

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 **June 30, 2019**
2. Commission identification number **54666**
3. BIR Tax Identification No. **000-163-396**
4. **SHAKEY'S PIZZA ASIA VENTURES INC.**
Exact name of issuer as specified in its charter
5. **MANILA, PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **15KM EAST SERVICE ROAD CORNER MARIAN ROAD 2,**
BARANGAY SAN MARTIN DE PORRES, PARANAQUE CITY
Address of issuer's principal office **1700**
Postal Code
8. **(632) 839-0156**
Issuer's telephone number, including area code
9. **N/A**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	<u>COMMON SHARES</u>
Number of shares of common stock outstanding	<u>1,531,321,053</u>
11. Are any or all of the securities listed on a Stock Exchange?
Yes [☒] No [☐]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
PHILIPPINE STOCK EXCHANGE: COMMON 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 [☐]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim consolidated financial statements of Shakey's Pizza Asia Ventures Inc., and its wholly owned subsidiaries Bakemasters, Inc., Shakey's International Limited, Golden Gourmet Limited, Shakey's Seacrest Incorporated, Shakey's Pizza Regional Foods Limited, Shakey's Pizza Commerce, Inc., Wow Brand Holdings Inc. and Anchor Wood International Ltd (collectively, the 'Company' or 'PIZZA') as of and for the period ended June 30, 2019 and the comparative period in 2018 is attached to this 17-Q report, comprising of the following:

- 1.1 Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018
- 1.2 Consolidated Statement of Income for the period ended June 30, 2019 and June 30, 2018
- 1.3 Consolidated Statement of Cash Flows for the period ended June 30, 2019 and June 30, 2018
- 1.4 Consolidated Statement of Changes in Shareholder's Equity for the period ended June 30, 2019 and June 30, 2018
- 1.5 Notes to Consolidated Financial Statements for the period ended June 30, 2019

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations (Based on the unaudited consolidated financial statements for the period ended June 30, 2019)

Business Overview

Shakey's Pizza Asia Ventures, Inc. (SPAVI) or PIZZA, is the market leader in both chained pizza full service restaurant and chained full service restaurant with 64.2% and 22.3% market share as cited by Euromonitor. As of June 30, 2019, it operated a total of 256 stores nationwide, a mix of company-owned and franchise stores. PIZZA has consistently recorded double-digit growth in system-wide sales in the past seven years.

PIZZA has over 40 years of brand legacy in the Philippines. Originally an American brand established in 1954, Shakey's expanded into the Philippines in 1975, and has since become a household name to generations of Filipinos. PIZZA is a strong brand because of its unique products paired with excellent guest service. It is best known for its original thin crust pizza and iconic Chicken N' Mojos.

PIZZA owns the trademarks and licenses to operate the Shakey's brand in the Philippines, thus it has full control over the management and execution of Shakey's Philippine operations. Since PIZZA owns the brand, it generates additional revenue from franchising while not having to pay royalty fees for the use of the Shakey's name. PIZZA also owns the rights and trademarks in Asia (except Malaysia and Japan), China, Middle East, Australia and Oceania. This gives the company international expansion opportunities in the long-term. As of today, PIZZA operates 3 stores outside of the Philippines.

PIZZA is able to serve the A, B, and upper C income classes through its various sales channels. PIZZA's dine-in segment caters mostly to families and friends who want an affordable upgrade

from the usual fast-food dining. At the same time, PIZZA appeals to the A and B classes through its delivery segment. With the shift of consumer trend towards convenience, PIZZA ensures that it continues to operate well-designed, comfortable, clean, and guest-oriented stores, an efficient delivery system, and expand its online sales platform to align itself with current market and consumption trends.

PIZZA is spread nationwide through its five store formats. These formats differ in size ranging from 120 sqm to 400 sqm. Smaller stores tend to need lower capital investment. This gives PIZZA the flexibility to serve the demand of a specific market, while still achieving the desired profitability.

PIZZA has an in-house commissary that supplies proprietary raw materials and other baked products to Shakey's stores. With this vertical integration strategy, product quality is preserved and controlled while also enabling higher sales margins.

PIZZA operates a simple business model that is cash generative and requires low upfront costs due to the simplicity of its product. This enables high financial liquidity and an average payback period of 3-4 years. PIZZA also has a well-established franchised model with an industry-leading return on investment of 3-4 years.

In 2016, Century Pacific Group, Inc. (CPGI) and the sovereign wealth fund of Singapore acquired majority ownership of PIZZA. CPGI is the parent company of Century Pacific Food, Inc. (CNPF), the largest manufacturer of canned food in the Philippines.

Subsequently, on December 15, 2016, PIZZA successfully listed on the Main Board of the Philippine Stock Exchange (PSE) with a total of 1,531,321,053 common shares at ₱11.26 per share.

In June 2019, PIZZA officially acquired and consolidated Peri-Peri Charcoal Chicken and Sauce Bar (Peri), an emerging fast casual and full-service restaurant brand in the country. Over the last few years, Peri made famous the use of piri-piri in cooking, incorporating it in its chicken and variety of sauces and appealing to the Filipinos' love for both poultry and a strong distinctive taste. Its mainstay is charcoal-grilled chicken, which is marinated for 24 hours and served with an assortment of unique sauces to choose from. Since then, the business has demonstrated consistent profitability, brand strength, and robust growth in both system-wide sales and store count. As of end-June 2019, there are 23 Peri stores across the Philippines, consisting of both company-owned and franchised stores.

