

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **December 31, 2021**
2. Commission Identification Number **CS201811119**
3. BIR Tax Identification No. **010-061-026-000**
4. Exact name of issuer as specified in its charter **FIGARO COFFEE GROUP, INC.**
5. Province, country or other jurisdiction of incorporation or organization **LAGUNA, PHILIPPINES**
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office **116 EAST MAIN AVE., PHASE V, SEZ,
LAGUNA TECHNOPARK, BINAN**
- Postal Code **4034**
8. Issuer's telephone number, including area code **(632)-8812-17-18**
9. Former name, former address and former fiscal year, if changed since last report **NO. 33 MAYON ST., BRGY. MALAMIG,
MANDALUYONG CITY**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
COMMON SHARES	<u>4,648,187,003</u>

11. Are any or all of the securities listed on a Stock Exchange?

Yes [X] No []

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE

COMMON SHARES

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes No

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes No

FINANCIAL INFORMATION

Item 1: Quarterly Financial Statements for the Quarter ending December 31, 2021 attached.

FIGARO COFFEE GROUP, INC.



JOSE PETRONIO VICENTE ESPAÑOL III
Treasurer / Chief Finance Officer / Chief Risk Officer



MARIJOU ROCA
Comptroller and Chief Accounting Officer

FIGARO COFFEE GROUP, INC. AND SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2021 and June 30, 2021

(In Philippine Peso)

	NOTES	Dec 31, 2021 (Unaudited)	June 30, 2021 (Audited)
A S S E T S			
Current Assets			
Cash	7	157,846,323	281,145,694
Trade receivables	8	72,845,927	56,651,759
Inventories	9	67,405,915	59,452,449
Due from related parties	18	177,320,889	68,443,435
Prepayments and other current assets	10	37,055,557	31,981,675
		512,474,611	497,675,012
Non-current Assets			
Property and equipment – net	11	623,625,637	487,214,072
Intangible assets – net	12	379,748	379,748
Right-of-use assets – net	13	7,492,777	7,369,323
Deferred tax assets	28	4,600,508	4,579,163
Other non-current assets	14	9,401,583	9,425,037
		645,500,253	508,967,343
TOTAL ASSETS		1,157,974,864	1,006,642,355
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Current Liabilities			
Trade and other payables	15	185,534,414	161,079,788
Due to a related party	18	0	154,986,809
Loans payable	16	80,000,000	80,000,000
Lease liabilities	17	2,601,040	2,540,057
Income tax payable		94,938,566	35,064,263
		363,074,020	433,670,917
Non-current Liabilities			
Retirement benefits obligation	24	17,047,598	17,949,555
Lease liabilities – net of current portion	17	8,247,144	5,038,691
		25,294,742	22,988,246
TOTAL LIABILITIES		388,368,762	456,659,163
S T O C K H O L D E R S ' E Q U I T Y			
Capital Stock	19	362,500,500	322,500,500
Additional Paid-in Capital	19	186,938,000	186,938,000
Retained Earnings		220,167,602	40,544,692
TOTAL STOCKHOLDERS' EQUITY		769,606,102	549,983,192
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		1,157,974,864	1,006,642,355

FIGARO COFFEE GROUP, INC. AND SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the 3 Months Period Ended Dec 31, 2021 and Dec 31, 2020

(In Philippine Peso)

	NOTES	Oct 1-Dec 31, 2021 (Unaudited)	Oct1- Dec 31, 2020 (Unaudited Proforma)
REVENUE	21	596,930,720	290,465,525
DIRECT COSTS	22	258,794,243	138,576,046
GROSS PROFIT		338,136,477	151,889,479
OPERATING EXPENSES	23	195,147,472	80,590,156
PROFIT BEFORE TAX		142,989,004	71,299,323
INCOME TAXES	27	35,747,251	17,824,831
PROFIT		107,241,753	53,474,492
TOTAL COMPREHENSIVE INCOME		107,241,753	53,474,492
EARNINGS PER SHARE			
Basic Earnings per Share	29	0.03	0.57

(See Notes to Consolidated Financial Statements)

FIGARO COFFEE GROUP, INC. AND SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Periods Ended Dec 31, 2021 and Dec 31, 2020

(In Philippine Peso)

	NOTES	July 1-Dec 31, 2021 (Unaudited)	Jul1- Dec 31, 2020 (Unaudited Proforma)
REVENUE	21	1,085,121,878	473,379,675
DIRECT COSTS	22	549,586,866	225,125,147
GROSS PROFIT		535,535,012	248,254,528
OPERATING EXPENSES	23	296,037,799	145,603,217
PROFIT BEFORE TAX		239,497,213	102,651,311
INCOME TAXES	27	59,874,303	25,662,828
PROFIT		179,622,910	76,988,483
TOTAL COMPREHENSIVE INCOME		179,622,910	76,988,483
EARNINGS PER SHARE			
Basic Earnings per Share	29	0.05	0.82

(See Notes to Consolidated Financial Statements)

FIGARO COFFEE GROUP, INC. AND SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Periods Ended Dec 31, 2021, June 30, 2021

(In Philippine Peso)

	NOTES	July 1-Dec 31, 2021 (Unaudited)	Jan 1- June 30, 2021 (Proforma)	Jun 21- 30, 2021 (Audited)
REVENUE	21	1,085,121,878	925,636,743	53,539,134
DIRECT COSTS	22	549,586,866	478,397,388	31,174,799
GROSS PROFIT		535,535,012	447,239,355	22,364,335
OPERATING EXPENSES	23	296,037,799	262,114,397	12,860,427
GAIN ON BARGAIN PURCHASE	20	-	-	33,656,761
PROFIT BEFORE TAX		239,497,213	185,124,958	43,160,669
INCOME TAXES	27	59,874,303	46,281,239	2,375,977
PROFIT		179,622,910	138,843,718	40,784,692
TOTAL COMPREHENSIVE INCOME		179,622,910	138,843,718	40,784,692
EARNINGS PER SHARE				
Basic Earnings per Share	29	0.05	0.04	0.01

(See Notes to Consolidated Financial Statements)

FIGARO COFFEE GROUP, INC. AND SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Periods Ended Dec 31, 2021, June 30, 2021

(In Philippine Peso)

	NOTES	December 31, 2021 (Unaudited)	June 30, 2021 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		239,497,213	43,160,669
Adjustments for:			
Gain on bargain purchase option	20		(33,656,761)
Net identifiable assets acquired	20		38,284,325
Depreciation	11,13,22,23	5,374,652	-
Operating cash flows before changes in working capital		244,871,865	47,788,233
Decrease in operating assets:			
Trade receivables		(16,194,168)	(53,539,134)
Inventories		(7,953,467)	-
Prepayments and other current assets		(5,073,882)	(12,000)
Other non-current assets		(121,345.00)	-
Increase in trade and other payables		24,454,625	53,481,031
Net cash from operating activities		239,983,629	47,718,130
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances collected from related parties	18	(152,619,330)	75,877,564
Advances granted to related parties	18	(108,877,454)	(134,375,000)
Additions to property and equipment	11	(141,786,217)	-
Net cash used in investing activities		(403,283,001)	(58,497,436)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares	19	40,000,000	500,063,000
Dividend declared and paid	19		(208,138,000)
Net cash from financing activities		40,000,000	291,925,000
NET INC/(DEC) IN CASH		(123,299,371)	281,145,694
CASH AT BEGINNING OF YEAR		281,145,694	-
CASH AT END OF YEAR		157,846,323	281,145,694

(See Notes to Consolidated Financial Statements)

FIGARO COFFEE GROUP, INC. AND SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Periods Ended July 1 to December 31, 2021 and 2020

(In Philippine Peso)

	NOTES	July to Dec 31, 2021 (Unaudited)	July to Dec 31, 2020 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		239,497,213	102,651,311
Adjustments for:			
Depreciation	11,13,22,23	5,374,652	9,901,958
Retirement benefits	23,24		2,842,559
Amortization	12,23		885,341
Finance costs	16,17		4,121,482
Operating cash flows before changes in working capital		244,871,865	120,402,651
Decrease in operating assets:			
Trade receivables		(16,194,168)	15,866,462
Inventories		(7,953,467)	7,891,195
Prepayments and other current assets		(5,073,882)	(3,628,419)
Other non-current assets		(121,345.00)	71,190,206
Increase in trade and other payables		24,454,625	31,556,587
Net cash from operating activities		239,983,629	243,278,682
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances collected from related parties	18	(152,619,330)	
Advances granted to related parties	18	(108,877,454)	(570,499)
Additions to intangible assets	12		(1,261,101)
Additions to property and equipment	11	(141,786,217)	(109,526,725)
Net cash used in investing activities		(403,283,001)	(111,358,325)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares	19	40,000,000	
Proceeds from availment of loan	16		(2,783,193)
Payment of advances to a related party	18		(74,538,613)
Net cash from financing activities		40,000,000	(77,321,806)
NET INC/(DEC) IN CASH		(123,299,371)	54,598,551
CASH AT BEGINNING OF YEAR		281,145,694	33,714,671
CASH AT END OF YEAR		157,846,323	88,313,222

(See Notes to Consolidated Financial Statements)

FIGARO COFFEE GROUP, INC. AND SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Periods July 1 to Dec 31, 2021 and 2020

(In Philippine Peso)

	NOTE	Capital Stock	Additional Paid- in Capital	Retained Earnings	Total
Balance, June 30, 2018	19	9,375,500	-	(80,000)	9,295,500
Loss				(80,000)	(80,000)
Balance, June 30, 2019	19	9,375,500	-	(160,000)	9,215,500
Loss				(80,000)	(80,000)
Balance at June 30, 2020	19	9,375,500	-	(240,000)	9,135,500
Profit				-	-
Balance at December 31, 2020	19	9,375,500	-	(240,000)	9,135,500
Profit				40,784,692	40,784,692
Issuance of shares	19	313,125,000	186,938,000		500,063,000
Balance at June 30, 2021	19	322,500,500	186,938,000	40,544,692	549,983,192
Profit				179,622,910	179,622,910
Issuance of shares	19	40,000,000	-		40,000,000
Balance at December 31, 2021	19	362,500,500	186,938,000	220,167,602	769,606,102

(See Notes to Consolidated Financial Statements)

FIGARO COFFEE GROUP, INC. AND SUBSIDIARY

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and June 30, 2021

1. CORPORATE INFORMATION AND STATUS OF OPERATION

Figaro Coffee Group, Inc. and Subsidiary (the Group) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 6, 2018. The principal activities of the Parent Company are to process, manufacture, and package all kinds of food products; to establish, invest, develop, operate and maintain restaurants, coffee shops, and refreshment parlors; to serve, arrange and cater foods, drinks, refreshments and other food or commodities; to partner and/or collaborate with other players in the food industry for the management and operation of food establishments; to acquire, invest, organize, develop, promote, or otherwise undertake the management and operation of commercial franchises in the food industry; to provide facilities and commissaries and perform all other activities and services incidental thereto, necessary or desirable in relation thereto, and offer and sell to public such products, franchises, services other operation thereof, and to own shares in companies which are in furtherance of its purposes, and to guarantee for and in behalf of the Corporation obligations of other corporations or entities in which it has lawful interest in. On March 31, 2021, the Parent Company's Board of Directors and Stockholders approved the following:

- a. The Parent Company's change in registered office address from No. 33 Mayon St., Brgy. Malamig, Mandaluyong City, Metro Manila, Philippines to 116 E. Main Avenue, Phase V, SEZ Laguna Technopark, Binan, Laguna.
- b. The Parent Company's change in reporting period from calendar year to fiscal year which shall begin on the first day of July and end on the last day of June.

The change in registered office address and reporting period was approved by SEC on June 23, 2021.

The Parent Company

On March 31, 2021, the Parent Company's Board of Directors and Stockholders approved: (a) the increase in authorized capital stock from ₱150,000,000 to ₱500,000,000; and (b) the stock split through the reduction of the par value of the shares of the Parent Company from ₱100.00 per share to ₱0.10 per share. SEC approved the Parent Company's application to increase authorized capital stock on June 23, 2021.

At incorporation, Camertheus Holdings, Inc. (CHI) subscribed to ₱37,500,000 worth of shares in the Parent Company. Out of such subscription, ₱9,375,000 had been paid by CHI at incorporation of the Parent Company. During the period, CHI fully paid its subscription receivable amounting to ₱28,125,000.¹

Camerton, Inc. (CI) subscribed to the following shares of the Parent Company:

- a. In support of the application for increase in authorized capital stock, Camerton, Inc. (CI), on March 31, 2021, subscribed to 1,250,000,000 shares of the Parent Company for a total subscription price of ₱125,000,000. The subscribed shares were fully paid and issued on June 22, 2021. ²
- b. On June 20, 2021, the board of the Parent Company approved the additional paid-in capital in the amount of ₱83,138,000 paid by CI into the Parent Company.³
- c. 1,250,000,000 shares with par value of ₱0.10 per share for a total subscription price of ₱228,800,000, or ₱0.18304 price per share. The said subscription resulted to an additional capital stock of ₱125,000,000 and an additional paid-in capital of ₱103,800,000 in the Parent Company; and⁴
- d. 350,000,000 shares of the Parent Company with par value of ₱0.10 per share for a total subscription price of ₱35,000,000. ⁵

As of June 30, 2021, the Parent Company is 88.37% owned by CI and 11.63% owned by CHI.

