱3,350,256	₱19,370,442
More than one year	73,600,393	7,826,205	81,426,598
	₱89,620,579	₱11,176,461	₱100,797,040

23. Cost of Sales

	2020	2019	2018
Inventory costs (see Note 10)	₱2,204,553,069	₱3,125,251,410	₱2,765,923,322
Salaries, wages and benefits	827,031,643	996,785,139	964,973,530
Depreciation and amortization (see Note 26)	453,025,380	532,953,110	213,610,981
Utilities	265,342,629	354,394,827	342,052,802
Outside services	109,040,201	178,475,243	172,205,678
Delivery call fees	106,666,672	73,363,564	67,165,629
Rent (see Note 15)	92,206,787	167,962,914	433,875,896
Supplies	86,344,075	109,040,126	145,971,183
Gas expenses	67,597,940	101,568,984	103,865,307
Repairs and maintenance	54,643,476	72,649,124	54,785,733
Dues and subscription	20,060,633	1,570,357	6,492,710
Card charges	17,982,948	34,153,443	31,706,197
Pension costs (see Notes 25 and 27)	16,806,284	17,009,639	11,019,772
Commissary costs	721,408	4,168,985	12,300,823
Seminar and training	634,622	2,254,367	3,771,217
Linen and uniform	–	7,265,843	6,670,071
Others	41,499,542	48,151,093	62,928,560
	₱4,364,157,309	₱5,827,018,168	₱5,399,319,411

24. General and Administrative Expenses

	2020	2019	2018
Salaries, wages and benefits	₱330,577,851	₱281,595,118	₱258,120,276
Advertising and promotions	150,360,713	242,500,544	243,827,143
Taxes and licenses	149,853,823	131,126,005	111,822,988
Outside services	130,858,533	184,519,580	163,501,221
Depreciation and amortization (see Note 26)	44,408,079	21,060,486	17,141,939
Supplies	33,783,403	47,315,803	42,842,090
Transportation and travel	32,783,940	43,859,084	44,310,379
Pension costs (see Notes 25 and 27)	25,343,893	24,717,252	17,221,775
Utilities	13,487,441	15,297,106	14,714,296
Insurance	7,756,866	4,422,552	6,252,088

(Forward)



	2020	2019	2018
Gas expenses	₱5,304,639	₱8,536,964	₱7,776,569
Directors' fees	1,371,930	1,238,596	608,176
Rent (see Note 15)	881,081	875,546	6,078,072
Provision for ECL (see Note 9)	–	190,000	–
Provision for unrecoverable deposits (see Note 16)	–	–	1,227,003
Others	45,940,408	44,347,439	37,781,262
	₱972,712,600	₱1,051,602,075	₱973,225,277

25. Personnel Expenses

	2020	2019	2018
Salaries, wages, bonuses and allowances:			
Cost of sales (see Note 23)	₱771,835,204	₱950,873,708	₱937,578,042
General and administrative expense (see Note 24)	317,237,561	267,334,556	234,584,814
SSS, Pag-ibig, Medicare and other contributions:			
Cost of sales (see Note 23)	55,196,439	45,911,431	27,395,488
General and administrative expense (see Note 24)	13,340,290	14,260,562	23,535,462
Retirement costs:			
Cost of sales (see Notes 23 and 27)	16,806,284	17,009,639	11,019,772
General and administrative expense (see Notes 24 and 27)	25,343,893	24,717,252	17,221,775
	₱1,199,759,671	₱1,320,107,148	₱1,251,335,353

26. Depreciation and Amortization

	2020	2019	2018
Property and equipment:			
Cost of sales (see Note 23)	₱304,794,400	₱309,012,506	₱213,610,981
General and administrative expense (see Note 24)	28,827,053	6,201,784	17,141,939
Right-of-use assets:			
Cost of sales (see Note 23)	148,230,980	223,940,604	–
General and administrative expense (see Note 24)	137,600	137,600	–
Software -			
General and administrative expense (see Note 24)	15,266,105	14,721,102	–
Franchise right -			
General and administrative expense (see Note 24)	177,321	–	–
	₱497,433,459	₱554,013,596	₱230,752,920



27. Pension Costs

The Group has a funded, noncontributory defined benefit pension plan covering substantially all of its qualified employees. The benefits are based on years of service and percentage of compensation during the last year of employment.

The Group amended its retirement plan beginning January 1, 2019. Based on the amended plan, employees who completed at least five (5) years of service qualify in the early retirement plan of the Group. Current service cost and interest cost were computed using the financial assumptions at the beginning of the year reflecting the benefits offered under the plan amendment. Any changes in that effect, excluding amount in net interest, are recognized in OCI. Past service cost recognized as a result of the plan amendment amounted to ₱19.0 million for the year ended December 31, 2019.

The following tables summarize the components of net pension costs in the consolidated statements of comprehensive income in 2020, 2019 and 2018 and accrued pension costs in the consolidated statements of financial position as at December 31, 2020 and 2019. The latest actuarial valuation is as at December 31, 2020.

	2020	2019	2018
Pension costs:			
Current service cost	₱48,373,849	₱22,352,218	₱26,823,934
Net interest cost	3,954,215	392,379	1,417,613
Past service cost due to plan amendment	(10,177,887)	18,982,294	–
	₱42,150,177	₱41,726,891	₱28,241,547

	2020	2019
Accrued pension costs:		
Present value of benefit obligation (PVBO)	₱297,527,903	₱296,264,606
Fair value of plan assets (FVPA)	(166,289,571)	(217,954,307)
	₱131,238,332	₱78,310,299

Movements in the PVBO are as follows:

	2020	2019
Balance at beginning of year	₱296,264,606	₱147,846,134
Current service cost	48,373,849	22,352,218
Interest cost	14,954,775	12,327,426
Past service cost due to:		
Plan amendment	–	18,982,294
Employee reduction	(10,177,887)	–
Net actuarial loss	23,528,245	99,778,262
Benefits paid:		
From plan assets	(75,367,988)	(5,021,728)
By Group	(47,697)	–
Balance at end of year	₱297,527,903	₱296,264,606



Movements in the FVPA are as follows:

	2020	2019
Balance at beginning of year	₱217,954,307	₱161,512,322
Interest income	11,000,560	11,935,047
Contributions	11,048,423	44,561,729
Net actuarial gain	1,701,966	4,966,937
Benefits paid		
From plan assets	(75,367,988)	(5,021,728)
By Group	(47,697)	-
Balance at end of year	₱166,289,571	₱217,954,307

Movements in the accrued pension costs (pension asset) are as follows:

	2020	2019
Balance at beginning of year	₱78,310,299	(₱13,666,188)
Pension costs	42,150,177	41,726,891
Contributions	(11,048,423)	(44,561,729)
Actuarial loss	21,826,279	94,811,325
Balance at end of year	₱131,238,332	₱78,310,299

Amount recognized in OCI are as follows:

	2020	2019	2018
Actuarial gain (loss) - PVBO	(₱23,528,245)	(₱99,778,262)	₱41,895,134
Actuarial gain (loss) - FVPA	1,701,966	4,966,937	(8,913,112)
Deferred income tax	6,586,418	28,443,398	(9,894,607)
	(₱15,239,861)	(₱66,367,927)	₱23,087,415

The details of the market value of the Group's plan assets are shown below:

	2020	2019
Investments:		
Government securities	₱160,081,650	₱155,765,218
Stocks	4,925,458	19,179,711
Deposit in banks	5,747	9,597,119
Other securities	-	31,909,252
Total investments	165,012,855	216,451,300
Other assets:		
Interest receivable	1,373,213	1,637,683
Due from broker	14,854	206
Total other assets	1,388,067	1,637,889
Total assets	166,400,922	218,089,189
Less due to broker	111,351	134,882
Net asset value	₱166,289,571	₱217,954,307



The plan assets were invested in fixed income securities and equity investments. All equity and debt instruments held have quoted prices in active market. Investment activities entered by the plan asset/liability matching strategy during the year consist of, but is not limited to, buying and selling of securities. All investments are considered as high grade based on its performance in the market.

The management performs an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The principal assumptions used to determine pension benefit obligations are as follows:

	2020	2019
Discount rates at beginning of year	4.60%	7.39%
Rate of compensation increase	5.00%	5.50%
Average future working years of service	30	24

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation assuming if all other assumptions were held constant:

	2020		2019	
	Increase (decrease)	Amount	Increase (decrease)	Amount
Discount rates	0.50% (0.50%)	(P25,973,025) 33,177,578	0.50% (0.50%)	(P17,567,343) 22,219,194
Salary increase rate	1.00% (1.00%)	69,788,584 (46,173,092)	1.00% (1.00%)	49,760,844 (31,622,187)

Shown below is the maturity profile of the undiscounted benefit payments as of December 31, 2020 and 2019:

	2020	2019
1 year and less	P16,701,800	P15,876,700
more than 1 years to 5 years	1,945,093	3,029,730
more than 5 years to 10 years	43,146,722	29,755,140
more than 10 years to 15 years	153,626,702	234,251,720
more than 15 years to 20 years	211,715,318	313,788,198
more than 20 years	5,835,255,872	8,356,591,808
1 year and less	P16,701,800	P16,701,800
more than 1 years to 5 years	1,945,093	1,945,093
more than 5 years to 10 years	43,146,722	43,146,722
more than 10 years to 15 years	153,626,702	153,626,702
more than 15 years to 20 years	211,715,318	211,715,318
more than 20 years	5,835,255,872	5,835,255,872

The Group expects to contribute P39.0 million to the Fund in 2021.

The plan contributions are based on the actuarial present value of accumulated plan benefits and fair value of plan assets are determined using an independent actuarial valuation. The net defined benefit cost and the contributions to the plan are specifically identifiable, such that, the Group's PVBO



pertains only to the benefit of the Group's employees and the FVPA, pertains only to the contributions made by the Group. The Group shall contribute to the Fund such amounts as shall be required, under actuarial principles, to provide the benefits and the expenses incident to the operation and administration of the Fund.

28. Interest Expense

	2020	2019	2018
Long-term loan payables (see Note 20)	₱181,577,312	₱178,929,113	₱181,953,938
Lease liabilities (see Note 15)	105,789,642	102,342,903	–
Short-term loan payables (see Note 19)	39,481,097	21,730,833	–
Contract liabilities (see Note 22)	3,881,048	6,225,946	4,346,407
Debt issue cost	1,879,066	1,783,237	1,693,661
Others	695,408	460,771	521,117
	₱333,303,573	₱311,472,803	₱188,515,123

29. Other Income

	2020	2019	2018
Provisions for legal and other contingencies (see Note 34)	(₱34,779,970)	₱–	(₱2,253,030)
Other income from franchisees	19,412,500	10,943,399	10,373,039
Gain (loss) on:			
Disposal of property and equipment	(18,749,687)	(1,883,436)	(118,201)
Pre-termination of leases (see Note 15)	14,584,239	–	–
Disposal of inventory	5,498,534	–	–
Service fee and expired loyalty fund points	7,323,836	44,508,088	47,378,911
Accretion income from dealers' deposits (see Note 16)	4,243,006	3,990,747	3,981,670
Interest income (see Note 8)	2,886,826	2,345,458	1,706,189
Fair value gain on financial assets at FVPL (see Note 12)	589,306	1,016,240	–
Unrealized foreign exchange gain (loss)	(332,437)	1,963,181	1,256,949
Reversal of allowance for ECL (see Note 9)	100,000	443,910	–
Others - net	4,114,608	(4,020,654)	2,253,030
	₱4,890,761	₱59,306,933	₱64,578,557

Other income from franchisees pertains mostly to cash overages, fees charged by the Group to its franchisees for the new module of the point-of-sale machines, rental income and incentives given by a supplier for high volume purchases.