Results of Operations

The following table summarizes the reported key financial information for PIZZA for the six months ending June 30, 2019 and 2018, respectively:

In ₱ Mill	Six months ending June 30, 2019	Six months ending June 30, 2018	Change YoY
System-wide sales	4,964	4,609	7.7%
Net Revenue	3,853	3,690	4.4%
Cost of Sales	(2,743)	(2,631)	4.3%
Gross Profit	1,110	1,059	4.8%
Operating Expense	(484)	(470)	2.9%

Operating Income	626	589	6.3%
EBITDA	773	725	6.7%
Net income before tax	539	511	5.4%
Net income after tax	418	396	5.5%
<u>Margins</u>			
Gross profit margin	28.8%	28.7%	0.1 pps
EBITDA margin	20.1%	19.6%	0.5 pps
Net income margin	10.8%	10.7%	0.1 pps

Key Highlights

- Shakey's Pizza Asia Ventures, Inc. (PSE:PIZZA), posted consolidated net income after tax of ₱418 million for the first six months ended June 30, 2019. This represents a growth of 5% year-on-year. Earnings performance can be attributed to the Company's ongoing store network expansion and improved margins brought about by lower input costs and enhanced operating efficiencies both at the store and corporate level.
- System-wide sales increased by 8% to ₱5.0 billion on the back an expanding local store network and the Peri acquisition.
- The Company's consolidated net revenues stood at ₱3.9 billion during the first six months of 2019, a 4% growth compared to the ₱3.7 billion registered during the same period last year.
- Driven by lower input costs, PIZZA saw a 10-bp year-on-year increase in its gross margin to 28.8%. This was further supported by enhancements in the Company's operating efficiency, thereby resulting in a 50-bp improvement in EBITDA margin to 20.1% and a net margin of 10.8%, 10 bps higher than last year's.
- As of June 30, 2019, the Company's system-wide store count reached 259 outlets, consisting of 138 company-owned and 121 franchise stores, including that of Peri and Shakey's International. This represents an addition of 29 stores to PIZZA's nationwide store network during the first six months of 2019.

Systemwide Sales and Revenues

- System-wide sales, comprised of sales generated by both company-owned and franchise stores, amounted to ₱5.0 billion for the first six months ending June 30, 2019, an increase of 8% versus the same period last year. This was driven by the consolidation of Peri starting June, and the addition of 29 stores to PIZZA's system-wide store network for the first six months of 2019.

- Consolidated net revenues, consisting of (1) revenues from store activities, (2) franchise and royalty fees, and (3) revenues from third party commissary sales grew by 4% to ₱3.9 billion from ₱3.7 billion during the same period last year.

Cost of Sales and Gross Profit

- Consolidated cost of sales during the six months ended June 30, 2019, went up by 4% to ₱2.7 billion from ₱2.6 billion during the same period last year.
- Consolidated cost of sales is comprised of raw material and packaging costs, direct labor costs, and store-related costs including rent, utilities, and other overhead expenses.
- Consolidated gross profit for the six months ended June 30, 2019, amounted to ₱1.1 billion or an increase of 5% year-on-year. This translates to a 10-bp increase in gross profit margin to 28.8% from 28.7% during the same period last year.

Operating Expense and Other Income (Expense)

- Consolidated operating expense, composed of selling, distribution, marketing and administrative expenses, totaled ₱484 million for the period ended June 30, 2019. This translates to a 12.6% cost-to-sales ratio, a decrease of 10 bps from 12.7% during the same period last year.
- Consolidated operating income for the six months ended June 30, 2019, amounted to ₱626 million, equivalent to an operating margin of 16.2%. This represents a year-on-year improvement of 20 bps from the 16.0% operating margin during the same period last year.
- Consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization) for the six months ended June 30, 2019, totaled ₱773 million. This translates to 20.1% EBITDA margin or a 50-bp increase from last year's 19.6%.
- Other income/expense is composed of income and expenses that are not directly related to the Company's operations, namely (1) gains or losses on transactions relating to foreign currency exchange, (2) sale of scrap and PPE, (3) service fee charged to franchisees, (4) rental income, interest income from investments. For the six months ended June 30, 2019, PIZZA's consolidated net other income totaled ₱8 million, a 38% decline from the previous year's ₱13 million net other income.
- Interest expense of ₱95 million was recorded for the first six months of 2019. This amount mostly pertains to interest on the ₱3.9 billion remaining of the acquisition loan used to acquire the wholly-owned subsidiaries.

Financial Condition

The Company's financial stability and financial position as of June 30, 2019, is as follows:

- Cash and cash equivalents stood at ₱509 million. Operating activities generated a net inflow of ₱402 million, with operating cash more than enough to cover changes in

working capital. Net cash used in investing activities totaled ₱1.0 billion, while net cash generated by financing activities amounted to ₱713 million.

- Current ratio decreased to 1.0x as of June 30, 2019, relative to 2018's 1.7x. The cash conversion cycle slightly increased to 4 days from 2 days as of end-December 2018. As of June 30, 2019, receivable and inventory days stood at 27 and 39 respectively, while accounts payable came in at 62 days.
- Net property, plant and equipment, amounted to ₱2.1 billion as of June 30, 2019. Capital expenditures for the first six months of the year totaled ₱486 million, composed of the acquisition of Peri-Peri's fixed assets, building materials for new stores, renovation of existing stores, and carryover new equipment for the commissary plant.
- As of June 30, 2019, the Company had ₱4.7 billion in interest-bearing debt, comprised mainly of the ₱4.0 billion long-term loan incurred for the acquisition of its wholly-owned subsidiaries and the remaining portion from the interest-bearing loan used primarily for the acquisition of Peri.
- Total stockholders' equity increased by ₱265 million, from ₱4.6 billion as of year-end 2018 to ₱4.8 billion as of June 30, 2019. The increase came mainly from net income earned during the first six months of 2019.
- Net debt-to-equity ratio is measured at 1.11x as of June 30, 2019, higher compared to 1.01x as of year-end 2018. Considering only interest-bearing liabilities, the Company's net gearing ratio and net interest-bearing debt-to-EBITDA stood at 0.86x and 2.69x, respectively, as of June 30, 2019.