The Subsidiary

The Parent Company's subsidiary is as follows:

Subsidiary	Principal Activities	Country of Incorporation	Functional Currency	Effective Percentage of Ownership
Figaro Coffee Systems Inc.	Food business including but not limited to operation of retail food stores and restaurants	Philippines	Philippine Peso	100%

The summarized financial information of the subsidiary is as follows:

	2021		2020		2019
Total assets	P 938,728,621	P	580,303,489	P	506,579,679
Total liabilities	682,702,387		439,848,739		432,335,216
Net assets	256,026,232		140,454,749		84,644,463
Revenue	1,354,700,778		866,580,670		802,678,296
Direct costs	761,163,996		587,186,668		581,949,685
Operating expense	331,956,673		172,621,209		149,244,536
Finance cost	488,136		2,783,193		2,102,765
Profit before tax	261,091,973		103,989,600		69,381,309

On June 21, 2021, F Coffee Holdings Corporation, the 'Seller' agreed to sell and the Parent Company, the 'Buyer' agreed to buy, all the seller's rights, title and interests in 2,500 common shares with a par value of P50.00 per share or an aggregate par value of P125,000 in Figaro Coffee Systems Inc. (FCSI) for and in consideration of P1,851.0256 per share or a total purchase price of P4,627,564. The difference between the consideration paid and the fair value of the interest acquired in FCSI was recognized as goodwill amounting to P4,502,564, as disclosed in Notes 12 and 20.

On June 23, 2021, the Parent Company subscribed to 7,500 shares of FCSI with P50.00 par value per share at the subscription price of P27,751.73 per share for a total subscription price of P208,138,000. The said subscription resulted to an additional capital stock of P375,000 and additional paid-in capital of P207,763,000 in FCSI.

On June 27, 2021, the Parent Company subscribed additional 4,576,000 shares of FCSI at P50.00 par value resulting to capital stock of P228,800,000.

Effect of Corona Virus Disease (COVID-19)

The COVID 19 Pandemic is both a wake-up call and a blessing in disguise for the Group and for the nation as a whole. A blessing in disguise in the sense that, though 2020 was the first drop in Sales and in Net Income for the past 5 consecutive years, the last twelve (12) months performance, July 2020 to June 30, 2021, was the Group's best performing 12 months, all time, in terms of Revenue and Income. It was also a wake-up call as the Group was forced to put health concerns, family and team members at the forefront of focus and priorities. The Group was accelerated to right size operations and streamline processes to meet the demands of the new normal.

At the onset of this pandemic, everything was in disarray and full of uncertainty. Mobility and supply chain were challenged, sales were going down, additional costs related to safety and security were popping up and a lot of regulatory measures were being implemented. There were biweekly adjustments and re-adjustments in community quarantine. The Group was forced to align and realign with these IATF measures. As the operation adjusts, the Group needed to act fast in adjusting to the requirements of customers and maintaining safety and security of employees while looking out for the Group's profitability and viability. The Group did not wait for the new normal. At of this date, the Group have 100% inoculations for all employees as to the first dose and inoculated 50% of the employees for the second dose. Delivery business significantly increased over the past twelve (12) months and has been breaking historical sales records. The Group's brand became one of the top food delivery brands identified by Grab. The Group's top selling Pizza variant, Creamy Spinach, is gaining some traction in the social media.

This Covid 19 Pandemic is a positive wake up call to be more vigilant in growing the Group's market, improving service to clients and being more resilient in addressing the challenges of tomorrow and converting these challenges into opportunities on what will make the Group better and stronger brand for the new normal.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Philippine Financial Reporting Standards Council (FRSC) approved the issuance of new and revised Philippine Financial Reporting Standards (PFRS). The term “PFRS” in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations issued by the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the FRSC and adopted by SEC.

These new and revised PFRS prescribe new accounting recognition, measurement and disclosure requirements applicable to the Group. When applicable, the adoption of the new standards was made in accordance with their transitional provisions, otherwise the adoption is accounted for as change in accounting policy under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

2.01 New and Revised PFRSs Applied with No Material Effect on the Financial Statements

The following new and revised PFRSs have also been adopted in these financial statements. The application of these new and revised PFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

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

The following are the amendments to PFRS 16:

- provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19 related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with PAS 8, but not require them to restate prior period figures.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted.

2.02 New and Revised PFRSs in Issue but Not Yet Effective

The Group will adopt the following standards and interpretations enumerated below when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, to have significant impact on the financial statements.

2.02.01 Standard Adopted by FRSC and Approved by the Board of Accountancy (BOA)

- Amendments to PFRS 16, COVID-19-Related Rent Concessions beyond 30 June 2021

The following are the amendments to PFRS 16:

- permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments originally due on or before 30 June 2021);
- require a lessee applying the amendment to do so for annual reporting periods beginning on or after 1 April 2021;
- require a lessee applying the amendment to do so retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment; and
- specify that, in the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of IAS 8.

The amendments are effective for annual reporting periods beginning on or after April 1, 2021, with earlier application permitted.

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

The following are the amendments in reference to the conceptual framework:

- update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of 1989 Framework;
- add to PFRS 3 a requirement that, for transactions and other events within the scope of PAS 37 or IFRIC 21, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
- add to PFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for annual periods beginning on or after January 1, 2022, with earlier application permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

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

The amendments prohibit a Group from deducting from the cost of property, plant and equipment amounts received from selling items produced while the Group is preparing the asset for its intended use. Instead, a Group will recognize such sales proceeds and related cost in profit or loss.

The amendments are effective for annual periods beginning on or after January 1, 2022, with earlier application permitted. An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

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

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments are effective for annual periods beginning on or after January 1, 2022, with earlier application permitted. Entities apply the amendments to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated.

- Annual Improvements to PFRS Standards 2018-2020 Cycle

Amendments to PFRS 1, *Subsidiary as a first-time adopter* - The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.

Amendments to PFRS 9, *Fees in the '10 per cent' test for derecognition of financial liabilities* - The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

Amendments to PFRS 16, *Lease Incentives* - The amendment to Illustrative Example 13 acGrouping IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

Amendments to PAS 41, *Taxation in fair value measurements* - The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

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

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments to PAS 1 are the following:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement

by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;

- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments defer the effective date of the January 2020 Classification of Liabilities as Current or Non-Current (Amendments to PAS 1) to annual reporting periods beginning on or after January 1, 2023. Earlier application of the January 2020 amendments continues to be permitted.

- Amendments to PAS 8, Definition of Accounting Estimates

The definition of accounting estimates has been amended as follows: accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendment also clarifies the following:

- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- A change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period., with earlier application permitted.

- Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure Initiative – Accounting Policies

The amendments to PAS 1 are the following:

- an entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;

The amendments also clarify the following:

- accounting policy information may be material because of its nature, even if the related amounts are immaterial;

- accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and
- if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

In addition, PFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to PAS 1.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

- PFRS 17, *Insurance Contracts*

PFRS 17 sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. It requires an entity that issues insurance contracts to report them on the balance sheet as the total of the fulfilment cash flows and the contractual service margin. It requires an entity to provide information that distinguishes two ways insurers earn profits from insurance contracts: the insurance service result and the financial result. It requires an entity to report as insurance revenue the amount charged for insurance coverage when it is earned, rather than when the entity receives premium. It requires that insurance revenue to exclude the deposits that represent the investment of the policyholder, rather than an amount charged for services. Similarly, it requires the entity to present deposit repayments as settlements of liabilities rather than as insurance expense.

PFRS 17 is effective for annual periods beginning on or after January 1, 2023. Early application is permitted for entities that apply PFRS 9 Financial Instruments and PFRS 15 Revenue from Contracts with Customers on or before the date of initial application of PFRS 17.

An entity shall apply PFRS 17 retrospectively unless impracticable, except that an entity is not required to present the quantitative information required by paragraph 28(f) of PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and an entity shall not apply the option in paragraph B115 for periods before the date of initial application of PFRS 17. If, and only if, it is impracticable, an entity shall apply either the modified retrospective approach or the fair value approach.

- Amendments to PFRS 17, *Insurance Contracts*

The amendments cover the following areas:

- Insurance acquisition cash flows for renewals outside the contract boundary;
- Reinsurance contracts held—onerous underlying insurance contracts;
- Reinsurance contracts held—underlying insurance contracts with direct participation features; and
- Recognition of the contractual service margin in profit or loss in the general model.

The amendments are effective to annual reporting periods beginning on or after January 1, 2023.

2.02.02 Deferred

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

The amendments clarify the treatment of the sale or contribution of assets between an investor and its associate and joint venture. This requires an investor in its financial statements to recognize in full the gains and losses arising from the sale or contribution of assets that constitute a business while recognize partial gains and losses if the assets do not constitute a business (i.e. up to the extent only of unrelated investor share).

On January 13, 2016, the FRSC decided to postpone the original effective date of January 1, 2016 of the said amendments until the IASB has completed 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.

3. BASIS FOR THE PREPARATION AND CONSOLIDATION AND STATEMENT OF COMPLIANCE

Basis of Preparation

The unaudited interim consolidated financial statements have been prepared on historical cost basis, except for financial assets at fair value through profit or loss(FVPL) which are carried at fair value. The unaudited interim consolidated financial statements are presented in Philippine peso, which is the group's functional currency.

Statement of Compliance

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

Basis of Consolidation

The unaudited interim consolidated financial statements comprise the unaudited interim financial statements of the Parent company and its wholly owned subsidiaries and are prepared for the same reporting year as the Parent Company, using consistent accounting policies for like transactions and other events with similar circumstances.

The Amended Consolidated Financial Statements incorporate the Amended Financial Statements of the Parent Company and the entities controlled by the Parent Company (its subsidiaries) up to June 30 each year.

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

In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

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 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 Group re-assess 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. Subsidiaries are consolidated from the date when control is transferred to the Parent Company and ceases to be consolidated from the date when control is transferred out of the Parent Company.

At acquisition, the assets and liabilities and the contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the profit and loss in the period of acquisition.

Goodwill is initially measured at cost, being the excess of the aggregate of fair value of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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 (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

The Amended Consolidated Financial Statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Inter-group balances and transactions, including inter-group profits and unrealized profits and losses, are eliminated. When necessary, adjustments are made to the Amended Financial Statements of the subsidiary to bring the accounting policies used in line with those used by the Group. All inter-group transactions, balances, income and expenses are eliminated during consolidation.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Parent Company and are presented in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the Group's equity attributable to equity holders of the Parent Company.

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

Upon the loss of control, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statements of financial position. The Group recognizes any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant PFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with PFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. The Group recognizes the gain or loss associated with the loss of control attributable to the former controlling interest

Also, the pro forma consolidated financial information has been prepared in conformity with Section 9, Part II of the Revised Securities Regulation Code Rule 68, (Revised SRC Rule 68), *Pro forma Financial Information*.

Purpose of Pro Forma Financial Information Included in a Prospectus

The purpose of this unaudited pro forma financial information included in the comparative report prepared by Figaro Coffee Group, Inc. and Subsidiary in connection with its planned follow-on offering is to illustrate the impact of significant events or transactions on unadjusted financial information of the entity, had the events occurred or the transactions been undertaken at an earlier date selected for purposes of the illustration. This is achieved by applying pro forma adjustments to the unadjusted financial information. Pro forma

financial information in and of itself does not represent the Group's actual financial position, financial performance, or cash flows prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and it is not necessarily indicative of the results that would have been attained had the transactions or events actually taken place earlier.

The unaudited pro forma condensed consolidated financial information should be read in conjunction with the related historical information such as audited short-term separate financial statements of Figaro Coffee Group, Inc., the Parent Company, as at and for the period ended June 30, 2021 and reviewed interim financial statements of Figaro Coffee Group, Inc. (FCG) as at and for the period ended December 31, 2021.

Entities involved

The entities involved are Figaro Coffee Group, Inc., the Parent Company and Figaro Coffee Systems Inc., the Subsidiary.

Accounting under acquisition method

In relation to the business combination as a result of the Parent Company's acquisition of the subsidiary on June 21, 2021 and additional cash infusion on June 23 and June 27, 2021, the pro forma condensed financial information shows the following:

- a. The consolidated assets and liabilities of Parent Company are recognized and measured at carrying amounts and the assets and liabilities of Subsidiary are recognized and measured at the carrying amounts as presented in its separate financial statements prior to acquisition.
- b. The equity in pro forma consolidated financial information shows the transactions of Parent Company only.

Transfer of the additional investments of Parent Company to Subsidiary from deposit for future stocks subscription to capital stock and additional paid-in-capital

On March 31, 2021, the Parent Company's Board of Directors and Stockholders approved the increase in authorized capital stock from ₱500,000 divided into 10,000 shares with par value of ₱50.00 per share to ₱500,000,000 divided into 10,000,000 shares with par value of ₱50 per share.

The pro forma consolidated financial information shows that the deposit for future stocks subscription of Parent Company to Subsidiary was transferred to capital stock and additional paid in capital should the approval of SEC on Subsidiary's application to increase authorized capital stock was approved at an earlier date.

Periods presented

Interim unaudited consolidated statement of financial position and audited consolidated statement of financial position

The Interim unaudited consolidated statement of financial position was presented as of the end of the most recent period required or as of December 31, 2021.

Pro forma consolidated statements of comprehensive income for the period January to June 30, 2021 and the interim unaudited consolidated statements of comprehensive income for the quarters July 1 to December 31, 2021.