30. Income Taxes

The details of the Group's net deferred tax assets are as follows:

	2020	2019
Deferred tax assets:		
NOLCO	₱170,841,604	₱-
Lease liabilities	69,974,877	64,755,306
Difference in depreciation due to adoption of lease standard	45,530,167	48,103,346
Accrued pension costs	39,513,066	23,510,852
MCIT	12,149,016	-
Contract liabilities	5,577,558	4,488,670
Unamortized past service cost	4,579,107	6,189,726
Loyalty points	2,511,484	1,958,673
Accrued bonus and other expense	2,165,042	6,371,126
Allowance for:		
Doubtful accounts	1,474,402	1,504,402
Inventory obsolescence	1,276,980	1,276,981
Unrecoverable deposits	989,188	989,188
Unrealized profit	418,034	3,455,885
Interest from contingencies	32,174	32,174
Unrealized foreign exchange loss	8,429	35,031
	357,041,128	162,671,360
Deferred tax liabilities:		
Debt issuance cost	3,420,789	3,984,509
Excess of fair value over cost of net identifiable assets acquired in business combination	3,364,991	3,714,293
Pension asset	82,820	-
	6,868,600	7,698,802
	₱350,172,528	₱154,972,558

The deferred tax assets were measured using the appropriate corporate income tax rate on the year these are expected to be reversed. The Group computes for deferred tax using the 30% tax rate except for its subsidiaries, namely BMI, SPCI and SSI, which compute for deferred tax using the OSD effective tax rate of 18%.

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(b) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As at December 31, 2020, the Group has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

Year Incurred	Availment Period	Amount	Applied in Previous Year/s	Expired	Applied in Current Year	Unapplied
2020	2021-2025	₱569,472,013	₱-	₱-	₱-	₱569,472,013



The MCIT that can be applied against future RCIT is as follows:

Year Incurred	Availment Period	Amount	Applied in Previous Year/s	Expired	Applied in Current Year	Unapplied
2020	2021-2023	₱12,149,016	₱-	₱-	₱-	₱12,149,016

The provision for current income tax represents RCIT and final withholding taxes on royalty and franchise fees which are as follows:

	2020	2019	2018
RCIT	₱73,513,084	₱266,784,766	₱210,360,646
Final withholding taxes	178,581	552,742	46,799,834
	₱73,691,665	₱267,337,508	₱257,160,480

The reconciliation between the provision for income tax computed at statutory income tax rate and the provision for (benefit from) income tax as shown in the consolidated statements of comprehensive income is as follows:

	2020	2019	2018
Provision for (benefit from) income tax computed at statutory income tax rate of 30%	(₱110,553,353)	₱332,492,302	₱324,671,209
Final tax on royalty and franchise fees	-	-	28,579,300
Tax effects of:			
Application of OSD	(39,329,484)	(105,463,707)	(80,904,315)
Nontaxable:			
Amortization of franchise fees	(5,974,147)	(4,315,413)	(7,825,990)
Interest accretion	(1,272,902)	(1,196,341)	(1,194,501)
Income subject to final tax:			
Interest income	(865,555)	(703,638)	(512,308)
Fair value gain on financial assets at FVPL	(176,792)	(304,872)	-
Royalty and franchise fees	-	-	(37,378,950)
Provisions for legal and other contingencies	10,433,991	-	-
Nondeductible expenses	32,816,355	22,563,076	15,887,491
Provision for (benefit from) income tax	(₱114,921,887)	₱243,071,407	₱241,321,936

31. Financial Risks Management Objectives and Policies

The Group's principal financial instruments comprise cash, trade and other receivables and short-term and long-term loans payable. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as rental deposit, accounts payable and other current liabilities, and dealers' deposits arising directly from operations.

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



Credit Risk. Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by trading only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The table below shows the maximum exposure to credit risk for the Group's financial assets, without taking account of any collateral and other credit enhancements:

	2020	2018
Cash*	P553,624,434	P277,453,955
Financial assets at FVPL	120,000,000	120,000,000
Trade and other receivables:		
Trade receivables	285,437,396	453,610,970
Receivable from NAF	140,304,750	100,878,240
Royalty receivable	37,339,494	45,801,490
Receivable from franchisees	24,372,171	52,700,724
Receivable from employees	12,012,283	16,087,592
Advances	10,311,752	-
Other receivables	51,226,724	40,404,479
Rental and other deposits	173,125,540	165,662,780
Total credit risk exposure	P1,407,754,544	P1,272,600,230

*Excluding cash on hand.

An aging analysis of financial assets per class are as follows:

	2020					
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1-180 Days	Over 181 days	Subtotal		
Cash*	P553,624,434	P-	P-	P-	P-	P553,624,434
Financial assets at FVPL	120,000,000	-	-	-	-	120,000,000
Trade and other receivables:						
Trade receivables	247,824,019	27,584,267	10,029,110	37,613,377	4,492,526	289,929,922
Receivable from NAF	140,304,750	-	-	-	-	140,304,750
Royalty receivable	37,339,494	-	-	-	-	37,339,494
Receivable from franchisees	24,372,171	-	-	-	-	24,372,171
Receivable from employees	1,670,906	10,167,026	174,351	10,341,377	1,145,567	13,157,850
Advances	10,311,752	-	-	-	-	10,311,752
Other receivables	32,609,056	14,706,654	3,911,014	18,617,668	480,914	51,707,638
Rental and other deposits	173,125,540	-	-	-	3,297,293	176,422,833
	P1,341,182,122	P52,457,947	P14,114,475	P66,572,422	P9,416,300	P1,417,170,844

*Excluding cash on hand.

	2019					
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1-180 Days	Over 181 Days	Subtotal		
Cash*	P277,453,955	P-	P-	P-	P-	P277,453,955
Financial assets at FVPL	120,000,000	-	-	-	-	120,000,000
Trade and other receivables:						
Trade receivables	383,928,716	54,446,349	15,235,905	69,682,254	4,492,526	458,103,496
Receivable from NAF	100,878,240	-	-	-	-	100,878,240
Receivable from franchisees	52,700,724	-	-	-	-	52,700,724
Receivable from employees	6,080,355	5,740,813	4,266,424	10,007,237	1,245,567	17,333,159
Royalty receivable	45,801,490	-	-	-	-	45,801,490
Other receivables	21,872,157	16,166,950	2,365,372	18,532,322	480,914	40,885,393
Rental and other deposits	165,662,780	-	-	-	3,297,293	168,960,073
	P1,174,378,417	P76,354,112	P21,867,701	P98,221,813	P9,516,300	P1,282,116,530

*Excluding cash on hand.