Key Performance Indicators (KPIs)

	Unaudited 1 st Six Months 2019	Unaudited 1 st Six Months 2018
Gross Profit Margin	29%	29%
Before Tax Return on Sales	14%	14%
Return on Sales	11%	11%
Interest-Bearing Debt-to-Equity	1.0x	0.9x
Current Ratio	1.0x	1.4x

Notes:

1 Gross Profit margin = Gross Profit / Net Revenue

2 Before Tax Return on Sales = Net Profit Before Tax / Net Revenue

3 Return on Sales = Recurring Net Profit After Tax / Net Revenue

4 Interest-Bearing Debt-to-Equity = Loans Payable / Total Stockholders' Equity

5 Current Ratio = Total Current Assets / Total Current Liabilities

SIGNATURES

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

SHAKEY'S PIZZA ASIA VENTURES INC.**VICENTE L. GREGORIO**

President and Chief Executive Officer

Date: August 5, 2019

**MANUEL T. DEL BARRIO**

Vice President and Chief Finance Officer

Date: August 5, 2019

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

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	P508,583,368	P433,777,621
Trade and other receivables	564,459,407	508,494,649
Inventories	582,548,519	597,145,719
Prepaid expenses and other current assets	97,685,046	70,903,767
Total Current Assets	1,753,276,341	1,610,321,756
Noncurrent Assets		
Property and equipment	2,054,362,863	1,711,899,346
Goodwill	1,078,606,020	1,078,606,020
Trademarks	5,549,307,154	4,987,109,602
Pension asset	8,703,322	13,666,188
Deferred input value-added tax	77,412,323	63,451,832
Deferred tax assets	34,941,389	31,044,664
Rental and other noncurrent assets	148,593,030	137,079,814
Total Noncurrent Assets	8,951,926,101	8,022,857,466
TOTAL ASSETS	P10,705,202,442	P9,633,179,222
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	P784,355,310	P799,504,485
Current portion of loan payable	848,449,757	48,449,757
Current portion of contract liabilities	19,285,813	19,285,813
Income tax payable	128,454,085	100,558,936
Total Current Liabilities	1,780,544,965	967,798,991
Noncurrent Liabilities		
Loan payable - net of current portion	3,811,966,162	3,836,966,162
Accrued rent	101,853,055	101,853,055
Contract liabilities - net of current portion	97,824,808	93,314,414
Dealers' deposits and other noncurrent liabilities	78,574,172	63,425,467
Total Noncurrent Liabilities	4,090,218,197	4,095,559,098
Total Liabilities	5,870,763,163	5,063,358,089
Equity		
Capital stock	1,531,321,053	1,531,321,053
Additional paid-in capital	1,353,554,797	1,353,554,797
Retained earnings	1,932,635,773	1,668,017,627
Other components of equity	16,927,656	16,927,656
Total Equity	4,834,439,279	4,569,821,133
TOTAL LIABILITIES AND EQUITY	P10,705,202,442	P9,633,179,222

See accompanying Notes to the Unaudited Interim Condensed Consolidated Financial Statements.

SHAKEY'S PIZZA ASIA VENTURES INC. AND SUBSIDIARIES
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

	2019 (Unaudited)	2018 (Unaudited)
REVENUES		
Net sales	₱3,679,574,458	₱3,540,172,802
Royalty and franchise fees	173,313,748	149,381,440
	3,852,888,206	3,689,554,241
COSTS OF SALES	(2,743,157,425)	(2,630,684,736)
GROSS INCOME	1,109,730,781	1,058,869,506
GENERAL AND ADMINISTRATIVE EXPENSES	(483,784,396)	(470,237,487)
INTEREST EXPENSE	(95,403,791)	(90,761,125)
OTHER INCOME (EXPENSES) - Net	8,205,558	13,331,286
INCOME BEFORE INCOME TAX	538,748,152	511,202,180
PROVISION FOR INCOME TAX	120,997,900	115,079,383
TOTAL COMPREHENSIVE INCOME	₱417,750,252	₱396,122,797
Basic/Diluted Earnings Per Share	₱0.27	₱0.26

See accompanying Notes to the Unaudited Interim Condensed Consolidated Financial Statements.

SHAKEY'S PIZZA ASIA VENTURES INC. AND SUBSIDIARIES
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME**
FOR THE THREE MONTHS ENDED JUNE 30, 2019 AND 2018

	2019 (Unaudited)	2018 (Unaudited)
REVENUES		
Net sales	₱ 1,920,255,606	₱1,848,420,828
Royalty and franchise fees	93,583,320	73,302,052
	2,013,838,926	1,921,722,881
COSTS OF SALES	(1,414,672,218)	(1,371,421,876)
GROSS INCOME	599,166,708	550,301,004
GENERAL AND ADMINISTRATIVE EXPENSES	(247,727,046)	(240,003,164)
INTEREST EXPENSE	(50,300,392)	(45,380,562)
OTHER INCOME (EXPENSES) - Net	(1,235,530)	5,424,705
INCOME BEFORE INCOME TAX	299,903,739	270,341,983
PROVISION FOR INCOME TAX	70,537,068	57,932,063
TOTAL COMPREHENSIVE INCOME	₱229,366,671	₱212,409,920
Basic/Diluted Earnings Per Share	₱0.15	₱0.14

See accompanying Notes to the Unaudited Interim Condensed Consolidated Financial Statements.