The pro forma consolidated statements of comprehensive income was presented as of and for the period ended June 30, 2021 and as basis for the comparative periods for the unaudited interim consolidated as of and ending interim periods December 31, 2021.

Unusual events

There are no unusual events entered into the determination of the results shown for the most recently completed fiscal year.

The transactions are not structured in such a manner that significantly different results may occur.

Pro forma adjustments

The pro forma consolidated financial information was prepared by applying pro forma adjustments to the historical financial information. Pro forma adjustments were based on Management's assumptions believed to be reasonable under the circumstances including significant impact directly attributable to the transaction (or event).

The unaudited pro forma consolidated financial information does not represent what the results of operations and financial position of the Group would have been had the significant transactions occurred as at July 1, 2020 nor does it project the results of operations of the Group for any future period or date.

Below pro forma adjustments related to the pro forma consolidated statements of comprehensive income was computed assuming that the transaction was consummated at the beginning of the fiscal year presented. These adjustments give effect to events that are directly attributable to the transaction, expected to have a continuing impact on the registrant and factually supportable.

3.01 Pro forma adjustments in the pro forma condensed consolidated statement of financial position as at June 30, 2021

For the purpose of showing that the significant transactions are assumed to have transpired on Jan 1, 2021, the following pro-forma adjustments have been made:

1. Issuance of capital stock by the Parent Company to Camerton, Inc. and Carmetheus, Inc.

The following transactions actually occurred on March 31 to June 23, 2021, however, for the purposes of showing the pro forma consolidated statements of financial position, the following issuances of shares were assumed to have transpired on January 1, 2021:

- c. At incorporation, Camertheus Holdings, Inc. (CHI) subscribed to ₱37,500,000 worth of shares in the Parent Company. Out of such subscription, ₱9,375,000 had been paid by CHI at incorporation of the Parent Company. During the period, CHI fully paid its subscription receivable amounting to ₱28,124,500.
- d. Camerton, Inc. (CI) subscribed to the following shares of the Parent Company:
 - 1,250,000,000 shares of the Parent Company for a total subscription price of ₱125,000,000.
 - The Board of Directors of the Parent Company approved the additional paid-in capital in the amount of ₱83,138,000 paid by CI into the Parent Company.
 - 1,250,000,000 shares with par value of ₱0.10 per share for a total subscription price of ₱228,800,000, or ₱0.18304 price per share. The said

subscription resulted to an additional capital stock of P125,000,000 and an additional paid-in capital of P103,800,000 in the Parent Company; and

- 350,000,000 shares of the Parent Company with par value of P0.10 per share for a total subscription price of P35,000,000.

2. Consolidation of net assets at book value of acquired subsidiary

Pro forma adjustments have been made to include the unaudited net assets at book value of the acquired subsidiary as a result of the following transactions that assumed to have transpired on January 1, 2021:

- F Coffee Holdings Corporation, the 'Seller' agreed to sell and the Parent Company, the 'Buyer' agreed to buy, all the seller's rights, title and interests in 2,500 common shares with a par value of P50.00 per share or an aggregate par value of P125,000 in Figaro Coffee Systems Inc. (FCSI) for and in consideration of P1,851.0256 per share or a total purchase price of P4,627,564. The difference between the consideration paid and the fair value of the interest acquired in FCSI was recognized as goodwill amounting to P4,502,564.
 - The Parent Company subscribed to 7,500 shares of FCSI with P50.00 par value per share at the subscription price of P27,751.73 per share for a total subscription price of P208,138,000. The said subscription resulted to an additional capital stock of P375,000 and additional paid-in capital of P207,763,000 in FCSI.
 - The Parent Company subscribed additional 4,576,000 shares of FCSI at P50.00 par value resulting to capital stock of P228,800,000.
3. Recognition of retained earnings resulting from business combination amounting to P150,181,816.
4. Elimination of investment in subsidiary amounting to P437,063,000, capital stock amounting to P229,300,000 and additional paid-in capital amounting to P207,763,000.

3.02 Pro forma adjustments in the pro forma consolidated statements of comprehensive income as of June 30, 2021.

For the purpose of the pro-forma consolidated statements of comprehensive income for the years ended June 30, 2021, the transactions are assumed to have occurred on January 1, 2021 of the period presented.

Pro forma adjustments have been made to include the unaudited statements of comprehensive income of the subsidiary amounting to P158,329,748 as a result of the business combination.

3.03 Pro forma adjustments in the pro forma consolidated statements of changes in equity as of June 30, 2021

For the purpose of the pro-forma consolidated statements of comprehensive income for the years ended June 30, 2021, the transactions are assumed to have occurred on January 1 of the period presented.

1. Pro forma net income and other comprehensive income

Pro forma adjustments have been made to include the pro forma net income amounting to P160,873,926 and other comprehensive loss from remeasurement amounting to P2,544,178 of the acquired subsidiary as reflected in the pro forma condensed consolidated statements of comprehensive income for the years ended June 30, 2021

3.04 Pro forma adjustments in the pro forma consolidated statements of changes in cash flows as of June 30, 2021

1. Pro forma adjustments to include individual statements of cash flows

Pro forma adjustments have been made to include individual statements of cash flows of the acquired subsidiary as a result of the business combination.

2. Elimination of investment in subsidiary amounting to P437,063,000, capital stock amounting to P229,300,000 and additional paid-in capital amounting to P207,763,000.

4. SIGNIFICANT ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Group in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

4.01 Fair Value Measurement

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

When measuring fair value, the Group takes into consideration the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement assumes that the transaction to sell the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. In addition, it assumes that the transaction takes place either: (a) in the principal market; or (b) in the absence of a principal market, in the most advantageous market.

The Group considers the fair value of an asset or a liability 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 non-financial 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.

A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instruments (e.g. equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

- A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.
- An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

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.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

4.02 Segment Information

An operating segment is a component of the Group: (a) that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group; (b) whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

The Group reports separately, information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and inter-segment sales or transfers, is ten percent (10%) or more of the combined revenue, internal and external, of all operating segments, provided that; (b) the absolute amount of its reported profit or loss is ten percent (10%) or more of the greater, in absolute amount, of the combined reported profit of all operating segments that did not report a loss and the combined reported loss of all operating segments that reported a loss; and (c) its assets are ten percent (10%) or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if Management believes that information about the segment would be useful to users of the consolidated financial statements.

The business of the Group is currently organized into two (2) geographical areas namely as National Capital Region and Provincial areas. These areas are the basis on which the Group reports its primary segment information.

4.03 Financial Assets

4.03.01 Initial Recognition and Measurement

The Group recognizes a financial asset in its consolidated statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Except for trade receivables that do not have a significant financing component, at initial recognition, the Group measures a financial asset at its fair value plus, in the case of financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

At initial recognition, the Group measures trade receivables that do not have a significant financing component at their transaction price.

4.03.02 Classification

➤ Financial Asset at Amortized Cost

A financial asset shall be measured at amortized cost if both of the following conditions are met:

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

The Group's financial assets measured at amortized cost include cash in banks, trade receivables, due from related parties and other non-current assets.

a) Cash in Banks

Cash in banks pertains to cash deposits held at call with bank that are subject to insignificant risk of change in value. This shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

b) Trade Receivables and Due from related parties

Trade receivables and due from related parties are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for expected credit losses of trade receivables and advances to stockholders are established based on individual assessment and available facts and circumstance, including, but not limited to historical loss experience and economic factors. Finance income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

c) Other non-current assets

Other non-current assets pertain to refundable deposits, construction bond and others. Refundable deposits pertain to amount given to the lessor as security for future repairs needed on the leased area. These are initially recorded at the amount of cash paid. Subsequently, this is measured at cost using the effective interest method, less any impairment.

The Group does not have financial assets measured at fair value either through profit and loss or through other comprehensive income in both years.

4.03.03 Reclassification

When, and only when, the Group changes its business model for managing financial assets it shall reclassify all affected financial assets in accordance with Note 4.02.02. If the Group reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The Group shall not restate any previously recognized gains, losses (including impairment losses) or interest.

4.03.04 Effective Interest Method

Finance income is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets and financial assets that are not purchased or originated credit-impaired but subsequently have become credit-impaired.

4.03.05 Impairment

The Group measures expected losses of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable assumption that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

The Group adopted the following approaches in accounting for impairment.

➤ Simplified Approach

The Group always measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables. The Group determines that a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the counterparty;
- A breach of contract, such as a default or past due event;
- The lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; and
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization.

➤ General Approach

The Group applies general approach to cash in banks, due from related parties and other non-current assets. At each reporting date, the Group measures the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. However, if the credit risk has not increased significantly, the Group measures the loss allowance equal to 12-month expected credit losses.

The Group compares the risk of default occurring as at the reporting date with the risk of a default occurring as at the date of initial recognition and consider the macro-economic factors such as GDP, interest, and inflation rates, the performance of the counterparties' industry, that is available without undue cost or effort, to determine whether there is a significant increase in credit risk or not since initial recognition.

The Group determines that there has been a significant increase in credit risk when there is a significant decline in the factors. The Group assumes that the credit risk on cash in banks has not increased significantly since initial recognition because the financial instrument is determined to have low credit risk at the reporting date.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition because the financial instrument is determined to have low credit risk at the reporting date.

The Group did not apply the 30 days past due rebuttable presumption because the Group determines that there have been no significant increases in credit risk even if collections are more than 30 days past due.

If the Group has measured the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date, that the credit quality improves (i.e. there is no longer a significant increase in credit risk since initial recognition), then the Group shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

The Group recognizes in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date.

The Group performs the assessment of significant increases in credit risk on an individual basis by considering information that is indicative of significant increases in credit risk.

The Group does not apply the 90 days past due rebuttable presumption in determining whether a financial asset is credit-impaired or not. Based on the Group's historical experience, customer is in default when it is already past due for 360 days and beyond.

The Group determines that a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the counterparty;
- A breach of contract, such as a default or past due event;
- The lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; and
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization.

4.03.06 Derecognition

The Group derecognizes a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition. The difference between the carrying amount and the consideration received is recognized in profit or loss.

4.03.07 Write-off

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

4.04 Prepayments and Other Current Assets

4.04.01 Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire through passage of time.

These are classified in the consolidated statements of financial position as current assets when the expenses are expected to be incurred within one year or the group's normal operating cycle, whichever is longer. Otherwise, these are classified as other non-current assets.

4.04.02 Advances to Suppliers

Advances to suppliers represent payments for the goods to be delivered. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are reclassified to inventories upon transfer of ownership of the related goods.

4.04.03 Advances to Contractors

Advances to contractors represent payments for the services to be rendered. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to expenses upon the receipt of the services.

4.05 Business Combination

The Group applies the standard on business combination under PFRS 3 as amended and adopted in 2009. The standard outlines the accounting when an acquirer obtains control of a business (e.g. acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at date of acquisition.

PFRS 3 seeks to enhance the relevance, reliability and comparability of information provided about business combinations (e.g. acquisition and mergers) and their effects. It sets out the principles on the recognition and measurement of acquired assets and liabilities, the determination of goodwill and the necessary disclosures.

In determining whether a transaction is a business combination, PFRS 3 provides additional guidance on determining whether a transaction meets the definition of a business combination and accounted for in accordance with its requirements. This guidance includes:

- Business combinations can occur in various ways such as by transferring cash, including liabilities, issuing equity instrument (or any combination thereof), or by not issuing consideration at all (i.e. by contract alone); and

- Business combinations can be structured in various ways to satisfy legal, taxation or other objectives, including one entity becoming a subsidiary of another, the transfer of net assets from one entity to another or to new entity;

The business combination must involve the acquisition of a business, which generally has three elements:

- Inputs – an economic resource (e.g. non-current assets, intellectual property) that creates outputs when one or more processes are applied to it;
- Process – a system standard, protocol, convention or rule that when applied to an input or inputs, creates outputs (e.g. strategic management, operational processes, resource management); and
- Output – the result of inputs and processes applied to those input.

4.05.01 Acquisition Method

In every acquisition of business, the Group determines the acquisition date, recognize and measures all identifiable assets acquired, the liabilities assumed and non-controlling interest (NCI, formerly called minority interest) in the acquiree, and determines if there is goodwill or gain from a bargain purchase if applicable.

The Group recognizes the acquisition date as the date on which the Group obtains control over the acquiree. Generally, this is the date on which the Group legally transfer the consideration, acquires the assets and assumes the liabilities of the acquiree – the closing date. However, the Group as the acquirer may obtain control on a date that is either earlier or later than the closing date depending on what was agreed upon with the acquiree.

In recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, the Group observes the definition of assets and liabilities in accordance with the Framework for the Preparation and Presentation of Financial Statements at the acquisition date. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values.

On income taxes, the Group recognizes and measures a deferred tax asset or liability arising from the assets acquired and liabilities assumed in accordance with PAS 12 while the standard under PAS 19 is relied on for employee benefits.

The Group recognizes and measures goodwill in accordance with PFRS 3, as the difference between:

- Aggregate of (1) the value of the consideration transferred (generally at fair value), (2) the amount of any non-controlling interest in the acquiree, and (3) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, and
- The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (measured in accordance with PFRS 3).