A financial asset is considered past due when a counterparty has failed to make a payment when contractually due. “Past due but not impaired” financial assets are items with history of frequent default. Nevertheless, the amounts due are still collectible. Lastly, “Impaired” items are those that are long outstanding and have been specifically identified as impaired.

The table below shows the credit quality of the Group’s neither past due nor impaired financial assets based on their historical experience with the corresponding debtors:

	2020			Total
	High grade	Medium grade	Standard grade	
Cash*	₱553,624,434	₱–	₱–	₱553,624,434
Financial assets at FVPL	120,000,000	–	–	120,000,000
Trade and other receivables:				
Trade receivables	229,843,566	5,497,969	12,482,484	247,824,019
Royalty receivable	37,339,494	–	–	37,339,494
Receivable from NAF	–	–	140,304,750	140,304,750
Receivable from franchisee	–	–	24,372,171	24,372,171
Receivable from employees	–	–	1,670,906	1,670,906
Advances	–	–	10,311,752	10,311,752
Other receivables	23,706,790	8,902,266	–	32,609,056
Rental and other deposits	–	–	173,125,540	173,125,540
	₱964,514,284	₱14,400,235	₱362,267,603	₱1,341,182,122

*Excluding cash on hand.

	2019			Total
	High grade	Medium grade	Standard grade	
Cash*	₱277,453,955	₱–	₱–	₱277,453,955
Financial assets at FVPL	120,000,000	–	–	120,000,000
Trade and other receivables:				
Trade receivables	354,581,214	8,973,721	20,373,781	383,928,716
Royalty receivable	45,801,490	–	–	45,801,490
Receivable from franchisee	–	–	52,700,724	52,700,724
Receivable from NAF	–	–	100,878,240	100,878,240
Receivable from employees	–	–	6,080,355	6,080,355
Other receivables	18,408,425	3,463,732	–	21,872,157
Rental and other deposits	–	–	165,662,780	165,662,780
	₱816,245,084	₱12,437,453	₱345,695,880	₱1,174,378,417

*Excluding cash on hand.

Financial assets classified as “high grade” are those cash transacted with reputable local banks and financial assets with no history of default on the agreed contract terms while “medium grade” includes those financial assets being collected on due dates with an effort of collection. Financial instruments classified as “standard grade” are those financial assets with little history of default on the agreed terms of the contract.

Liquidity Risk. Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet or settle its obligations at a reasonable price.

The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of advances to related parties. The Group maintains sufficient cash to finance its operations.

The Group manages its liquidity risk by maintaining strength and quality on financial position where debt-to-equity ratio is at a manageable level. The Group also maintains a financial strategy that the scheduled debts are within the Group’s ability to generate cash from its business operations.



The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. The table also analyses the maturity profile of the Group's financial assets in order to provide a complete view of the Group's contractual commitments and liquidity.

	2020					Total
	Due and Demandable	< 90 Days	91–180 Days	181–365 Days	Over 365 Days	
Cash	₱553,624,434	₱–	₱–	₱–	₱–	₱553,624,434
Financial assets at FVPL	120,000,000	–	–	–	–	120,000,000
Trade and other receivables						
Trade	247,824,019	27,584,267	–	10,029,110	4,492,526	289,929,922
Royalty receivables	37,339,494	–	–	–	–	37,339,494
Receivable from NAF	140,304,750	–	–	–	–	140,304,750
Receivable from franchisees	24,372,171	–	–	–	–	24,372,171
Receivables from employees	1,670,906	5,693,535	4,473,491	174,351	1,145,567	13,157,850
Advances	10,311,752	–	–	–	–	10,311,752
Other receivables	32,609,056	14,706,654	–	3,911,014	480,914	51,707,638
Rental and other deposits	173,125,540	–	–	–	3,297,293	176,422,833
	1,341,182,122	47,984,456	4,473,491	14,114,475	9,416,300	1,417,170,844
Accounts payable and other current liabilities:						
Trade payables	–	427,298,167	1,326,257	–	–	428,624,424
Nontrade payables	–	45,682,280	–	5,279,348	–	50,961,628
Accrued expenses	–	216,019,169	–	–	–	216,019,169
Other payables*	–	75,093,759	–	–	–	75,093,759
Dealers' deposit and other noncurrent payables	–	–	–	–	41,240,550	41,240,550
Short-term loans payable**	–	100,875,000	707,145,833	255,833,333	–	1,063,854,166
Long-term loans payable**	–	63,479,894	88,438,131	151,774,175	4,843,937,698	5,147,629,898
	–	928,448,269	796,910,221	412,886,856	4,883,226,688	7,023,423,594
Liquidity gap	₱1,341,182,122	(₱880,463,813)	(₱792,436,730)	(₱398,772,381)	(₱4,873,810,388)	(₱5,606,252,750)

*Excluding statutory payables.

**Including future interest payments.

	2019					Total
	Due and Demandable	< 90 Days	91–180 Days	181–365 Days	Over 365 Days	
Cash	₱507,701,190	₱–	₱–	₱–	₱–	₱507,701,190
Financial assets at FVPL	120,000,000	–	–	–	–	120,000,000
Trade and other receivables						
Trade	383,928,716	40,732,089	28,950,165	–	4,492,526	458,103,496
Receivable from NAF	100,878,240	–	–	–	–	100,878,240
Royalty receivables	45,801,490	–	–	–	–	45,801,490
Receivable from franchisees	52,700,724	–	–	–	–	52,700,724
Receivables from employees	6,080,355	5,740,813	4,266,424	–	1,245,567	17,333,159
Other receivables	21,872,157	6,906,712	11,625,610	–	480,914	40,885,393
Rental and other deposits	165,662,780	–	–	–	3,297,293	168,960,073
	1,404,625,652	53,379,614	44,842,199	–	9,516,300	1,512,363,765
Accounts payable and other current liabilities:						
Trade payables	₱–	₱439,483,113	₱–	₱–	₱–	439,483,113
Nontrade payables	–	255,510,351	–	–	–	255,510,351
Accrued expenses	–	163,392,955	–	–	–	163,392,955
Other payables*	–	24,654,430	–	–	–	24,654,430
Dealers' deposit and other noncurrent payables	–	–	–	–	44,355,755	44,355,755
Short-term loans payable**	–	552,249,653	–	–	–	552,249,653
Long-term loans payable**	–	42,854,408	67,814,787	110,551,740	5,136,227,268	5,357,448,203
	–	1,478,144,910	67,814,787	110,551,740	5,180,583,023	6,837,094,460
Liquidity gap	₱1,404,625,652	(₱1,424,765,296)	(₱22,972,588)	(₱110,551,740)	(₱5,171,066,723)	(₱5,324,730,695)

*Excluding statutory payables.