**SHAKEY'S PIZZA ASIA VENTURES INC.
AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Cumulative Actuarial Loss- Net of Tax	Total
Balances at December 31, 2018 (Audited)	P1,531,321,053	P1,353,554,797	P1,668,017,627	P16,927,656	P4,569,821,133
Total comprehensive income	–	–	417,750,252	–	417,750,252
Cash dividends	–	–	(153,132,105)	–	(153,132,105)
Balances at June 30, 2019 (Unaudited)	P1,531,321,053	P1,353,554,797	P1,932,635,773	P16,927,656	P4,834,439,279
Balances at December 31, 2017 (Audited)	P1,531,321,053	P1,353,554,797	P1,095,525,015	(P6,159,759)	P3,974,241,106
Total comprehensive income	–	–	396,122,797	–	396,122,797
Balances at June 30, 2018 (Unaudited)	P1,531,321,053	P1,353,554,797	P1,491,647,813	(P6,159,759)	P4,370,363,904

See accompanying Notes to the Unaudited Interim Condensed Consolidated Financial Statements.

**SHAKEY'S PIZZA ASIA VENTURES INC.
AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

	2019 (Unaudited)	2018 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P538,748,152	P511,202,180
Adjustments for:		
Depreciation and amortization	139,570,492	122,965,168
Interest expense	95,403,791	90,761,125
Movements in:		
Accrued rent	—	(1,470,862)
Accrued pension costs	4,873,684	10,449,140
Interest income	(367,741)	(178,793)
Gain on disposal of property and equipment	(31,373)	—
Unrealized foreign exchange gain- net	(727,672)	(1,571,210)
Income before working capital changes	777,469,332	732,156,748
Decrease (increase) in:		
Trade and other receivables	(59,331,171)	21,787,283
Inventories	14,597,200	(138,982,435)
Prepaid expenses and other current assets	(26,448,431)	(31,767,947)
Deferred input value added tax	(17,857,216)	11,010,420
Decrease in accounts payable and other current liabilities	(194,481,033)	(133,938,538)
Net cash generated from operations	493,948,681	460,265,532
Income taxes paid	(92,488,316)	(116,663,455)
Interest received	367,741	178,793
Net cash provided by operating activities	401,828,106	343,780,870
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Rental and other deposits	(11,424,035)	(9,166,663)
Dealer's deposits and other noncurrent liabilities	15,344,423	(7,014,794)
Acquisition of property and equipment	(486,466,542)	(215,628,218)
Acquisition of trademark	(562,197,552)	—
Proceeds from disposals of property and equipment	4,463,911	—
Net cash used in investing activities	(1,040,279,794)	(231,809,675)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loan	800,000,000	—
Payment of interest	(62,470,237)	(94,627,625)
Payment of loans	(25,000,000)	(25,019,459)
Net cash provided by (used in) financing activities	712,529,763	(119,647,084)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	727,672	1,571,211
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	74,805,747	(6,104,677)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	433,777,621	244,994,340
CASH AND CASH EQUIVALENTS AT END OF YEAR	P508,583,368	P238,889,663

See accompanying Notes to the Unaudited Interim Condensed Consolidated Financial Statements.

SHAKEY'S PIZZA ASIA VENTURES INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Corporate Information

Shakey's Pizza Asia Ventures Inc. (SPAVI or the Parent Company), formerly International Family Food Services, Inc. or IFFSI, was incorporated and registered with the Philippine Securities and Exchange Commission on February 14, 1974 with registered office address at 15Km East Service Road corner Marian Road 2, Barangay San Martin de Porres, Parañaque City 1700. The Parent Company is the exclusive franchise holder of the Shakey's Pizza Restaurant business ("Shakey's") in the Philippines. As the exclusive franchise holder to operate Shakey's Restaurant System in the country, the Parent Company is licensed to develop company-owned Shakey's outlets and sub-license the Shakey's brand to other entities in the Philippines.

On April 1, 2016, Shakey's Asia Food Holdings, Inc. (SAFHI), a company incorporated in the Philippines, acquired 100% ownership interest in the Company, thus making the Parent Company a wholly-owned subsidiary of SAFHI. SAFHI is a company owned by the Century Pacific Group, Inc. (CGPI), Arran Investments Private Limited (AIPL) and Prieto Family (the former majority owner of the Company) by 56%, 37% and 7%, respectively.

On June 29, 2016, the Parent Company acquired 100% interest in Shakey's Seacrest Incorporated (SSI, formerly), a newly incorporated company in the Philippines. SSI is a company engaged in the business of developing and designing, acquiring, selling, transferring, exchanging, managing, licensing, franchising to label marks, devices, brands, trademarks and all other form of intellectual property.

On October 5, 2016, SAFHI transferred its 100% ownership interest in the Parent Company to CPGI, AIPL and Prieto Family at 56%, 37% and 7% ownership interest, respectively, thus making CPGI the ultimate Parent Company of SPAVI. On the same date, SPAVI acquired 100% ownership interest in Bakemasters, Inc. (BMI), Shakey's International Limited (SIL) and Golden Gourmet Limited (GGL).

BMI was incorporated with the Philippine Securities Exchange Commission (SEC) on May 4, 2005 primarily to engage in the manufacture and distribution of fresh, frozen pan-baked and baked breads, pastries, cakes, desserts, confectionery items, pie crusts and party shells. BMI's registered office address is at 32-A Arturo Drive, Bagumbayan, Taguig City.