4.05.02 Consolidation

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

The consolidated financial statements incorporate the financial statements of the Parent and the entity controlled by the Parent (its subsidiary) up to June 30 of each year. Control is achieved when the Parent has exposure or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over an investee. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiary is consolidated from the date when control is transferred to the Parent and ceases to be consolidated from the date when control is transferred out of the Parent.

4.05.03 Measurement

The assets and liabilities and the contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the profit and loss in the period of acquisition.

4.05.04 Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of fair value of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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 (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

4.05.05 Inter-group Balances

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Inter-group balances and transactions, including inter-group profits and unrealized profits and losses, are eliminated. When necessary, adjustments are made to the financial statements of the subsidiary to bring the accounting policies used in line with those used by the Parent Company. All inter-group transactions, balances, income and expenses are eliminated during consolidation.

4.05.06 Loss of Control

Upon the loss of control, the Parent Company derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of controls is recognized in profit or loss. If the Parent Company retains any interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost. Subsequently, it is accounted for as entity-accounted investee or as financial assets at FVTPL or FVOCI depending on the level of influence retained.

4.06 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognized immediately in profit or loss.

When the circumstances that previously caused inventories to be impaired no longer exist or when there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances, a reversal of the impairment is recognized so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell. Any impairment reversal is recognized in profit or loss but is limited to the amount of the original impairment loss recognized.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

4.07 Property and Equipment

Property and equipment are initially measured at cost. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use. Subsequent to initial recognition property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Depreciation is computed on the straight-line method based on the estimated useful life of the office and store equipment which is five (5) to ten (10) years.

Buildings and building improvements are depreciated over ten (10) years.

The property and equipment's residual values, useful lives and depreciation method are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

4.08 Computer Software

Computer software acquired separately is initially carried at cost. Subsequently, intangible asset with definite useful life is carried at cost less accumulated amortization and accumulated impairment losses. Amortization of computer software is recognized on a straight-line basis over its estimated useful life of two (2) years.

The estimated useful life, residual value and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

4.09 Impairment of Assets

At each reporting date, the Group assesses whether there is any indication that any assets other than inventories, deferred tax assets, and financial assets that are within the scope of PFRS 9, *Financial Instruments* may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income.

4.10 Borrowing Costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

4.10 Financial Liabilities

4.10.01 Initial Recognition and Measurement

The Group shall recognize a financial liability in its consolidated statements of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

Except for trade payables that do not have a significant financing component, at initial recognition, the Group shall measure a financial liability at its fair value minus, in the case of financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the liability.

4.10.02 Classification

The Group shall classify all financial liabilities as subsequently measured at amortized, except for:

- financial liabilities at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate;
- contingent consideration recognized by an acquirer in a business combination.

The Group's financial liabilities measured at amortized cost include trade and other payables (excluding customers' deposits and due to government agencies), due to a related party, loans payable and lease liabilities.

The Group does not have financial liabilities measured at fair value through profit or loss in both years.

4.10.03 Derecognition

The Group removes a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished (i.e. when the obligation in the contract is discharged or cancelled or expires).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4.11 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

4.12 Customers' Deposits

Customers' deposits pertain to down payments made by customers on their purchase. These are recorded initially as liability equivalent to the amount of cash received. Subsequently, these are charged to profit or loss upon delivery of food products.

4.13 Employee Benefits

4.13.01 Short-term Benefits

The Group recognizes a liability, net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Group to its employees include salaries and wages, SSS, PhilHealth, and HDMF contributions and other employee benefits.

4.13.02 Post-employment Benefits

The Group has an unfunded and noncontributory defined benefit retirement plan. This benefit defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the Projected Unit Credit Method (PUCM) which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefits include current service cost and net interest on defined benefit obligation. Remeasurements which include change on demographic and financial assumption and experience adjustment are recognized directly in other comprehensive income and are also presented as remeasurements under 'equity' in the statement of financial position.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The retirement benefit obligation recognized in the statements of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of interest rates of government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

4.14 Provisions

Provisions are recognized when the Group has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at each reporting period and adjusted to reflect the current best estimate.

4.15 Revenue Recognition

The Group shall recognize revenue when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

4.15.01 Performance Obligations Satisfied at a Point in Time

The Group recognizes revenue at point in time from its store sales and commissary sales, this is when there is a present right to payment for goods, transfer of physical possession of goods, acceptance of the same by its customers and transfer of significant risk and rewards of the goods.

4.15.02 Royalty

Revenue from royalty is recognized as the royalty accrues based on certain percentages of the franchisees' gross sales.

4.15.03 Finance Income

Finance income is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Finance income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4.15.04 Principal versus Agent Considerations

The Group should determine whether it is a principal or an agent in a transaction through the nature of its promise in a performance obligation.

The Group determines whether the nature of its promise is a performance obligation to provide a specified service itself (i.e. the Group is a principal) or to arrange for the other party to provide those services (i.e. the Group is an agent).

The Group is a principal if it controls a promised service before it transfers the service to a customer. It recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for those services transferred.

The Group is an agent if its performance obligation is to arrange for the provision of services by another party. It recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its services.

4.16 Expense Recognition

Expense encompasses losses as well as those expenses that arise in the course of the ordinary activities of the Group.

The Group recognizes expenses in the statement of comprehensive income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

4.17 Leases

4.17.01 The Group as a Lessee

The Group considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for a consideration. To apply this definition the Group assesses whether the contract meets three (3) key evaluations, which are whether:

- a. The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group.

- b. The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- c. The Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The Group has elected to account for short-term leases and low-value assets using the practical expedients. Instead of recognizing an ROU asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Right-of-Use (ROU) Asset

At the commencement date, the Group measures the ROU asset at cost, which comprises of:

- initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any incentives received;
- any initial direct costs incurred by the Group;
- an 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. The Group incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

The Group depreciates the ROU asset on a straight-line method from the lease commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The Group also assesses the ROU asset for impairment when such indicators exist.

On the consolidated statements of financial position, right-of-use assets have been presented as a separate line item.

Lease Liabilities

At the commencement date, the Group measures the lease liabilities at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or if not the Group uses the incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under the residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect in-substance fixed lease payments.

The Group recognizes the amount of remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is further reduction in the measurement of the lease liability, the Group recognizes any remaining amount of the remeasurement in profit or loss.

On the consolidated statements of financial position, lease liabilities have been presented as a separate line item.

4.18 Related Parties and Related Party Transactions

A related party is a person or entity that is related to the Group that is preparing its financial statements. A person or a close member of that person's family is related to Group if that person has control or joint control over the Group, has significant influence over the Group, or is a member of the key management personnel of the Group or of a parent of the Group.

An entity is related to the Group if any of the following conditions applies:

- The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- The entity is controlled or jointly controlled by a person identified above.
- A person identified above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- Management entity providing key management personnel services to a reporting entity.

Close members of the family of a person are those family members, who may be expected to influence, or be influenced by, that person in their dealings with the Group and include that person's children and spouse or domestic partner; children of that person's spouse or domestic partner; and dependents of that person or that person's spouse or domestic partner.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

4.19 Taxation

Income tax expense represents the sum of current and deferred taxes.

4.19.01 Current Tax

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4.19.02 Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, carry forward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carry-over (NOLCO), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction that affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4.19.03 Current and Deferred Taxes for the Period

Current and deferred taxes are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss, whether in other comprehensive income or directly in equity, in which case the tax is also recognized outside profit or loss.

4.20 Earnings per Share

The Group computes its basic earnings per share by dividing net income or loss attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the period.

4.21 Events after the Reporting Period

The Group identifies subsequent events as events that occurred after the reporting period but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Group's position at the reporting period, adjusting events, are reflected in the financial statements, while subsequent events that do not require adjustments, non-adjusting events, are disclosed in the notes to consolidated financial statements when material.

4.22 Changes in Accounting Policies

The adoption of the new and revised standards and interpretations disclosed in Notes 2.01 and 2.02, was made in accordance with their transitional provisions, otherwise the adoption is accounted for as change in accounting policy under PAS 8, "*Accounting Policies, Changes in Accounting Estimates and Errors*".

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in Note 4, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

5.01 Critical Judgments in Applying Accounting Policies

The following are critical judgments, apart from those involving estimations that Management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

5.01.01 Assessment of Principal-Agency Arrangement

The Group determines whether the nature of its promise is a performance obligation to provide a specified service itself (i.e. the Group is a principal) or to arrange for the other party to provide those services (i.e. the Group is an agent).

In 2021, 2020 and 2019, the Group assessed that it is acting as a principal on its sales derived from third-party food delivery supports because the Group has the primary responsibility for fulfilling the promise to provide goods to customers, bears the risk on the goods and has the discretion in determining the selling price of the goods.

5.01.02 Aggregation of Operating Segments

In accordance with the provisions of PFRS 8, *Operating Segments*, the Group's reporting segment is based on the management approach with regard to the segment identification, under which information regularly provided to the chief operating decision maker for decision-making purposes is considered as decisive. The segments are also evaluated under the management approach.

The Group reports its segment based on the nature of the products and services provided and geographic areas. Management identifies its operating segments as generally based on nature of the products and services such as sale of foods and franchise revenue; and geographic areas such as domestic and international. The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of net trading gains (losses), other income, equity in net earnings, operating expenses and income tax.

5.01.03 Determining whether or not a Contract Contains a Lease

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as lease under PAS 17 and IFRIC 4.

Management assessed the Group's agreements to use store spaces qualified as lease contracts since the contract contains an identified asset, the Group has the right to obtain substantially all of the economic benefits, and the Group has the right to direct the use of the identified asset throughout the period of use.

5.01.04 Assessment of Timing of Satisfaction of Performance Obligations

An entity satisfies a performance obligation by transferring control of a promised good or service to the, which could occur over time or at a point in time.

Management assessed that performance obligation is satisfied at a point in time, this is when there is a present right to payment for goods, transfer of physical possession of goods, acceptance of the same by its customers and transfer of significant risk and rewards of the goods

5.01.05 Assessment of Contractual Terms of a Financial Asset

The Group determines whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In making its judgments, the Group considers whether the cash flows before and after the changes in timing or in the amount of payments represent only payments of principal and interest on the principal amount outstanding.

Management assessed that the contractual terms of its financial assets are solely payments of principal and interest and consistent with basic lending arrangement.

5.01.06 Assessment of the Allocation of Transaction Price to Performance Obligations

A performance obligation is a vendor's promise to transfer a good or service that is 'distinct' from other goods and services identified in the contract.

Management assessed that allocation of transaction price to performance obligation is not applicable since the only obligation identified is to deliver and served the foods and drinks ordered by its customers.

5.01.07 Assessment of 30 days Rebuttable Presumption

The Group determines when a significant increase in credit risk occurs on its financial assets based on the credit management practice of the Group.

Management believes that the 30 days rebuttable presumption on determining whether financial assets are past due is not applicable since based on Group's historical experience credit risk has not increased significantly even if collections are more than 30 days past due.

5.01.08 Assessment of 90 days rebuttable presumption

An entity determines when a past due occurs on its financial assets based on the credit management practice of the entity.

Management believes that the 90 days rebuttable presumption on determining whether there is a significant increase in credit risk in financial assets is not applicable based on the Group's historical experience the Group determines that the customer is in default when it is already past due for 360 days and beyond.

5.01.09 Determining whether or not it is Reasonably Certain that an Extension Option will be Exercised

Lease term is the non-cancellable period for which the Group has the right to use an underlying asset including optional periods when the Group is reasonably certain to exercise an option to extend (or not to terminate) a lease. The Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option when determining the lease term and the enforceability of the option. The option to extend the lease term should be included in the lease term if it is reasonably certain that the lessee will exercise the option and the option is enforceable. The Group is required to reassess the option when significant events or changes in circumstances occur that are within the control of the lessee.

Management assessed that it is reasonably certain that it will exercise the extension option but the extension option is not enforceable because it requires mutual agreement of both parties.

5.02 Key Sources of Estimation Uncertainties

The following are the key assumptions concerning the future, and other key sources of estimation uncertainties at the end of the reporting periods that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5.02.01 Estimating Allowance for Expected Credit Losses of Financial Assets

The Group evaluates the expected credit losses related to its financial assets based on an individual assessment and available facts and circumstances, including, but not limited to historical loss experience and economic factors.

The Group uses credit ratings, performance of banking industry, macro-economic and bank's financial information to assess the expected credit losses on its cash in banks. In view of the foregoing factors, Management believes that the expected credit loss is nil in 2021, 2020 and 2019.

The Group uses performance of customers' industry, macro-economic factors and economy's outlook to assess the expected credit losses on its trade receivables. In view of the foregoing factors, Management believes that the expected credit loss on trade receivables is nil in 2021, 2020 and 2019.

The Group uses the available financial information about the lessors, macro-economic factors and economy's outlook to assess the expected credit losses on its refundable deposits. In view of the foregoing factors, Management believes that the expected credit loss on refundable deposits is nil in both years.

In 2021, 2020 and 2019, no provision for expected credit loss was recognized on Group's financial assets.

5.02.02 Estimating Inventories at Net Realizable Values

Net realizable values of inventories are assessed regularly based on the prevailing selling prices of inventories less estimated costs to sell. The Group recognizes expense and provides allowance for decline in value of inventories whenever net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes on price levels or other causes. Inventory items identified to be obsolete and unusable is written off and charged against allowance account. Increase in the net realizable values will increase the carrying amount through reduction of allowance for decline but only to the extent of original acquisition cost.

In both years, Management believes the net realizable value of inventories approximate their costs, thus, no allowance for decline in value was recognized.