**Including future interest payments.



Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, so that it can to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group adjusts the dividend payment to stockholders, return capital to stockholders or issue new shares.

The Group's debt-to-equity ratio is as follows:

	2020	2019
Total liabilities	₱7,490,234,080	₱7,264,119,411
Total equity	4,784,363,987	5,068,506,346
	1.57:1	1.43:1

32. Fair Value Information

Fair value is defined as the amount at which the financial instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

Financial Instruments Whose Carrying Amounts Approximate Fair Value. Management has determined that the carrying amounts of cash, financial assets at FVPL, trade and other receivables and accounts payable and other current liabilities, based on their notional amounts, reasonably approximates their fair values because these are mostly short-term in nature or are repriced frequently.

Other Financial Instruments. Set out below is a comparison by category of carrying amounts and estimated fair values of the Group's financial instruments other than those described above:

As at December 31, 2020				
	Date of Valuation	Carrying Value	Fair Value	
			Level 1 Quoted	Level 2 Significant Observable Input
Assets for which fair values are disclosed -				
Financial assets at FVPL	December 31, 2020	₱120,000,000	₱-	₱120,000,000
Rental deposits	December 31, 2020	176,597,476	-	175,306,979
		₱296,597,476	₱-	₱295,306,979
Liabilities for which fair values are disclosed:				
Long-term loans payable	December 31, 2020	₱3,788,597,369	₱-	₱4,528,403,943
Dealers' deposits	December 31, 2020	23,710,436	-	19,257,642
		₱3,812,307,805	₱-	₱4,547,661,585



As at December 31, 2019				
	Date of Valuation	Carrying Value	Fair Value	
			Level 1 Quoted	Level 2 Significant Observable Input
Assets for which fair values are disclosed -				
Financial assets at FVPL	December 31, 2019	₱120,000,000	₱-	₱120,000,000
Rental deposits	December 31, 2019	194,037,179	-	168,846,712
		₱314,037,179	₱-	₱288,846,712
Liabilities for which fair value are disclosed:				
Long-term loans payable	December 31, 2019	₱4,386,718,303	₱-	₱4,346,508,655
Dealers' deposits	December 31, 2019	22,427,231	-	15,473,150
		₱4,409,145,534	₱-	₱4,361,981,805

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Rental Deposits. The fair values were obtained by discounting the instruments' expected cash flows using interest rates of 1.12% to 10.39% as at December 31, 2020 and of 2.36% to 8.13% as at December 31, 2019.

Long-term loans Payable. The fair value of loan payable which was discounted using prevailing market rate of 2.57% and 4.22% as at December 31, 2020 and 2019, respectively, approximates the carrying value since these bear interest at current market rates. Fair value category is Level 2, significant observable inputs.

Dealers' Deposits. The fair values were obtained by discounting the instruments' expected cash flows using interest rates of 4.46% and 7.05% as at December 31, 2020 and 2019, respectively.

As at December 31, 2020 and 2019, there were no transfers between Level 1 and 2 fair value measurements.

33. Commitments

Trademark Licensing and Franchise Agreements

The Group has existing Trademark Licensing and Franchise Agreements with independent franchisees to operate restaurant outlets under the "Shakey's" and "Peri-Peri" brand name, method, concept and trade name. In consideration thereof, the franchisees agree to pay continuing franchise fees equivalent to a certain percentage of the franchisees' net sales.

The franchisees also pay management fees for various services, including maintenance services, rendered by the Group.

The Group recognized royalty and franchise fees amounting to ₱247.4 million in 2020, ₱378.8 million in 2019 and ₱302.6 million in 2018 (see Note 22). Royalty receivables as at December 31, 2020 and 2019 amounted ₱37.3 million and ₱45.8 million, respectively (see Note 9).



34. Provisions

	2020	2019
Balance at beginning of year	₱2,253,030	₱2,253,030
Addition (see Note 29)	34,779,970	-
Balance at end of year	₱37,033,000	₱2,253,030

The Group's outstanding provisions consist mainly of provisions for legal actions and claims and other contingencies which are normal to the Group's business. These include estimates settlement amounts and other costs of claims made against the Group. As allowed by PAS 37, the Group does not provide further information on these provisions and contingencies in order not to impair the outcome of the litigations, claims and disputes.

35. Earnings (Loss) per Share (EPS)

Basic earnings (loss) per share (EPS) is computed based on the weighted average number of issued and outstanding common shares during each year. Diluted EPS is computed as if the potential common share or instrument that may entitle the holder to common share were exercised as of the beginning of the year. When there are no potential common shares or other instruments that may entitle the holder to common shares, diluted EPS, is the same as the basic EPS.

There are no dilutive financial instruments as of December 31, 2020, 2019 and 2018, hence, diluted EPS is the same as the basic EPS.