SIL and GGL are limited companies incorporated in Hong Kong. SIL and GGL's principal activity is to hold the trademarks of Shakey's Restaurant System. SIL and GGL's registered office is located at Room 505 Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui, Hong Kong.

On November 25, 2016, the Parent Company acquired 100% interest in Shakey's Pizza Regional Foods Limited (SPRFL), a newly incorporated company in Hong Kong. SPRFL is engaged to develop Shakey's restaurants in Kuwait under the area development agreement with SIL, which granted SPRFL exclusive right to sublicense Shakey's restaurants in the Middle East. SPRFL's registered office address is at 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

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

On July 28, 2017, SSI entered into an asset purchase agreement with GGL to acquire from GGL, free from any encumbrances, all of GGL’s rights, title and interest in and to the Shakey’s System (trademark) on an “as-is and where-is” basis for a total consideration of ₱1,260.5 million, on account. On August 4, 2017, the BOD of the Group approved the assignment of SSI’s liability to GGL amounting to ₱1,260.5 million to SPAVI, the Parent Company. These transactions have been eliminated in the consolidated financial statements.

On August 18, 2017, SPAVI applied the assigned liability as additional investment to SSI amounting to ₱75.0 million with the excess recognized as additional paid-in capital. Simultaneously, the BOD approved GGL’s application for deregistration in the Hong Kong registry. On April 13, 2018, the Group received the approval from the Hong Kong registry for the deregistration of GGL.

On November 22, 2017, the Parent Company acquired 100% interest in Shakey’s Pizza Commerce, Inc. (SPCI), a newly incorporated company in the Philippines. SPCI is engaged in the business of buying, selling, distributing and marketing, at wholesale or retail, goods, commodities and merchandise of every kind and description, and to carry on and undertake business transaction or operation which is necessary, incidental or ancillary to the objectives of the business, trader, importer, exporter, distributor, manufacturer’s representative or commercial and general agents. The Company has started commercial operations on December 1, 2017. SPCI’s registered office address is 15 KM East Service Road, corner Marian Road 2, Brgy. San Martin de Porres, Parañaque City.

On April 25, 2019, the Parent Company acquired 100% interest in Wow Brand Holdings, Inc. (WBHI), a newly incorporated company in the Philippines. WBHI is licensed to develop company-owned Peri-Peri Charcoal Chicken & Sauce Bar (“Peri-peri”) outlets. The Company has started commercial operations on June 1, 2019. WBHI’s registered office address is 15 KM East Service Road, corner Marian Road 2, Brgy. San Martin de Porres, Parañaque City.

On June 1, 2019, the Parent Company entered into an equity purchase agreement with Essien Holdings Limited (EHL), a corporation duly organized and existing under and by virtue of the laws of British Virgin Islands, to acquire from EHL all of EHL’s rights, title and interest in and to Anchor Wood International Limited (AWIL), a company duly incorporated in British Virgin Islands, for a total consideration of ₱562.2 million. AWIL is the owner of the Trademarks, Know-How and Confidential Information, and Intellectual Properties (collectively, the “Intangible Assets”) relevant to the Peri-Peri Charcoal Chicken & Sauce Bar business. AWIL’s registered office address is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

Shakey’s Pizza Asia Ventures Inc. and its subsidiaries are collectively referred to as “the Group”.

Approval and Authorization for the Issuance of the Unaudited Interim Condensed Consolidated Financial Statements

The unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Parent Company’s Board of Directors (BOD) on August 5, 2019.

2. Basis of Preparation and Consolidation and Statement of Compliance

Basis of Preparation

The unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis. The unaudited interim condensed consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All values are rounded off to the nearest million, except those otherwise indicated.

Statement of Compliance

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

Basis of Consolidation

The unaudited interim condensed consolidated financial statements comprise the unaudited interim condensed 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.

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

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

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

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

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

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

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

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

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

^a Acquired on October 5, 2016 from SAFHI

^b Incorporated on June 29, 2016

^c Incorporated on November 25, 2016

^d Incorporated on November 25, 2017

^e Incorporated on April 25, 2019

^f Acquired on June 1, 2019 from Essien Holdings Limited

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019. Adoption of these new standards and amendments did not have any significant impact on the Group's financial position or performance.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Amendments to PAS 19, *Plan amendment, curtailment or settlement*
- Annual Improvements to PFRSs 2015-2017 Cycle
 - Amendments to PFRS 3 and PFRS 11, *Previously held interest in a joint operation*
 - Amendments to PAS 12, *Income tax consequences of payments on financial instruments classified as equity*
 - Amendments to PAS 23, *Borrowing costs eligible for capitalization*

4. Business Combinations

Bakemasters, Inc.

On October 5, 2016, SPAVI purchased from SAFHI the entire outstanding shares of stocks of BMI. The purchase price consideration has been allocated based on relative fair values at date of acquisition as follows:

	Carrying Values	Fair Values Recognized
Current Assets:		
Cash	₱13,620,583	₱13,620,583
Receivables	78,036,652	78,036,652
Inventory	18,402,386	18,402,386
Other current assets	1,427,246	1,427,246
Total Current Assets	111,486,867	111,486,867

(forwarded)