5.02.03 Reviewing Residual Values, Useful Lives and Depreciation Method of Property and Equipment

The residual values, useful lives and depreciation method of the Group's property and equipment are reviewed at least annually, and adjusted prospectively if appropriate, if there is an indication of a significant change in, how an asset is used; significant unexpected wear and tear; technological advancement; and changes in market prices since the most recent annual reporting date. The useful lives of the Group's property and equipment are estimated based on the period over which the assets are expected to be available for use. In determining the useful life of property and equipment, the Group considers the expected usage, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output and legal or other limits on the use of the Group's assets. In addition, the estimation of the useful lives is based on Group's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in 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.

A reduction in the estimated useful lives of property and equipment would increase the recognized expenses and decrease non-current assets. The Group uses a depreciation method that reflects the pattern in which it expects to consume the property and equipment's future economic benefits. If there is an indication that there has been a significant change in the pattern used by which the Group expects to consume the property and equipment's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern.

In 2021, 2020 and 2019, Management assessed that there are no indications that there has been any change in pattern used by in consuming Group's property and equipment's future economic benefits.

5.02.04 Reviewing Residual Value, Useful Life and Amortization Method of Intangible Assets

The residual value, useful life and amortization method of the Group's computer software are reviewed at least annually, and adjusted prospectively if appropriate, if there is an indication of a significant change in, how an asset is used; technological advancement; and changes in market prices since the most recent annual reporting date. Amortization begins when the computer software is available for use, i.e. when it is in the location and condition necessary for it to be usable in the manner intended by Management. Amortization ceases when the intangible asset is derecognized. The Group uses a straight-line method of amortization since it cannot determine reliably the pattern in which it expects to consume the intangible asset's future economic benefits.

In both years, Management assessed that there are no indications that there has been any change in pattern used by the Group in consuming its intangible assets' future economic benefits.

5.02.05 Asset Impairment

The Group performs an impairment review when certain impairment indicators are present. Determining the fair value of prepayment and other current assets, property and equipment, intangible assets and right-of-use assets, which require 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 financial statements. Future events could cause the Group to conclude that aforementioned assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

In both years, Management assessed that no indicators of impairment had existed on prepayment and other current assets, property and equipment, right-of-use assets and intangible assets.

5.02.06 Estimating Recoverability of Deferred Tax Assets

The Group reviews the carrying amounts at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized.

Management believes that the Group will generate future taxable profit to use all or part of its deferred tax asset amounting to ₱4,666,152, ₱4,565,839 and ₱2,925,170, in 2021, 2020 and 2019, respectively, as disclosed in Note 28.

5.02.07 Post-employment and Other Employee Benefits

The determination of the retirement obligation and cost and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, and rates of compensation increase. In accordance with the PFRS, actual results that differ from the assumptions are recognized as remeasurements in other comprehensive income and therefore, generally affect recorded obligation. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

The Group's retirement benefit amounted to P2,862,090, P2,842,559 and P1,381,169, respectively, as disclosed in Note 24.

5.02.08 Estimating the Appropriate Discount Rate to Use

The Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or if not, the Group uses the incremental borrowing rate.

Management used its incremental borrowing rate of 2.3% to 3.02% per annum to measure the present value of its lease liabilities since the implicit rate was not readily available.

6. SEGMENT INFORMATION

Listed below are the corporate store revenues earned from each major product:

	Jul-Dec 2021		Jan-Jun 2021	
Figaro Coffee Group	P	31,883,351	P	29,284,335
Angel's Pizza		725,325,528		646,575,893
Tien Ma's Taiwanese Cuisine		23,047,021		23,149,255
TFG Express		4,550,172		
	P	784,806,072	P	699,009,483

7. CASH

For the purpose of the consolidated statement of cash flows, cash includes cash on hand and in banks.

Cash at the end of the reporting periods as shown in the consolidated statements of cash flows can be reconciled to the related item in the consolidated statements of financial position as follows:

	Dec 31, 2021		June 30, 2021	
Cash on hand	P	10,110,681	P	9,075,192
Cash in banks		147,735,642		272,070,502
	P	157,846,323	P	281,145,694

Cash on hand pertains to revolving and change fund kept in the different branches.

Finance income from banks amounted to nil in 2021, 2020 and 2019 since bank accounts maintain are current accounts which do not earn interest.

8. TRADE RECEIVABLES

As of December 31, and June 30, 2021, the Group's trade receivables amounted to P72,845,927 and P56,651,759, respectively.

Trade receivables which pertain to supplies billed to franchisees, commissary sales to certain institutions and receivable from credit card companies and food delivery services have an average credit period of sixty (60) days from the sale of goods. No interest is charged on trade receivables. The Group determines that a customer is in default when it is already past due for 360 days and beyond. Trade receivables disclosed above include amounts which are past due at the end of the reporting period but against which the Group has not recognized an allowance for expected credit losses because there has been no significant amount on past due accounts which are 360 days and beyond. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Aging of outstanding accounts that are past due but not impaired is as follows:

	Dec 31, 2021		June 30, 2021	
1 to 30 days	P	3,239,495	P	3,507,836
31 to 60 days		1,987,561		2,831,135
Over 60 days		28,135,481		26,685,764
	P	33,362,537	P	33,024,735

In determining the recoverability of trade receivable, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

In 2021, 2020 and 2019, no expected credit loss was recognized for the Group's trade receivables because the Group believes that there is only an insignificant amount of expected credit loss therefrom.

9. INVENTORIES

The Group's inventories pertaining to foods, beverages, store and kitchen supplies amounted to P67,405,915 and P59,452,449, as of December 31 and June 30, 2021, as disclosed in Note 22.

Inventories are expected to be recovered within twelve (12) months after the reporting period.

10. PREPAYMENTS AND OTHER CURRENT ASSETS

The details of the Group's prepayments and other current assets are shown below:

	Dec 31, 2021		June 30, 2021	
Prepayments	P	11,361,256	P	5,278,075
Advances to suppliers		14,764,365		13,048,202
Advances to contractors		8,336,233		10,718,507
Advances to officers and employees		1,189,891		1,533,079
Advances to franchisor		1,403,812		1,403,812
	P	37,055,557	P	31,981,675

Advances to suppliers pertain to inventories that are already paid. The average shipment and delivery is sixty (60) days from initial payment of goods.

Advances to contractors pertain to materials and services paid in advance.

11. PROPERTY AND EQUIPMENT – net

The carrying amounts of the Group's property and equipment as of December 31, June 30, 2021, 2020 and 2019, are as follows:

	Office and Store Equipment	Building and Building Improvements	Total
July 1, 2018			
Cost	₱ 82,611,962	₱ 207,452,388	₱ 290,064,350
Accumulated depreciation	(51,680,044)	(167,129,108)	(218,809,152)
Carrying Amount	30,931,918	40,323,280	71,255,198
Movements			
Balance, July 1, 2018	30,931,918	40,323,280	71,255,198
Additions	30,066,545	195,476,238	225,542,783
Depreciation	(627,186)	(17,792,747)	(18,419,933)
Balance, June 30, 2019	60,371,277	218,006,771	278,378,048
June 30, 2019			
Cost	112,678,507	402,928,626	515,607,133
Accumulated depreciation	(52,307,230)	(184,921,855)	(237,229,085)
Carrying Amount	60,371,277	218,006,771	278,378,048
Movements			
Balance, July 1, 2019	60,371,277	218,006,771	278,378,048
Additions	9,952,655	99,574,071	109,526,726
Depreciation	(576,583)	(9,325,375)	(9,901,958)
Balance, June 30, 2020	69,747,349	308,255,467	378,002,816
June 30, 2020			
Cost	122,631,162	502,502,698	625,133,860
Accumulated depreciation	(52,883,813)	(194,247,231)	(247,131,044)
Carrying Amount	69,747,349	308,255,467	378,002,816
Movements			
Balance, July 1, 2020	69,747,349	308,255,467	378,002,816
Additions	118,795,267	-	118,795,267
Depreciation	(545,522)	(9,038,489)	(9,584,011)
Balance, June 30, 2021	187,997,095	299,216,977	487,214,072
June 30, 2021			
Cost	241,426,430	502,502,697	743,929,126
Accumulated depreciation	(53,429,335)	(203,285,720)	(256,715,054)
Carrying Amount	₱ 187,997,095	₱ 299,216,977	₱ 487,214,072
Movements			
Balance, July 1, 2021	187,997,095	299,216,977	487,214,072
Additions	141,786,217	-	141,786,217
Depreciation	(309,267)	(5,065,385)	(5,374,652)
Balance, December 31, 2021	329,474,045	294,151,592	623,625,637
December 31, 2021			

Cost	383,212,647	502,502,697	885,715,344
Accumulated depreciation	(53,738,602)	(208,351,105)	(262,089,707)
Carrying Amount	₱ 329,474,045	₱ 294,151,592	₱ 623,625,637

All additions were paid in cash. Management assessed that there were no indications of impairment existing in property and equipment.

12. INTANGIBLE ASSETS – net

The carrying amounts of the Group's intangible assets as of June 30, 2021, 2020 and 2019 are as follows:

	Computer Software	Total
July 1, 2018		
Cost	₱ -	₱ -
Accumulated amortization	-	-
Carrying Amount	-	-
Movements		
Balance, July 1, 2018	-	-
Additions	1,135,692	1,135,692
Amortization (Note 23)	(1,135,692)	(1,135,692)
Balance, June 30, 2019	-	-
June 30, 2019		
Cost	-	-
Accumulated amortization	-	-
Carrying Amount	-	-
Movements		
Balance, July 1, 2019	-	-
Additions	1,261,101	1,261,101
Amortization (Note 23)	(885,341)	(885,341)
Balance, June 30, 2020	375,760	375,760
June 30, 2020		
Cost	1,261,101	1,261,101
Accumulated amortization	(885,341)	(885,341)
Carrying Amount	375,760	375,760

(Balance forwarded)

(Balance continued)

Movements			
Balance, July 1, 2020		375,760	375,760
Additions		953,141	953,141
Amortization (Note 23)		(949,153)	(949,153)
Balance, June 30, 2021		379,748	379,748
December 31, 2021			
Cost		2,214,242	2,214,242
Accumulated amortization		(1,834,494)	1,834,494
Carrying Amount	P	379,748	P 379,748

The Group has determined that there is no indication that an impairment loss has occurred on its intangible assets.

13. RIGHT-OF-USE ASSETS – net

The carrying amounts of the Group's right-of-use assets as of June 30, 2021, 2020 and 2019 are as follows:

		2021
Balance, beginning	P	
Cost		-
Accumulated amortization		-
Carrying Amount		-
Movements		
Balance, beginning		
Recognition		9,779,627
Depreciation (Note 23)		(2,410,304)
Balance, ending		7,369,323
Balance, June 30, 2021		
Cost		12,228,382
Accumulated amortization		(4,859,059)
Carrying Amount	P	7,369,323
Movements		
Balance, beginning		7,369,323
Recognition		2,533,758
Depreciation (Note 23)		(2,410,304)
Balance, December 31, 2021		7,492,777
Balance, December 31, 2021		
Cost		14,762,140
Accumulated amortization		(7,269,363)
Carrying Amount	P	7,492,777

The details of the lease contracts are disclosed in Note 26.

14. OTHER NON-CURRENT ASSETS

The details of other non-current assets are shown below:

	December 31, 2021		June 30, 2021	
Refundable deposits	P	8,546,577	P	8,570,031
Construction bond		255,006		255,006
Others		600,000		600,000
	P	9,401,583	P	9,425,037

Refundable deposits include refundable deposits related to lease amounting to P8,546,577 and P8,541,131 as of December 31, 2021 and June 30, 2021, respectively, as disclosed in Note 26. Other refundable deposits are receivable from franchise stores.

15. TRADE AND OTHER PAYABLES

The components of trade and other payables account are as follows:

	December 31, 2021		June 30, 2021	
Trade	P	140,613,480	P	119,634,256
Accrued expenses		11,219,600		10,358,400
Customers' deposits		28,569,234		27,209,634
Due to government agencies		5,132,100		3,855,100
	P	185,534,414	P	161,057,390

The average credit period on purchases of certain goods from suppliers is thirty (30) days. No interest is charged on the trade payables from the date of the invoice.

Customer's deposits pertain to down payments made by customers on their purchases.

Due to government agencies include expanded and compensation withholding taxes and other statutory payables.

16. LOANS PAYABLE

Details of Group's loans payable are as follows:

	December 31, 2021		June 30, 2021	
Balance	P	80,000,000	P	60,000,000
Availment of loan				50,000,000
Payments				(30,000,000)
Balance, December 31	P	80,000,000	P	80,000,000

The loan availed is used for additional working capital of the Group. The loan bears an interest rate of 5.5% with a term of one (1) year. The loans are secured by corporate guaranty of Camerton, Inc, a related party under common key management.

17. LEASE LIABILITIES

The Group, as lessee, entered into various leasing arrangements as disclosed in Note 26. The following are the amounts of lease liabilities:

		Minimum Lease Payments		Present Value of Minimum Lease Payments
Not Later than One Year	P	2,736,233	P	2,601,040
Later than one year but not later than five years		8,675,305		8,247,144
		11,411,538		10,848,184
Unearned Interest		(563,354)		n/a
Present Value of Minimum Lease Payments		10,848,184		10,848,184
Current Lease Liabilities		2,601,040		2,601,040
Non-current Lease liabilities	P	8,247,144	P	8,247,144

Finance cost incurred from lease liabilities amounted to nil in 2021, 2020 and 2019, respectively. The Group paid lease liabilities and finance cost amounting to nil in 2021, 2020 and 2019 respectively.