The Group's EPS were computed as follows:

	2020	2019	2018
(a) Net income (loss)	(₱253,589,288)	₱865,236,267	₱840,915,428
(b) Weighted average number of shares outstanding	1,531,321,053	1,531,321,053	1,531,321,053
Basic/diluted EPS (a/b)	(₱0.17)	₱0.57	₱0.55

36. Notes to Consolidated Statements of Cash Flows

The following are the noncash activities for the years ended December 31, 2020 and 2019:

	2020			
	January 1	Net cash flows	Noncash changes	December 31
Rental and other noncurrent assets (a) (b)	₱165,662,780	(₱5,432,721)	₱12,895,481	₱173,125,540
Long-term loans payable (c)	3,836,718,303	(50,000,000)	1,879,066	3,788,597,369
Contract liabilities (d)	109,169,959	(23,430,428)	3,881,048	89,620,579
	2019			
	January 1	Net cash flows	Noncash changes	December 31
Rental and other noncurrent assets (a) (b)	₱137,079,814	₱44,662,438	(₱16,079,472)	₱165,662,780
Long-term loans payable (c)	3,885,415,919	(50,000,000)	1,302,384	3,836,718,303
Contract liabilities (d)	112,600,227	(9,656,214)	6,225,946	109,169,959



Details of the noncash changes are as follows:

- (a) Pertains to accretion of interest expense and interest income on long-term rental deposits included in “Rental and other noncurrent assets” and long-term dealer’s deposits included in “Dealer’s deposits and other noncurrent liabilities”, respectively.
- (b) Pertains to rental deposits of Peri-Peri Business amounting to ₱9.5 million.
- (c) Pertains to amortization of debt issuance cost during the year amounting to ₱1.9 million and ₱1.7 million in 2020 and 2019, respectively.
- (d) Pertains to the accretion of the significant financing component of contract liabilities during the year amounting to ₱3.9 million and ₱6.2 million in 2020 and 2019, respectively.

The changes in the Group’s liabilities arising from financing activities are as follows:

	2020						
	January 1	Additions	Proceeds	Payments	Interest expense	Other movements	December 31
Lease liabilities*	₱1,598,627,163	₱259,663,593	₱-	(₱203,225,951)	₱105,789,642	(₱230,251,428)	₱1,530,603,019
Loans payable	4,386,718,303	-	1,500,000,000	(1,050,000,000)	1,879,066	-	4,838,597,369
Dividends	-	15,313,210	-	(15,313,210)	-	-	-
Accrued interest**	5,293,750	-	-	(221,822,567)	225,634,865	(3,881,048)	5,225,000
Total liabilities from financing activities	₱5,990,639,216	₱274,976,803	₱1,500,000,000	(₱1,490,361,728)	₱333,303,573	(₱234,132,476)	₱6,374,425,388

*Other movements pertain to the gain on lease concession and derecognition of lease liability

**Other movements pertain to interest accretion for PFRS 15

	2019						
	January 1	Additions	Proceeds	Payments	Interest expense	Other movements	December 31
Lease liabilities	₱1,376,144,109	399,140,025	-	(278,999,874)	102,342,903	₱-	₱1,598,627,163
Loans payable	3,885,415,919	-	800,000,000	(300,000,000)	1,302,384	-	4,386,718,303
Dividends payable	-	153,132,105	-	(153,132,105)	-	-	-
Accrued interest*	5,362,500	-	-	(200,496,593)	207,827,516	(7,399,673)	5,293,750
Total liabilities from financing activities	₱5,266,922,528	₱522,272,130	₱800,000,000	(₱932,628,572)	₱311,472,803	(₱7,399,673)	₱5,990,639,216

*Other movements pertain to interest accretion for PFRS 15 and PAS 39

37. Impact of COVID-19

On March 16, 2020, the Philippine Government declared the entire Luzon area in the Philippines under an “enhanced community quarantine” (ECQ) until May 15, 2020. ECQ is effectively a total lockdown, restricting the movement of the population in response to the growing pandemic of coronavirus disease 2019 (COVID-19) in the country. On May 16, 2020, the government relaxed the implementation of ECQ and has placed certain areas under the Modified ECQ and General ECQ (GCQ) until May 31, 2020. On May 28, 2020 the government further eased the implementation of community quarantine and placed most of the areas in the Philippines under the GCQ until June 15, 2020 and was further extended until this report date, March 30, 2021.

On March 27, 2021, President Rodrigo Duterte approved placing NCR, Bulacan, Cavite, Laguna and Rizal (NCR Plus) under enhanced community quarantine from March 29, 2021 to April 4, 2021.



These measures have resulted in massive disruptions to most businesses and have caused significant increase in economic uncertainty. Governments and Central Banks have responded with monetary and fiscal interventions to stabilize the economies. The significant events and transactions that have occurred since December 31, 2019, which relate to the effects of the global pandemic on the Group's consolidated financial statements for the year ended December 31, 2020, are summarized as follows:

- The Group saw a significant decrease in restaurant sales and other business segments.
- The Group was granted several lease concessions for its lease of land for the use of its office spaces and stores.
- The forecast used for impairment testing of goodwill and trademarks with indefinite life include the Group's estimates of the potential future impact from COVID-19 pandemic. Cash flow projections have been adjusted to reflect a range of possible outcomes, weighted by their expected occurrence.
- The uncertainty in determining key assumptions (including forecast of revenues and expenses) in the assessment of future taxable income of the Group, upon which the recognition of deferred tax assets is assessed, was considered.

38. Event After Reporting Date

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group:

- Effective July 1, 2020, RCIT rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 5% GIT / 30% RCIT) for financial reporting purposes.



Applying the provisions of the CREATE Act, the Group would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

- This will result in lower provision for current income tax for the year ended December 31, 2020 by ₱8.2 million and lower income tax payable as of December 31, 2020 by ₱1.1million, which will be reflected in the respective 2020 annual income tax returns of each of the taxable entities comprising the Group but will only be recognized for financial reporting purposes in their respective 2021 financial statements.
- This will result in lower deferred tax assets and liabilities as at December 31, 2020 and provision for deferred tax for the year then ended by ₱68.2 million and ₱61.2 million, respectively. These reductions will be recognized in the 2021 consolidated financial statements.