	Carrying Values	Fair Values Recognized
Noncurrent Assets		
Property, plant and equipment	110,245,137	147,430,365
Other noncurrent assets	6,212,336	6,212,336
Deferred income tax assets	578,892	578,892
Total Noncurrent Assets	117,036,365	154,221,593
Current Liabilities		
Accounts payable	55,604,216	55,604,216
Current portion of loan payable	1,000,000	1,000,000
Income and withholding taxes payable	2,375,612	2,375,612
Total Current Liabilities	58,979,828	58,979,828
Noncurrent Liabilities		
Accrued pension cost	4,143,634	4,143,634
Deferred tax liability on the excess of fair value over the cost of the net identifiable assets acquired	–	11,155,568
Total Noncurrent Liabilities	4,143,634	15,299,202
Identifiable Net Assets Acquired	₱165,399,770	₱191,429,430
Identifiable Net Assets Acquired		₱191,429,430
Goodwill from the acquisition		1,078,606,020
Purchase consideration transferred		₱1,270,035,450
Cash flows from an investing activity:		
Cash payment		₱1,270,035,450
Net cash acquired from subsidiary		(13,620,583)
Net cash outflow		₱1,256,414,867

The goodwill of ₱1,078.6 million reflects the expected growth in the Company's restaurant business. The goodwill is not deductible for tax purposes.

Shakey's International Limited and Golden Gourmet Limited

On October 5, 2016, SPAVI purchased from SAFHI the entire outstanding shares of stocks of SIL and GGL. Both Companies were incorporated in Hong Kong with limited liability.

Management has assessed that SIL and GGL do not qualify as businesses based on relevant accounting standards and therefore were accounted for as an acquisition of assets, i.e. trademarks, amounting to ₱4,987.1 million. The transaction did not give rise to goodwill. The consideration has been allocated to the identifiable assets and liabilities on the basis of their fair values as follows at date of acquisition:

	Carrying Values	Fair Values Recognized
Current Assets -		
Cash	₱6,277,921	₱6,277,921
Trade and other receivables	348,670	348,670
Total Current Assets	6,626,591	6,626,591
Current Liabilities		
Accounts payable	₱491,657	₱491,657
Due to a stockholder	232,744,536	232,744,536

(forwarded)

	Carrying Values	Fair Values Recognized
Total Current Liabilities	233,236,193	233,236,193
Identifiable Net Liabilities Acquired	(P226,609,602)	(P226,609,602)
Identifiable Net Liabilities Acquired		(P226,609,602)
Trademark from the acquisition		4,987,109,602
Purchase consideration transferred		P4,760,500,000
Cash flows from an investing activity:		
Cash payment		P4,760,500,000
Net cash acquired from subsidiary		(6,277,921)
Net cash outflow		P4,754,222,079

5. Segment Information

Segment information is prepared on the following bases:

Business Segments

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

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

Inter-segment Transactions

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

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

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

EBITDA and EBITDA margin are non-PFRS measures.

The following table shows the reconciliation of the consolidated EBITDA to consolidated net income for the six months ended June 30, 2019 and 2018:

	2019	2018
Consolidated EBITDA	P773,354,692	P724,749,680
Depreciation and amortization	(139,570,492)	(122,965,168)
Provision for income tax	(120,997,900)	(115,079,383)
Interest expense	(95,403,791)	(90,761,125)
Interest income	367,741	178,793
Consolidated net income	P417,750,252	P396,122,797

6. Cash and Cash Equivalents

	June 30, 2019	December 31, 2018
Cash on hand	₱66,538,436	₱169,324,822
Cash in banks	342,044,932	264,452,799
Short-term deposits	100,000,000	–
	₱508,583,368	₱433,777,621

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to six months depending on the immediate cash requirements of the Group, and earn interest ranging from 0.13% to 0.25% for the six months ended June 30, 2019 and 2018. Interest income on cash and cash equivalents amounted to ₱367,741 and ₱178,793 for the six months ended June 30, 2019 and 2018, respectively.

7. Trade and Other Receivables

	June 30, 2019	December 31, 2018
Trade:		
Franchisee	₱134,340,526	₱165,424,339
Related parties	776,855	3,448,612
Third parties	26,680,650	25,047,784
Advances to Suppliers		
Third parties	155,547,229	148,950,530
Related parties	–	7,883,112
Royalty receivable	39,039,168	43,131,150
Receivable from National Advertising Fund (NAF)	104,105,124	38,938,469
Receivables from franchisees	57,125,966	38,358,086
Receivables from employees	19,111,152	20,301,429
Others	34,205,655	23,484,055
	570,932,324	514,967,566
Less allowance for doubtful accounts	(6,472,917)	(6,472,917)
	₱564,459,407	₱508,494,649

Below are the terms and conditions of the financial assets:

- Trade receivables are noninterest-bearing and are normally collectible within 10 days.
- Advances to suppliers represent payments to suppliers and contractors for items purchased or goods yet to be delivered or rendered.
- Royalty receivable is being collected from dealers on the 20th day of the following month.
- Receivable from NAF pertains to reimbursable advertising and promotion expenses from dealers which will be applied on future dealer remittances.
- Receivable from franchisees pertains to receivables for transactions other than sale of goods such as management fees, freight and gas expenses, are non-interest bearing and generally have 30 to 45 days' term.
- Receivables from employees, which represent mainly salary loan, are interest-free and are being collected through salary deduction for a period ranging from 6 months to 1 year.
- Other receivables consist mainly of receivables from online and credit card transaction which are non-interest bearing and generally have 30 to 45 days' term

The movements of allowance for doubtful accounts are as follows:

	2019			2018		
	Trade and Others	Receivables from Employees	Total	Trade and Others	Receivables from Employees	Total
Balance at beginning of year	₱4,973,440	₱1,499,477	₱6,472,917	₱4,973,440	₱2,567,666	₱7,541,106
Accounts written-off	–	–	–	–	(1,068,189)	(1,068,189)
Balance at year-end	₱4,973,440	₱1,499,477	₱6,472,917	₱4,973,440	₱1,499,477	₱6,472,917

8. Inventories

	June 30, 2019	December 31, 2018
At net realizable value:		
Finished goods	₱6,516,959	₱7,613,788
Merchandise	551,399,806	563,351,323
Raw materials:		
Food	16,501,073	15,209,139
Packaging	8,130,682	10,971,469
	₱582,548,519	₱597,145,719

The cost of the inventories carried at NRV follows:

	2019	2018
Merchandise	₱555,656,407	₱577,557,632
Raw materials:		
Food	16,541,914	15,249,980
Packaging	8,165,032	1,056,112
	₱580,363,353	₱593,863,724

Allowance for inventory obsolescence amounted to ₱4.3 million as at June 30, 2019 and December 31, 2018.