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The average effective interest rate contracted approximates 2.3% to 3.02% per annum during 2021.

18. RELATED PARTY TRANSACTIONS

Nature of relationship of the Group and its related parties are disclosed below:

Related Party	Nature of Relationship
Carmetheus Holdings, Inc. (CHI)	Ultimate Parent
Camerton, Inc.	Immediate Parent
F Coffee Holdings, Inc.	Under common control
Stockholders	Key management personnel

18.01 Due from related parties

Balances of due from related parties presented in the pro-forma consolidated statements of financial position are summarized per category as follows:

	Dec 31, 2021	June 30, 2021
Ultimate parent	P 28,125,000	P 28,125,000
Under common control	177,320,889	39,747,436
Key Management Personnel		570,999
	P 177,320,889	P 68,443,435

Balances and transactions between the Group and its related parties are disclosed below:

18.01.01 Ultimate Parent

Transactions with ultimate parent are as follows:

	December 31, 2021		June 30, 2021	
	Amount/ Volume	Outstanding Balance	Amount/ Volume	Outstanding Balance
Carmetheus Holdings, Inc. (CHI)				
Advances	P -	P -	P 28,125,000	P 28,125,000

The amounts outstanding are unsecured, non-interest bearing, collectible on demand and will be settled in cash. No guarantees have been received in respect of the amounts owed by related party. No provisions have been made for expected credit losses in respect of the amounts owed by a related party.

18.01.02 Under Common Control

Transactions with related party under common control are as follows:

	December 31, 2021		June 30, 2020	
	Amount/ Volume	Outstanding Balance	Amount/ Volume	Outstanding Balance
Camerton, Inc. (CI)				
Advances	P 268,800,000	P 177,320,889	P 134,375,000	P 39,747,436

The Group collected P104,002,564, nil and nil in 2021, 2020 and 2019, respectively.

The amounts outstanding are unsecured, non-interest bearing, collectible on demand and will be settled in cash. No guarantees have been received in respect of the amounts owed by related party. No provisions have been made for expected credit losses in respect of the amounts owed by a related party.

18.01.03 Key Management Personnel

Transactions with key management personnel are as follows:

	December 31, 2021		June 30, 2021	
	Amount/ Volume	Outstanding Balance	Amount/ Volume	Outstanding Balance
Stockholders				
Advances	P -	P -	P 570,499	P 570,999

Advances pertain cash given to stockholders for their personal use.

The amounts outstanding are unsecured, non-interest bearing, collectible on demand and will be settled in cash. No guarantees have been received in respect of the amounts owed by related party. No provisions have been made for expected credit losses in respect of the amounts owed by a related party.

18.02 Due to a related party

Advances from stockholders, as shown in the consolidated statement of financial position, is summarized as follows:

18.02.01 Key Management Personnel

Transactions with key management personnel are as follows:

	December 31, 2021				June 30, 2021			
	Amount/ Volume		Outstanding Balance		Amount/ Volume		Outstanding Balance	
Stockholders								
Advances	P	-	P	-	P	-	P	154,986,809

Advances paid to stockholders amounted to P153,577,020, P74,538,613 and nil in 2021, 2020 and 2019, respectively.

Advances from stockholders represent amounts payable to officers arising from fund transfers and other transactions to finance the working capital requirements of the Group.

The amounts outstanding are non-interest bearing, unsecured, payable on demand and will be settled in cash. No guarantees have been given in respect of the amounts owed to related party.

18.03 Remuneration of Key Management Personnel

In 2021, 2020 and 2019, no remuneration was given to the directors and members of key management personnel.

19. CAPITAL STOCK

The issued capital of the Group are as follows:

	December 31, 2021		June 30, 2021	
Capital stock	P	362,500,500	P	322,500,500
Additional paid-in capital		186,938,000		186,938,000
	P	549,438,500	P	509,438,000

Shown below are the details on the movements of ordinary shares.

	December 31, 2021		June 30, 2021	
	Shares	Amount	Shares	Amount
Authorized P0.10 par value per share	5,000,000,000	P 500,000,000	5,000,000,000	P 500,000,000
P100.00 par value per share				
Issued and fully paid Balance, July 1	93,755,000	9,375,500	93,755,000	9,375,500
Issuances	3,131,250,000	313,125,000	3,131,250,000	313,125,000
Balance, June 30	3,225,005,000	322,500,500	3,225,005,000	322,500,500
Issued and fully paid Issuances	400,000,000	40,000,000		
Balance, December 31, 2021	3,625,005,000	P 322,500,500	3,225,005,000	P 322,500,500

19.01 Dividend Declaration

On June 16, 2021, Figaro Coffee Systems Inc., the Parent Company's subsidiary, declared cash dividend at ₱83,255.20 per share or ₱208,138,000 to stockholders of record as of March 31, 2021. The record date of the declaration of dividend is May 31, 2021.

19.02 Increase in Authorized Capital Stock

On March 31, 2021, the Parent Company's Board of Directors and Stockholders approved: (a) the increase in authorized capital stock from ₱150,000,000 to ₱500,000,000; and (b) the stock split through the reduction of the par value of the shares of the Group from ₱100.00 per share to ₱0.10 per share. SEC approved the Group's application to increase authorized capital stock on June 23, 2021.

19.03 Issuances of Shares

At incorporation, Camertheus Holdings, Inc. (CHI) subscribed to ₱37,500,000 worth of shares in the Parent Company. Out of such subscription, ₱9,375,000 had been paid by CHI at incorporation of the Parent Company. During the period, CHI fully paid its subscription receivable amounting to ₱28,125,000.

Camerton, Inc. (CI) subscribed to the following shares of the Parent Company:

- a. In support of the application for increase in authorized capital stock, Camerton, Inc. (CI), on March 31, 2021, subscribed to 1,250,000,000 shares of the Parent Company for a total subscription price of ₱125,000,000. The subscribed shares were fully paid and issued on June 22, 2021.
- b. On June 20, 2021, the Board of Directors of the Parent Company approved the additional paid-in capital in the amount of ₱83,138,000 paid by CI into the Parent Company.
- c. 1,250,000,000 shares with par value of ₱0.10 per share for a total subscription price of ₱228,800,000, or ₱0.18304 price per share. The said subscription resulted to an additional capital stock of ₱125,000,000 and an additional paid-in capital of ₱103,800,000 in the Parent Company; and⁶
- d. 350,000,000 shares of the Parent Company with par value of ₱0.10 per share for a total subscription price of ₱35,000,000.

20. BUSINESS COMBINATION

On June 21, 2021, F Coffee Holdings Corporation, the 'Seller' agreed to sell and the Parent Company, the 'Buyer' agreed to buy, all the seller's rights, title and interests to a total of 2,500 common shares with a par value of P50.00 per share or an aggregate par value of P125,000 of Figaro Coffee Systems, Inc. (FCSI) for and in consideration of P1,851.0256 per share or total purchase price of P4,627,564. The difference between the consideration paid and the fair value of the interest acquired in FCSI was recognized as goodwill amounting to P4,502,564, as disclosed in Note 12.^{7 8}

The Group accounted the common control business combination using the "acquisition method" under PFRS 3 because there is commercial substance to the transaction. Factors that indicate commercial substance are as follows:

1. The business combination is undertaken as an integral part of an Initial Public Offering (IPO).
2. The extent to which the acquiring entity's future cash flows are expected to change as a result of the business combination in which the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the combination and the change is significant relative to the fair value of the assets exchanged.

On June 21, 2021, F Coffee Holdings Corporation, the 'Seller' agreed to sell and the Parent Company, the 'Buyer' agreed to buy, all the seller's rights, title and interests to a total of 2,500 common shares with a par value of P50.00 per share or an aggregate par value of P125,000 of Figaro Coffee Systems, Inc. (FCSI) for and in consideration of P1,851.0256 per share or total purchase price of P4,627,564. The difference between the consideration paid and the fair value of the interest acquired in FCSI was recognized as gain on bargain purchase amounting to P33,656,761, determined as follows:

Cash consideration	P 4,627,564
Less fair value of net identifiable assets acquired	38,284,325
Gain on bargain purchase	P 33,656,761

The subsidiary and the Parent Company are under common control. The Management believes that the acquisition will result to more financing resources to improve further the results of operation and financial position of the subsidiary

The Group included FCSI in its financial consolidation starting June 21, 2021 (the "acquisition date"). The net cash inflow from the acquisition is as follows:

Cash paid on acquisition	P 4,627,564
Less cash acquired from subsidiary	281,145,694
	P 276,518,130

From the acquisition date, FCSI contributed P53,539,134 of revenues and P9,603,908 net profit to Group. If the business combination had taken place beginning July 1, 2020, contribution to consolidated revenues and net loss for the year ended June 30, 2021 would have been P1,354,700,778 and P197,365,890, respectively.

The fair value of the identifiable assets acquired and liabilities assumed as at the date of the acquisition were as follows:

Cash	281,145,694
Trade receivables	3,112,625
Inventories	59,452,449
Due from related parties	570,499
Prepayments and other current assets	31,940,875
Property and equipment – net	487,214,074
Intangible assets – net	379,748
Right-of-use assets – net	7,369,323
Other non-current assets	9,425,037
Deferred tax assets	4,579,163
Total identifiable assets acquired	885,189,487
Less: Dividend payable	208,138,000
Due to related party	228,800,000
Trade and other payables	116,763,768
Due to a related party	154,986,809
Loans payable	80,000,000
Lease liabilities	2,540,057
Income tax payable	32,688,283
Retirement benefits obligation	17,949,554
Lease liabilities-net of current portion	5,038,691
Total identifiable liabilities assumed	846,905,162
Net identifiable assets acquired	38,284,325

21. REVENUE

The Group's revenue is as follows:

	Jul1-Dec 31, 2021 (Unaudited)	Jan1- Jun30, 2021 (Proforma)
Net sales		
Store	P 1,049,962,899	P 902,489,689
Institutional	15,191,675	6,246,479
Project		
management fee	200,000	-
	1,065,354,574	908,736,168
Royalty and franchise fees		
Royalty	17,450,249	16,900,575
Franchise fee	2,317,056	-

	19,767,305	16,900,575
	₱ 1,085,121,878	₱ 925,636,743

22. DIRECT COSTS

The following is an analysis of the Group's direct costs:

	Jul-Dec 31, 2021	Jan-June 30, 2021
Inventories, July 1 (Note 9)	₱ 59,452,449	₱ 42,623,861
Purchases	388,884,909	340,600,805
Inventories, June 30 (Note 9)	(67,405,915)	(59,452,449)
Cost of materials used	380,931,443	323,772,217
Direct labor (Note 24)	96,437,618	94,718,306
Overhead	72,217,805	59,906,865
	₱ 549,586,866	₱ 478,397,388

Details of the overhead is as follows:

	Jul-Dec 31, 2021	Jan-June 30, 2021
Store and kitchen supplies	₱ 16,265,891	₱ 12,010,683
Communication, light and water	8,750,227	8,061,426
Rentals (Note 26)	8,583,561	9,151,442
Transportation and travel	15,333,567	9,541,736
Taxes and licenses	4,014,807	4,790,901
Repairs and maintenance	4,162,936	4,013,457
Depreciation (Note 11)	4,117,261	3,566,140
Security services	3,620,964	3,281,536
Wastages and spoilage	2,217,185	2,101,243
Supplies	2,226,656	1,734,596
Professional fees	2,553,769	1,273,329
Representation and entertainment	101,136	242,483
Others	269,845	137,893
	₱ 72,217,805	₱ 59,906,865

23. OPERATING EXPENSES

This account is composed of the following expenses:

		Jul-Dec 2021		Jan-Jun 2021
Advertisement and promotion	P	159,559,856	P	140,034,326
Commission		79,878,085		74,303,370
Short-term employee benefits (Note 24)		15,582,635		15,442,975
Communication, light and water		3,890,032		3,560,027
Rentals (Note 26)		4,800,000		4,800,000
Representation and entertainment		2,987,320		2,563,423
Labor Cost		17,321,075		10,240,190
Depreciation (Notes 11 and 13)		7,784,956		7,395,461
Repairs and maintenance		1,576,032		1,435,879
Supplies		780,032		605,237
Amortization (Note 12)		1,120,629		858,440
Others		757,147		875,070
	P	296,037,799	P	262,114,398

24. EMPLOYEE BENEFITS

Aggregate employee benefits expense, as disclosed in Notes 22 and 23, is comprised of:

		Jul-Dec 31, 2021		Jan-June 30, 2021
Short-term employee benefits	P	112,020,263	P	110,161,281
Retirement benefits		663,385		545,612
	P	112,683,648	P	110,706,893

24.01 Short-term Employee Benefits

An analysis of the Group's short-term employee benefits as disclosed in Notes 22 and 23 is as follows:

		Jul-Dec 31, 2021		Jan-June 30, 2021
Direct labor (Note 22)	P	96,437,618	P	94,718,306
Short-term employee benefits (Note 23)		15,582,645		15,442,975
	P	112,020,263	P	110,161,281

24.02 Post-employment Benefits

24.02.01 Defined Benefit Plan

The Group has a single retirement plan under the regulatory framework of the Philippines. Under R.A. No. 7641, the Group is legally obliged to provide a minimum retirement pay for qualified employees upon retirement. The framework, however, does not have a minimum funding requirement. The Group's benefit plan is aligned with this framework.