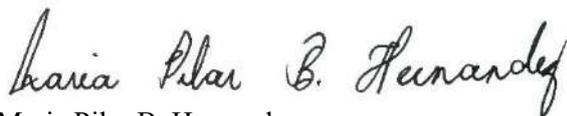


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Shakey's Pizza Asia Ventures Inc.
15Km East Service Road corner Marian Road 2
Barangay San Martin de Porres, Parañaque City 1700

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Shakey's Pizza Asia Ventures Inc. and Subsidiaries (the Group) as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 included in this Form 17-A and have issued our report thereon dated April 30, 2021. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Maria Pilar B. Hernandez
Partner

CPA Certificate No. 105007

SEC Accreditation No. 1558-AR-1 (Group A),
February 26, 2019, valid until February 25, 2022

Tax Identification No. 214-318-972

BIR Accreditation No. 08-001998-116-2019,
January 28, 2019, valid until January 27, 2022

PTR No. 8534306, January 4, 2021, Makati City

April 30, 2021



SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
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FORM 17-A, Item 7

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SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
Schedule A. Financial Assets
December 31, 2020

Name of Issuing Entity and Association of each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Income Received and Accrued
BDO Unibank, Inc.	73,159	120,000,000	120,000,000	-
	73,159	120,000,000	120,000,000	-

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

December 31, 2020

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions			Current	Non Current	Balance at End of Period
			Amount Collected	Amount Reclassified	Amount Written-Off			
DBE Project Inc. (DBE)	1,498,128	1,205,331	2,501	-	-	2,700,958	-	2,700,958
The Pacific Meat Company Inc. (PMCI)	3,808,119	16,404,157	5,410,318	-	-	14,801,958	-	14,801,958
Century Pacific Group Inc. (CPGI)	866,584	2,215,496	-	-	-	3,082,080	-	3,082,080
Century Pacific Food Inc. (CPFI)	-	12,104,612	-	-	-	12,104,612	-	12,104,612
ALVAREZ, EMILY M	15,311	30,807	43,570	-	-	2,547	-	2,547
BELGICA, EDWIN R	1,642	136,922	117,412	-	-	21,151	-	21,151
BONIFACIO, ROLANDO H	11,737	64,775	63,750	-	-	12,762	-	12,762
CANIZARES, ROWENA R	13,968	114,405	109,049	-	-	19,324	-	19,324
CRUZ, CLARINDA	115,752	-	-	-	-	115,752	-	115,752
DAVID, JEROME	56,663	14,596	71,260	-	-	-	-	-
DE MESA, LIXLES	4,067	25,182	29,248	-	-	-	-	-
DEL ROSARIO, JONAS	5,146	12,107	14,278	-	-	2,975	-	2,975
DIVINAGRACIA, ELMER S	5,252	145,341	141,900	-	-	8,692	-	8,692
LORESCO, JULIUS M	4,020	21,402	12,822	-	-	12,600	-	12,600
MADALANSACAY, JANE	995	35,701	33,819	-	-	2,877	-	2,877
MALAGAYO, ROLAND F.	936	1,765	28,495	-	-	(25,795)	-	(25,795)
MENOR, ELENA S	2,310	26,485	25,755	-	-	3,040	-	3,040
MERCADO, MA VERONICA P	12,832	35,703	34,557	-	-	13,978	-	13,978
NOVELLES, EVANGELINE	15,607	368,757	194,365	-	-	189,999	-	189,999
PARAISO, MICHAEL ANGELO M	416	26,004	19,099	-	-	7,321	-	7,321
QUERUBIN, ERIC M	54,024	-	54,024	-	-	-	-	-
ROBLES, CARLOS S	10,179	-	10,179	-	-	-	-	-
ROXAS, VICTOR	4,187	21,828	25,328	-	-	687	-	687
SILVESTRE, FLODELIZA Z.	35,069	88,908	109,329	-	-	14,648	-	14,648
TUBU, CELESTE	11,532	26,590	35,613	-	-	2,509	-	2,509
VASQUEZ, KAREN	131,320	98,852	226,172	-	-	4,000	-	4,000
VILLANUEVA, MARIA CORAZON P	5,000	-	5,000	-	-	-	-	-
VISPERAS, JONATHAN	5,925	32,644	37,249	-	-	1,319	-	1,319
	₱ 6,696,719	₱ 33,258,367	₱ 6,855,093	- ₱	-	₱ 33,099,994	₱ -	₱ 33,099,994

**This consists of various small amount of receivable per employee.*

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

Schedule C. Accounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

December 31, 2020

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non Current	Balance at End of Period
			Amount Collected	Amount Written-Off			
Shakey's Seacrest Inc. (SSI)	₱ 32,931,479	₱ 8,195,670	₱ 28,376,748	₱ -	₱ 12,750,401	₱ -	₱ 12,750,401
Shakey's International Ltd. (SIL)	48,895,774	6,096,515	9,589,867	-	45,402,422	-	45,402,422
Shakeys Pizza Commerce Inc (SPCI)	1,242,941,205	5,182,519,701	6,258,042,900	-	167,418,006	-	167,418,006
Bakemasters, Inc. (BMI)	2,874,988	303,473,741	221,296,777	-	85,051,952	-	85,051,952
WOW Brands Holding, Inc. (WBHI)	-	106,934,408	87,942,799	-	18,991,609	-	18,991,609
	₱ 1,327,643,446	₱ 5,607,220,035	₱ 6,605,249,091	₱ -	₱ 329,614,390	₱ -	₱ 329,614,390

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
Schedule D. Intangible Assets - Other Assets
December 31, 2020

Description	Beginning Balance	Additions At Cost	Deductions		Other Changes- Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
Trademark from the acquisition of SIL	₱ 3,577,911,666	₱ -	₱ -	₱ -	₱ -	₱ 3,577,911,666
Trademark assignment to SSI from GGL	1,409,197,936	-	-	-	-	1,409,197,936
Trademark from the acquisition of AWIL	562,197,552	-	-	(562,197,552)	-	-
Trademark assignment to SPAVI from AWIL	-	562,197,552	-	-	-	562,197,552
Franchise right for R&B Tea	-	4,964,977	(177,321)	-	-	4,787,656
Goodwill from the acquisition of WBHI	185,476,929	-	-	-	-	185,476,929
Goodwill from the acquisition of BMI	1,078,606,020	-	-	-	-	1,078,606,020
	₱ 6,813,390,103	₱ 567,162,529	₱ (177,321)	₱ (562,197,552)	₱ -	₱ 6,818,177,759

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
Schedule E. Long-Term Debt
December 31, 2020

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount shown under Caption "Current Portion of Long-Term Debt" in related Balance Sheet	Amount shown under Caption "Long-Term Debt" in related Balance Sheet
Omnibus Loan and Security Agreement- BDO Unibank Inc.	₱ 3,800,000,000	₱ 50,000,000	₱ 3,750,000,000
Unamortized debt issue costs	(11,402,631)	(1,900,058)	(9,502,573)
	₱ 3,788,597,369	₱ 48,099,942	₱ 3,740,497,427