No reversal and provision for inventory obsolescence was recognized as at June 30, 2019 and December 31, 2018.

9. Property and Equipment

	Building	Leasehold Improvements	Furniture, Fixtures and Equipment	Machinery and Equipment	Transportation Equipment	Cost of Shops and Maintenance Tools	Glasswares and Utensils	Total
Cost								
At December 31, 2017	P109,378,908	P1,116,800,237	P1,347,076,371	P172,869,212	P58,232,022	P595,446	P74,627,346	P2,879,579,542
Additions	134,016,928	133,506,295	115,539,479	26,109,530	3,251,095	50,207	21,648,848	434,122,382
Disposals	–	(32,787,986)	(45,690,839)	–	(20,602,427)	(595,446)	(58,816,915)	(158,493,613)
At December 31, 2018	243,395,836	1,217,518,546	1,416,925,011	198,978,742	40,880,690	50,207	37,459,279	3,155,208,311
Additions	1,113,082	216,371,109	265,552,545	1,994,090	3,890,329	21,956	40,955,401	529,898,512
Disposals	(43,321)	(110,714)	(16,975,495)	–	(1,454,464)	–	–	(18,583,994)
Reclassification	(4,616,964)	–	(15,000)	–	–	–	(38,800,000)	(43,431,964)
Balance at June 30, 2019	P239,848,633	P1,433,778,940	P1,665,487,061	P200,972,832	P43,316,554	P72,163	P39,614,680	P3,623,090,864
Accumulated Depreciation and Amortization								
At December 31, 2017	P1,611,806	P517,418,726	P689,827,136	P26,024,568	P45,850,285	P591,379	P59,870,248	P1,341,194,148
Depreciation and amortization	13,250,033	81,013,629	105,047,437	25,655,296	2,123,527	12,418	3,650,580	230,752,920
Disposals	–	(14,741,107)	(34,504,460)	–	(19,980,175)	(595,446)	(58,816,915)	(128,638,103)
At December 31, 2018	14,861,839	583,691,248	760,370,113	51,679,864	27,993,637	8,351	4,703,913	1,443,308,965
Depreciation and amortization	6,846,241	43,597,998	71,848,385	12,741,746	2,337,672	27,468	2,170,983	139,570,492
Disposals	–	–	(14,099,511)	–	(51,945)	–	–	(14,151,456)
Balance at June 30, 2019	P21,708,080	P627,289,246	P818,118,987	P64,421,610	P30,279,364	P35,819	P6,874,896	P1,568,728,001
Net Book Value								
Balance at June 30, 2019	P218,140,554	P806,489,695	P847,368,075	P136,551,222	P13,037,190	P36,344	P32,739,784	P2,054,362,863
Balance at December 31, 2018	228,533,997	633,827,298	656,554,898	147,298,878	12,887,053	41,856	32,755,366	1,711,899,346

The Group has fully depreciated property and equipment still used in the operations with cost of P741.6 million and P753.9 million as at June 30, 2019 and December 31, 2018, respectively. There are no idle assets as at June 30, 2019 and December 31, 2018.

10. Accounts Payable and Other Current Liabilities

	June 30, 2019	December 31, 2018
Trade:		
Suppliers	P193,256,194	P392,103,291
Related parties	10,481,620	13,922,815
Nontrade	70,119,024	123,277,661
Accrued expenses:		
Suppliers	81,864,409	21,490,436
Utilities	37,769,237	30,239,481
Interest	36,177,002	5,362,500
Salaries and wages	18,148,439	27,223,810
Customers loyalty	–	5,076,989
Others	336,539,384	180,807,502
	P784,355,310	P799,504,485

Below are the terms and conditions of the financial liabilities:

- Trade payables are non-interest bearing and are normally settled within the following year.
- Nontrade payables consist mainly of reimbursable expenses to officers and employees and payable to contractors and employment agencies which are normally settled in 30 to 90 days' term.
- Accrued expenses, which consist mainly of accrual of rent expense of stores, utilities, employee benefits and incentives, freight, commissions and storage costs are normally settled in 30 to 90 days' term.
- Other payables are normally settled in 15 to 45 days' term.