Under the unfunded plan, the employees are entitled to retirement benefits equivalent to 22.5 days per year of credited service in accordance with R.A. No. 7641 on attainment of a retirement age of sixty (60) years with at least five (5) years of service. The payments for the funded benefits are borne by the Group as it falls due.

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out on April 26, 2021 by Miravite Consulting Group, Inc. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations are as follows:

	2021	2020	2019
Discount rate	5.0%	4.2%	5.5%
Expected rate of salary increase	5.0%	5.0%	5.0%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into an average life expectancy in years for a pensioner retiring at age sixty (60).

	2021	2020	2019
Retiring after the reporting period			
Male and Female	14	14	14

The sensitivity analysis of the defined benefit obligation on changes in the weighted principal assumption is as follows:

	Impact on Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
June 30, 2021			
Discount rate	+/-1.00%	5.97%	3.97%
Salary increase rate	+/-1.00%	6.00%	4.00%
June 30, 2020			
Discount rate	+/-1.00%	5.20%	3.20%
Salary increase rate	+/-1.00%	6.00%	4.00%
June 30, 2019			
Discount rate	+/-1.00%	5.20%	3.20%
Salary increase rate	+/-1.00%	6.00%	4.00%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the Projected Unit Credit Method at the end of the

reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statements of financial position.

Assumed life expectancy is not applicable because under the Group's retirement plan, benefits are paid in full in a lump sum upon retirement or separation of an employee.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

Amounts recognized in consolidated profit or loss in respect of these defined benefit plans are as follows:

	Dec 31, 2021		June 30, 2021	
Current service cost	P	663,385	P	2,106,276
Interest on the retirement benefit obligation		-		755,814
	P	663,385	P	2,862,090

Reconciliation of remeasurements recognized in consolidated other comprehensive income is as follows:

	Change on financial assumption		Experience adjustment		Total		Income tax		Net	
Gain (loss) Balance at July 1, 2018	P	(2,240,002)	P	32,484	P	(2,207,518)	P	662,255	P	(1,545,263)
Amount recognized during the year		3,356,981		(141,258)		3,215,723		(964,717)		2,251,006
Gain (loss) Balance at June 30, 2019		1,116,979		(108,774)		1,008,205		(302,462)		705,743
Amount recognized during the year		3,376,519		(750,183)		2,626,336		(787,901)		1,838,435
Gain (loss) Balance at June 30, 2020		4,493,498		(858,957)		3,634,541		(1,090,363)		2,544,178
Amount recognized during the year		(131,995)		-		(131,995)		32,999		(98,996)
Effect of change in tax regime		-		-		-		181,728		181,728
Gain (loss) Balance at June 30, 2021	P	4,361,503	P	(858,957)	P	3,502,546	P	(875,636)	P	2,626,910
Amount recognized during the year		(1,565,342)		-		(1,565,342)		391,336		(1,174,006)
Gain (loss) Balance at December 31, 2021	P	2,796,161	P	(858,957)	P	1,937,204	P	(484,300)	P	1,452,904

Movements in the present value of the defined benefit obligation in the current period are as follows:

	Dec 31, 2021		June 30, 2020	
Balance, July 1	P	17,949,555	P	15,219,460
Current service cost		663,385		2,106,276
Interest expense				755,814
Actuarial loss (gain)		(1,565,342)		(131,995)
Balance, June 30	P	17,047,598	P	17,949,555

The Group operates an unfunded defined benefit plan wherein benefit payments are borne by the Group. Thus, the Group maintains appropriate level of liquidity to meet currently

maturing defined benefit obligations and has established a level of solvency ratio aimed to pay for long term defined benefit obligations.

25. FRANCHISE AGREEMENTS

25.01 The Group as a Franchisor

The Group has granted its franchisees the right to use the information and materials pertaining to the restaurant system being franchised under the terms and conditions specified in the franchise agreements. The agreements provide for an initial franchise fee payable upon the execution of the agreement and monthly royalty fees based on gross sales.

26. LEASE AGREEMENT

26.01 The Group as a Lessee

The Group has leases for the use of store spaces with lease terms of three (3) to five (5) years. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

26.01.01 Angels Imus Branch

The Group leased out store space located in Imus City, Cavite for its Angels Imus Branch for a period of five (5) years ending on April 4, 2023 for a monthly rent of ₱76,000 with 3% escalation rate. The Group paid security deposit amounting to ₱228,000.

26.01.02 Angels Kalayaan Branch

The Group leased out store space located in Diliman, Quezon City for its Angels Kalayaan Branch for a period of three (3) years ending on January 1, 2023 for a monthly rent of ₱25,000 with 5 to 10% escalation rate. The Group paid security deposit amounting to ₱78,750.

26.01.03 Angels Pasig Branch

The Group leased out store space located in Maybunga, Pasig City for its Angels Pasig Branch for a period of five (5) years ending on October 6, 2025 for a monthly rent of ₱53,928. The Group paid security deposit amounting to ₱151,200.

26.01.04 Angels Antipolo Branch

The Group leased out store space located in Dalig, Antipolo City for its Angels Pasig Branch for a period of five (5) years ending on February 15, 2025 for a monthly rent of P61,790. The Group paid security deposit amounting to P185,371.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognized on balance sheet:

Right-of-Use Asset	No. of Right-of-Use Assets Leased	Range of Remaining Term	Average Remaining Lease Term	No. of Leases with Extension Options	No. of Leases with Options to Purchase	No. of Leases with Variable Payments linked to an Index	No. of Leases with Termination Options
<i>Angels Imus</i>	1	5	2	1	None	None	None
<i>Angels Kalayaan</i>	1	3	2	1	None	None	None
<i>Angels Pasig</i>	1	5	4	1	None	None	None
<i>Angels Antipolo</i>	1	5	4	1	None	None	None

All leases have extension option but are not enforceable because it requires mutual agreement of both parties as disclosed in Note 5.01.09.

Right-of-Use Asset

Additional information on the right-of-use assets as presented in the consolidated statements of financial position:

	Carrying Amount	Additions	Depreciation	Impairment
<i>Angels Imus</i>	P 4,481,237	P -	P 896,247	P -
<i>Angels Kalayaan</i>	926,658	-	308,886	-
<i>Angels Pasig</i>	3,178,537	-	476,780	-
<i>Angels Antipolo</i>	3,641,950	-	728,390	-
	P 12,228,382	P -	P 2,410,303	P -

Lease liabilities

Lease liabilities as presented in the consolidated statements of financial position as follows:

	December 31, 2021	June 30, 2021
Current	P 2,601,040	P 2,540,057
Non-current	8,247,144	5,038,691
	P 10,848,184	P 7,578,748

26.01.05 Lease payments not recognized as a liability

Short-term lease relates to lease contracts for stores spaces with a term of one (1) year and renewable upon mutual agreement of both parties.

The Group has elected not to recognize a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease

payments are not permitted to be recognized as lease liabilities and are expensed as incurred. The expense relating to payments not included in the measurement of the lease liability is as follows:

27. INCOME TAXES

27.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate in 2021:

	December 31, 2021		June 30, 2021	
Accounting profit	P	239,497,213	P	43,160,669
Tax expense at 25%		59,874,303		10,790,267
Tax effect: Effect on Non-recognition of tax on bargain purchase option				(8,414,190)
	P	59,874,303	P	2,375,977

28. DEFERRED TAX ASSETS

The Group's deferred tax assets and the respective movement is as follows:

	Retirement benefit obligation		Right-of-use asset and Lease liabilities		Total
Balance, June 30, 2020					
Acquired during the business combination		4,487,388		91,775	4,579,163
Balance, June 30, 2021	P	4,487,388	P	91,775	P 4,579,163
Acquired during the business combination		-		21,345	21,345
Balance, December 31, 2021	P	4,487,388	P	113,120	P 4,600,508

29. BASIC EARNINGS PER SHARE

The Group's basic earnings per share is ₱0.12 and ₱4.20 in 2021 and 2020, respectively.

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2021 (Proforma)	2020 (Proforma)
a. Net income (loss) from operations/ attributable to ordinary equity holders of the Group for earnings	₱ 318,466,628	₱ 112,456,756
b. Weighted average number of ordinary shares for the purposes of earnings per share	2,542,192,500	93,755,000
c. Earnings per share (a/b)	0.12	1.20

The weighted average number of ordinary shares for the periods 2021 and 2020 used for the purposes of basic earnings per share were computed as follows:

	Number of Ordinary Shares	Proportion to Period	Weighted Average	Total
Dec 31, 2019				
Outstanding shares at the beginning and end of the period	93,755,000	12/12	93,755,000	93,755,000
Dec 31, 2020				
Outstanding shares at the beginning and end of the period	93,755,000	12/12	93,755,000	93,755,000
Dec 31, 2021				
Outstanding shares at the beginning of the period	93,755,000	3/12	23,438,750	
Stock split and infusion in March 2021	3,225,005,000	6/12	1,612,502,500	
Additional infusion in Sept. 2021	3,625,005,000	3/12	906,251,250	2,542,192,500

30. FAIR VALUE MEASUREMENTS

30.01 Fair Value of Financial Assets and Liabilities

The carrying amounts and estimated fair values of the Group's financial assets and financial liabilities as of December 31, 2021 and June 30, 2021 are presented below:

	December 31, 2021		June 30, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash	P 157,846,323	P 157,846,323	P 281,145,694	P 281,145,694
Trade receivables	72,845,927	72,845,927	56,651,759	56,651,759
Due from related parties	142,256,626	142,256,626	68,443,435	68,443,435
Other non-current assets	8,546,577	8,546,577	9,425,037	9,425,037
	P 381,495,453	P 381,495,453	P 415,665,925	P 415,665,925
Financial Liabilities:				
Trade and other payables	P 140,613,480	P 140,613,480	P 157,224,686	P 157,224,686
Due to related parties	-	-	154,986,809	154,986,809
Loans payable	80,000,000	80,000,000	80,000,000	80,000,000
Lease liabilities	10,848,184	10,848,184	7,578,748	7,578,748
	P 231,461,664	P 231,461,664	P 399,790,243	P 399,790,243

The fair values of financial assets and financial liabilities are determined as follows:

- Due to the short-term nature of cash, trade receivable, advances to stockholders and trade and other payables (except due to government agencies) and advances from stockholders, their carrying amounts approximate their fair values.
- Other non-current assets having a long-term nature are carried at amortized cost. Management believes that fair value approximates amortized cost.
- Loans payable and lease liabilities bear market interest rates; hence, Management believes that carrying amounts approximate their fair values.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, including interest rate risk, credit risk and liquidity risk.

31.01 Market Risk Management

31.01.01 Interest Rate Risk Management

The Group's exposure to interest rate risk arises from its cash deposits in banks and loans payable which are subject to variable interest rates.

The interest rate risks arising from deposits with banks and loans payable are managed by means of effective investment planning and analysis and maximizing investment opportunities in various local banks and financial institutions.

Profits for the years ended December 31, 2021 and June 30, 2021 would have been unaffected since the Group has no borrowings at variable rates and interest rate risk exposure for its cash in banks, which is subject to variable rate, is very immaterial.

31.02 Credit Risk Management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from cash in banks, trade receivables, advances to stockholders and refundable deposits, all measured at amortized cost.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of risk management. The Group uses other publicly available financial information and its own records to rate its counterparties. Credit ratings of counterparties are continuously monitored by the Management.

The Group considers the following policies to manage its credit risk:

➤ Banks

The Group transacts only to banks with investment grade credit rating. This information is supplied by independent rating agencies. The Group uses other publicly available information such as annual report to monitor the financial status of the banks. The Group assesses the current and forecast information of the banking industry and the macro-economic factors such as GDP, interest, and inflation rates to determine the possible impact to banks.

➤ Trade receivables

On the credit exposures to customers, Management assesses the credit quality of the customers, taking into account its financial position, past experience and other factors.

Financial assets measured at amortized cost are as follows:

	December 31, 2021	June 30, 2021
Cash in banks	P 147,735,642	P 272,070,502
Trade receivables	72,845,927	56,651,759
Due from related parties	142,256,626	68,443,435
Other non-current assets	8,546,577	9,425,037
	P 371,384,772	P 406,590,733

The calculation of allowance for expected credit losses are based on the following three (3) components:

➤ Probability of Default (PD)

PD is the likelihood over a specified period, usually 360 days for customers and one year for service providers that they will not be able to make scheduled repayments. PD depends not only on the counterpart's characteristics, but, also on the economic environment. PD may be estimated using historical data and statistical techniques.

➤ Loss Given Default (LGD)

LGD is the amount of money a Group loses when a customer defaults on a contract. The most frequently used method to calculate this loss is by comparing the actual total losses and the total amount of potential exposure sustained at the time that a contract goes into default.

➤ Exposure at default (EAD)

EAD is the total value a Group is exposed to when a loan defaults. It refers to the carrying amount of financial asset.