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)

December 31, 2020

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Not applicable: The Company has no indebtedness to related parties as at December 31, 2020.		
	₱ -	₱ -

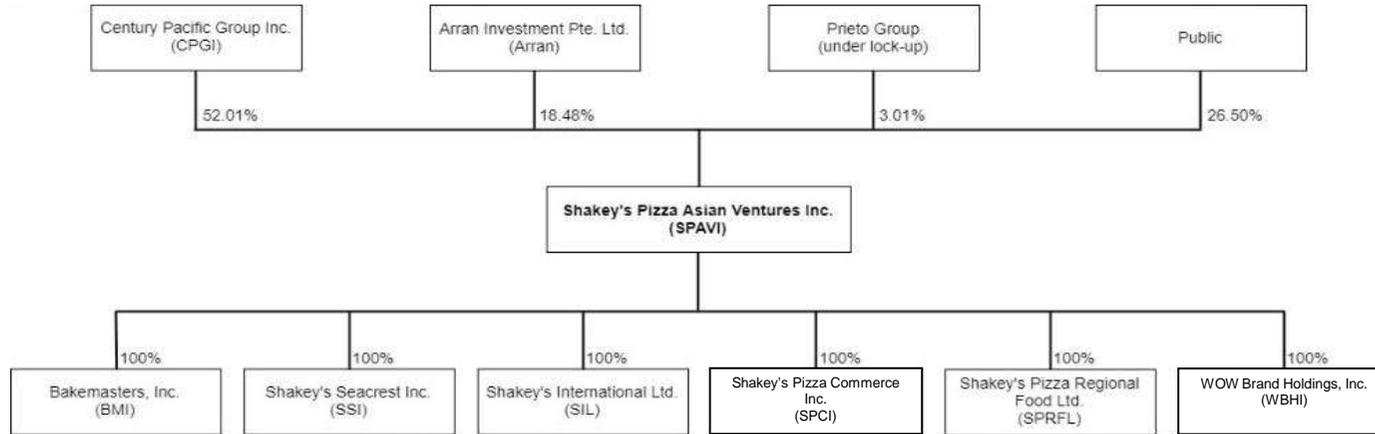
SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
Schedule G. Guarantees of Securities of Other Issuers
December 31, 2020

Name of Issuing Entity of Securities Guaranteed by the Company for which Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by the Company for which Statement is Filed	Nature of Guarantee
Not applicable: The Company has no guarantees of securities of other issuers as at December 31, 2020.				
P		-	P	-

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
Schedule H. Capital Stock
December 31, 2020

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common Shares	2,000,000,000	1,531,321,053	-	1,117,709,173	3,297,238	410,314,642

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
Map of Relationships of the Companies within the Group



SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

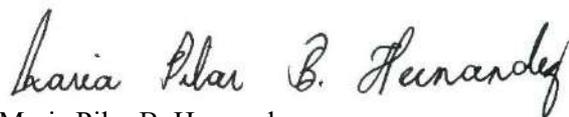
Retained earnings, at December 31, 2019		1,997,686,487
Less:		
Deferred Tax Assets		125,823,073
Unappropriated retained earnings, as adjusted, as at December 31, 2019		1,871,863,414
Add (less):		
Net loss	(209,435,540)	
Changes in deferred tax assets	(187,062,207)	(396,497,747)
		1,475,365,667
Dividends declared during the year		(15,313,210)
Retained earnings available for additional dividend distribution as at December 31, 2020		1,460,052,457

INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Shakey's Pizza Asia Ventures Inc.
15Km East Service Road corner Marian Road 2
Barangay San Martin de Porres, Parañaque City 1700

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Shakey's Pizza Asia Ventures Inc. and its subsidiaries (the Group) as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated April 30, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Maria Pilar B. Hernandez
Partner
CPA Certificate No. 105007
SEC Accreditation No. 1558-AR-1 (Group A),
February 26, 2019, valid until February 25, 2022
Tax Identification No. 214-318-972
BIR Accreditation No. 08-001998-116-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8534306, January 4, 2021, Makati City

April 30, 2021



SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS-FINANCIAL RATIOS

	As at December 31, 2020	As at December 31, 2019
Net income	(253,589,288)	862,027,801
Total Assets	12,219,992,178	14,852,313,153
Return on Assets (Net income / Total Assets)	-2.1%	5.8%
Net income	(253,589,288)	862,027,801
Average stockholders' equity	4,926,435,167	4,796,460,053
Return on Equity (Net Income / Stockholders' Equity)	-5.1%	18.0%
Net income	(253,589,288)	862,027,801
No. of Shares	1,531,321,053	1,531,321,053
Earnings per share (Net income / Total no. of shares outstanding)	(0.17)	0.56
Total current assets	1,865,662,850	4,496,155,272
Total current liabilities	2,129,992,718	4,409,158,261
Current Ratio (Total Current assets / Total Current Liabilities)	0.88	1.02
Total current assets	1,865,662,850	4,496,155,272
Total current liabilities	2,129,992,718	4,409,158,261
Net working capital (Total Current Assets - Total Current Liabilities)	(264,329,868)	86,997,011
Total liabilities	7,435,628,190	9,829,214,180
Total Equity	4,784,363,987	5,023,098,973
Debt to equity ratio (Total Liabilities / Stockholders' Equity)	1.55	1.96
Depreciation	497,433,459	553,352,713
Net income	(253,589,288)	862,027,801
Net Income + depreciation expense	243,844,171	1,415,380,514
Short Term + long term liabilities	7,435,628,190	9,829,214,180
Solvency ratio (Net Income + Depreciation Expense / Short and Long Term Liabilities)	0.03	0.14
Total assets	12,219,992,178	14,852,313,153
Total Equity	4,784,363,987	5,023,098,973
Asset to equity ratio (Total assets / total equity)	2.55	2.96
Earnings before interest expense and income taxes (EBIT)	(35,207,602)	1,415,205,470
Interest expense	333,303,573	311,483,297
Interest coverage ratio (EBIT / Interest Expense)	(0.11)	4.54



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LYNPINON

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