Below is the summary of computation of allowance for expected credit losses:

December 31, 2021				
	PD rate	LGD rate	EAD	ECL
	a	b	c	d=a*b*c
Cash in banks	0.00%	0% to 99.10%	P 147,735,642	P -
Trade receivables	0.00%	100.00%	72,845,927	-
Due from related parties	0.00%	100.00%	142,256,626	-
Other non-current assets	0.00%	100.00%	8,546,577	-
			P 371,384,772	P -
June 30, 2021				
	PD rate	LGD rate	EAD	ECL
	a	b	C	d=a*b*c
Cash in banks	0.00%	0% to 99.10%	P 272,070,502	P -
Trade receivables	0.00%	100.00%	56,651,759	-
Due from related parties	0.00%	100.00%	68,443,435	-
Other non-current assets	0.00%	100.00%	9,425,037	-
			P 406,590,733	P -

Cash in banks

The Group determined the probability of default rate by considering the following: the credit ratings; the past, current, and forecast performance of Banking Industry; the past, current, and forecast macro-economic factors that may affect the banks; and the current and projected financial information. The Group estimated the probability of default to be nil.

Loss given default rate is calculated by taking into consideration the amount of insured deposit and estimated it to be 0.00% to 99.10% and 0.00% to 98.17% as of December 31, 2021 and June 30, 2021, respectively.

Exposure at default is equal to the gross carrying amount of cash in banks.

Trade receivables

The Group determined the probability of default rate by considering the credit ratings, credit history or payment profiles of customers and forecast of macro-economic factors affecting the industry. Historically, no significant amount of receivables from customers remains uncollected after 360 days past due and with the projected demands of the Group's products by consumers, the impact of forecast, macro-economic factors is very insignificant, hence, the probability of default was estimated to be 0.00% in both years.

In both years, loss given default rate is 100% because the Group expects to lose the whole amount in case of default. There are no collateral or credit enhancements attached to the receivables.

Exposure at default is equal to the gross carrying amount of trade receivables.

Due from related parties

The Group determined the probability of default rate by considering the credit ratings, credit history and forecast of macro-economic factors affecting the stockholders. The PD rate is estimated to be nil.

In 2021 and 2020, loss given default rate is 100% because the Group expects to lose the whole amount in case of default.

Exposure at default is equal to the gross carrying amount of due from related parties.

Other non-current assets

This financial asset represents less than 4.23% and 4.56% of the total financial assets in both years. Hence, Management believes that the effect of provision for expected credit loss is immaterial to the financial statements as a whole.

In 2021, 2020 and 2019, the amount of expected credit loss for other non-current assets is nil.

31.03 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted Average Interest Rate	On Demand	Within one (1) Year	One (1) – Five (5) Years	Total
December, 2021					
Trade payables	-	P -	P 140,613,480	P -	P 140,613,480
Due to related parties	-	-	-	-	-
Loans payable	5.5%	-	80,000,000	-	80,000,000
	2.3% to				
Lease liabilities	3.02%	-	2,601,040	8,247,144	10,848,184
		P -	P 223,214,520	P 8,247,144	P 231,461,664
June 30, 2021					
Trade payables	-	P -	P 129,992,656	P -	P 129,992,656
Due to related parties	-	154,986,809	-	-	154,986,809
Loans payable	5.5%	-	80,000,000	-	80,000,000
	2.3% to				
Lease liabilities	3.02%	-	2,540,057	5,038,691	7,578,748
		P 154,986,809	P 239,764,743	P 5,038,691	P 399,790,243

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted Average Effective Interest Rate	On Demand	Within 1 Year	Over 5 Years	Total
December 31, 2021					
Cash on hand	-	P 10,110,681	P -	P -	P 10,110,681
Cash in banks	Floating rate	147,735,642	-	-	147,735,642
Trade receivables	-	-	72,845,927	-	72,845,927
Due from related parties	-	142,256,626	-	-	142,256,626
Other non-current assets	-	-	-	8,546,577	8,546,577
		P 300,102,949	P 72,845,927	P 8,546,577	P 381,495,453
June 30, 2021					
Cash on hand	-	P 9,075,192	P -	P -	P 9,075,192
Cash in banks	Floating rate	272,070,502	-	-	272,070,502
Trade receivables	-	-	56,651,759	-	56,651,759
Due from related parties	-	68,443,435	-	-	68,443,435
Other non-current assets	-	-	-	9,425,037	9,425,037
		P 349,589,129	P 56,651,759	P 9,425,037	P 415,665,925

32. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group manages its capital to ensure that the Group will be able to continue as going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2020.

The capital structure of the Group consists of net debt (trade and other payables, advances from stockholders, loans payable, income tax payable and retirement benefit obligation) and equity of the Group (comprising capital stock, remeasurements, and retained earnings).

Pursuant to Section 42 of Revised Corporation Code of the Philippines, stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except: (1) when justified by definite corporate expansion projects or programs approved by the Board of Directors; or (2) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its/his consent, and such consent has not yet been secured; or (3) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies.

Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by equity. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as 'equity' as shown in the statement of financial position. The Group has a target gearing ratio of 1:1 determined as the proportion of net debt to equity.

The gearing ratio at end of the reporting period is as follows:

	December 31, 2021	June 30, 2021
Debt	P 353,304,499	P 456,659,163
Cash	157,846,323	281,145,694
Net debt	195,458,176	175,513,469
Equity	769,606,102	549,983,192
Net debt to equity ratio	0.25:1	0.32:1

Debt is defined as all liabilities while equity includes capital stock, remeasurements and retained earnings.

33. SIGNIFICANT EVENTS

33.01 Application to increase authorized capital stock from

On September 16, 2021, the SEC approved the Company's increase in its authorized capital stock to ₱660,000,000.00, divided into 6,600,000,000 common shares with a par value of ₱0.10 per share, of which 3,625,005,003 common shares are issued and outstanding. Pursuant to the increase in our authorized capital stock, Camerton, Inc. subscribed to an additional 400,000,000 common shares increasing our outstanding capital stock to ₱362,500,500.30 (excluding the additional paid-in capital of ₱186,938,000.00).

On October 22, 2021, the SEC approved the Company's application for amendment of its articles of incorporation to reflect the following primary purpose: invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, association or associations, domestic or foreign, for whatever lawful purpose or purposes the same may have been organized and to pay therefor in money or by exchanging therefor stocks, bonds, or other evidences of indebtedness or securities of this or any other corporation, and while the owner or holder of any such real or personal property, stocks, bonds, debentures, contracts, or obligations, to receive, collect and dispose of the interest, dividends and income arising from such property; and to possess and exercise in respect thereof all the rights, powers, and privileges of ownership, including all voting powers of any stock so owned; to carry on, provide support and manage the general business of any corporation, company, association or joint venture; to exercise such powers, acts or functions as may

and manage the general business of any corporation, company, association or joint venture; to exercise such powers, acts or functions as may be essential or necessary to carry out the purpose stated herein; and to guarantee for and in behalf of the Corporation obligations of other corporations or entities in which it has lawful interest in.

33.02 Amendment of the Parent Company's primary purpose

On October 22, 2021, the SEC approved the Company's application for amendment of its articles of incorporation to reflect the following primary purpose: invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, association or associations, domestic or foreign, for whatever lawful purpose or purposes the same may have been organized and to pay therefor in money or by exchanging therefor stocks, bonds, or other evidences of indebtedness or securities of this or any other corporation, and while the owner or holder of any such real or personal property, stocks, bonds, debentures, contracts, or obligations, to receive, collect and dispose of the interest, dividends and income arising from such property; and to possess and exercise in respect thereof all the rights, powers, and privileges of ownership, including all voting powers of any stock so owned; to carry on, provide support and manage the general business of any corporation, company, association or joint venture; to exercise such powers, acts or functions as may be essential or necessary to carry out the purpose stated herein; and to guarantee for and in behalf of the Corporation obligations of other corporations or entities in which it has lawful interest in.

33.03 Application for the listing of shares

On January 24, Figaro Coffee Group, Inc (FCG) completed its Initial Public Offering (IPO) with the Philippine Stock Exchange (PSE) of 930,166,000 offer shares at an offer price of P0.75 per offer share, approximately 20% of the total outstanding shares plus 10% over allotment, for a total gross proceeds of P767.4 Million.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

Key Performance Indicators (KPIs)

	Unaudited December 30, 2021	Audited June 30, 2021
Debt – Equity Ratio ¹	0.10	0.14
Net Debt- Equity Ratio ²	(0.10)	(0.37)
Asset – Equity Ratio ³	1.50	1.83
Interest Cover Ratio ⁴	102	432
Current Ratio ⁵	1.41	1.15

Notes:

¹ Debt-Equity Ratio = Bank Debts/ Total Equity

² Net Debt- Equity Ratio = Bank Debts-Cash & Equivalents/ Total Equity

³ Asset- Equity Ratio = Total Assets/ Total Equity

⁴ Interest Cover Ratio = EBITDA/ Interest Expense

⁵ Current Ratio = Total Current Assets / Total Current Liabilities

Results of Operations

The following table summarizes the reported key financial information for FCG for the six months ending, December 31, 2021 and June 30, 2021, respectively:

In Million Php	Six months ending December 31, 2021 (Unaudited)	Six months ending June 30, 2021 (Proforma)	Change %
System-wide Sales	1,148.1	978.3	17.3%
Net Revenues	1,067.0	908.2	17.5%
Cost of Sales	477.4	418.5	14.1%
Gross Profit	589.6	489.7	20.4%

Operating Expense	350.2	304.6	15.0%
EBITDA	244.9	189.5	29.2%
Net Income before tax	239.5	185.1	29.4%
Net Income after tax	179.6	138.8	29.4%
Margins			
Gross Profit Margin	55.2%	53.4%	
EBITDA Margin	23.0%	20.9%	
Net Income Margin	16.8%	15.3%	

Results of Operations

Consolidated revenues for the three months ended, Oct to Dec 2021 amounted to Php596.94M, 105% increase over 2020 revenues, same periods, of Php290.47M, primarily because of the 127% increase in commissary sales as a result of the 127% system-wide sales increase and the 75% increase in royalty and franchise fees as a result of franchise store opening during the period. Moreover, FCG reports all-time high six months, July 1 to December 31, 2021, consolidated revenues of Php1.085 Billion, 53% over the same six month period, July 1 to December 31, 2020.

Similarly, gross profit improved by 123% in October 1 to December 2021 amounting to Php338.13 Million as compared to gross profit of same periods of 2020 of Php151.89 Million, improving the profit margin from 52% in 2020 to 57% profit margin in 2021, primarily because of the improvement in margin from the reduction in unit costs of major raw materials thereby resulting to better gross margins.

Operating expenses, on the other hand only increased by 142% mainly because of the increased business operations and the increasing number of store network from 90 stores in 2020 to 105 stores ending December 31, 2021.

This resulted to an increase of 101% to its Net Income before tax of Php143 Million from Php71.3 Million NIBT in 2020 and resulting to Net Income before tax margin of 24%.

Financial Condition

The company's financial stability and financial position as of December 31, 2021, is as follows:

Cash and cash equivalents stood at Php157.8 Million. Operating activities generated a net inflow of Php240 Million with operating cash more than enough to cover the changes in working capital. Net cash used in investing activities totaled Php403 Million while net cash generated by financing activities amounted to Php40 Million.

Current ratio improved to 1.41 times from 1.15 times during the period ending December 31, 2021. Likewise, debt to equity ratio improved to 0.10 is to 1 from 0.14 is to 1 as we saw an

improvement also in asset to equity ratio from 1.83 times as of June 30, 2021 to 1.46 times as of December 31, 2021.

Fixed assets increased by Php136.4 Million during the period as a result of the record breaking number of store openings as of December 31, 2021.

Bank loans were maintained at Php80 Million.

Total stockholders' equity increased by Php220 Million, primarily because of the Php40 Million increase in common stock resulting from the additional infusion of Camerton, Inc., equivalent to 400 Million shares subscription resulting from the increase in Authorized Capital stock by 1.6 Billion shares sometime in September, and the P180M net income after tax during the period.

Figaro Coffee Group, Inc and Subsidiary
Aging of Receivables
As of December 31, 2021

	0-7 days	8-15 days	16-30 Days	31-60 days	61-90 days	91-120 days	over 120 days	TOTAL
Franchise And ISD Accts	6,578,813.94	10,833,486.44	4,634,591.42	2,095,637.03	1,405,832.62	2,157,758.27	22,327,462.42	50,033,582.14
AR Others	3,816,582.19	5,903,174.17	5,370,844.57	2,312,411.60	785,876.31	413,537.25	4,209,918.77	22,812,344.86
TOTAL	10,395,396.13	16,736,660.61	10,005,435.99	4,408,048.63	2,191,708.93	2,571,295.52	26,537,381.19	72,845,927.00

AR Others								
Kitchen City			3,010,760.91	1,893,477.00	785,876.31	302,158.62	1,560,546.66	7,552,819.50
Sodexo			24,868.54					24,868.54
SGV							1,292,832.43	1,292,832.43
Slicebooth							986,619.67	986,619.67
Employee Charges						111,378.63		111,378.63
Honest bee							369,920.01	369,920.01
Shopee				550.60				550.60
Lyka				28,655.42				28,655.42
Mercantile				389,728.58				389,728.58
Cirtek			34,123.00					34,123.00
Instaperks			20,849.65					20,849.65
Others	3,816,582.19	5,903,174.17	2,280,242.47					11,999,998.83
Other AR	3,816,582.19	5,903,174.17	5,370,844.57	2,312,411.60	785,876.31	413,537.25	4,209,918.77	22,812,344.86