Other payables consist of the following:

	June 30, 2019	December 31, 2018
Dividends payable	P153,132,105	P–
Output VAT	64,430,220	92,061,793
Salaries payable	34,220,549	33,083,869
Customers' deposits	18,080,750	3,796,884
Withholding tax payable	15,242,375	14,606,496
Fun certificates payable	8,801,335	10,995,797
Due to cooperative	5,720,322	10,044,439
SSS, Philhealth and Pag-ibig payable	3,001,563	5,639,221
Others	33,910,164	10,579,002
	P336,539,384	P180,807,501

11. Related Party Transactions

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

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the six months ended June 30, 2019 and 2018, the Group has not recorded any impairment of receivables on amounts owed by the related parties. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance		Terms	Conditions
				Receivable	Payable		
Century Pacific Group Inc. (CPGI, Ultimate Parent Company)							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2019 2018	₱– 114,149	₱– –	₱– –	30-day; non-interest bearing	Unsecured
Advances to related parties	Pertains to security deposit mutually agreed upon by both parties	2019 2018	– –	– 3,082,080	– –	30-day; non-interest bearing	Unsecured; not impaired
Companies with common members of BOD and stockholders as the Group							
The Pacific Meat Company Inc. (PMCI)							
Sales	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	2019 2018	67,482 –	76,254 141,472	– –	30-day; non-interest bearing	Unsecured; not impaired
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2019 2018	10,936,661 11,514,116	– –	8,645,427 4,482,804	30-day; non-interest bearing	Unsecured
DBE Project Inc. (DBE)							
Trade sales and service income	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	2019 2018	2,870,046 1,104,248	696,749 334,825	– –	30-day; non-interest bearing	Unsecured; not impaired
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2019 2018	– 491,680	– –	– 5,243,481	30-day; non-interest bearing	Unsecured

(forwarded)

Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance		Terms	Conditions
				Receivable	Payable		
Advances to related parties	Pertains to cash advances for working capital purposes.	2019 2018	– 4,801,032	– 4,801,032	– –	30-day; non-interest bearing, due and demandable	Unsecured; not impaired
Century Pacific Agricultural Ventures, Inc. (CPAVI)							
Sales	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	2019 2018	– –	– 200,000	– –	30-day; non-interest bearing	Unsecured; not impaired
Snow Mountain Dairy Corporation (SMDC)							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2019 2018	– –	– –	– 987,000	30-day; non-interest bearing	Unsecured
Century Pacific Food Inc. (CPFI)							
Sales	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	2019 2018	103,851 –	3,851 2,772,315	– –	30-day; non-interest bearing	Unsecured; not impaired
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2019 2018	3,596,475 1,111,146	– –	1,836,193 3,209,530	30-day; non-interest bearing	Unsecured
				₱776,855	₱10,481,620		
				11,331,724	13,922,815		

Compensation of Key Management Personnel

The salaries and pension costs of key management personnel in 2019 and 2018 are as follows:

	For the six months ended June 30,	
	2019	2018
Salaries	P123,128,549	P120,714,172
Pension costs	10,616,343	13,166,336
	P133,744,892	P133,880,508

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

12. Loan Payable

	June 30, 2019	December 31, 2018
Long-term facility loan	P3,859,935,066	P3,884,935,066
Bridge loan for working capital use	800,000,000	—
Loan mortgage payable	480,853	480,853
	4,660,415,919	3,885,415,919
Less current portion of:		
Bridge loan for working capital use	800,000,000	—
Long-term loan	48,449,757	48,449,757
	P3,811,966,162	P3,836,966,162

Long-term facility loan

On June 8, 2016, the Group entered into an Omnibus Loan and Security Agreement (OLSA) with BDO Unibank, Inc. (the Lender) and SAFHI. The lender provided a term loan facility in the principal amount of P5,000.0 million for the purpose of refinancing the bridge loan of SAFHI. SAFHI shall in turn pledge its 100% ownership shares of all of its subsidiaries.

The breakdown of the loan is as follows:

	June 30, 2019	December 31, 2018
Principal	P3,875,000,000	P3,900,000,000
Less unamortized debt issue costs	15,064,934	15,064,934
	3,859,935,066	3,884,935,066
Less current portion of long-term loan	48,306,339	48,306,339
Noncurrent portion	P3,811,628,727	P3,836,628,727

The loan is payable within 10 years to commence on the 12th month following the availment date. Payments shall be made in 18 consecutive semi-annual installments of P25.0 million and a final payment of P4,550.0 million.

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

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

On December 22, 2016, the Group notified BDO of its intention to prepay the loan amounting to ₱1,000.0 million. The exercise of the prepayment option resulted in the revision of estimated future payments and change in the carrying amount of the financial liability as at December 31, 2016. On January 3, 2017, the Group exercised its option to prepay. Break-funding costs related to the exercise of the prepayment option amounted to ₱21.4 million.

So long as any portion of the loan is outstanding and until payment in full of all amounts payable by the Group under the loan documents are made, the Group covenants and agrees that, unless the Lender shall otherwise consent in writing, it shall among others comply with the following affirmative covenants:

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

The foregoing financial covenant shall be tested every six months based on annual audited or unaudited semi-annual consolidated financial statements. The Company obtained a letter from the lender dated June 30, 2016 waiving the DSCR and Debt to Equity Ratio requirements for the period ended June 30, 2016 and granted a twelve-month grace period within which the Group can rectify the breach and during which the lender cannot demand immediate repayment. Furthermore, on January 27, 2017, the OLSA was amended to include June 30, 2017 as the commencement date for the testing for the financial covenant ratios.

- d. Within the period required, open and establish the Debt Service Reserve Account (DSRA); and ensure that the funds deposited in the DSRA is at all times maintained in accordance with the agreement.
- e. Prior to the assignment or transfer of any trade names, copyrights, trademarks, patents and other intellectual property rights or licenses currently held by the Group or any wholly-owned subsidiary of the Group, the Group shall pledge in favor of the Lender, under the terms and conditions of the Pledge under the Omnibus loan and security Agreement, all the outstanding shares of the Group in such wholly-owned subsidiary.

As of June 30, 2019, and December 31, 2018, the Group is in compliance with the aforementioned affirmative covenants.

Interest expense amounting to ₱95.4 million and ₱90.8 million was recognized for the six months ended June 30, 2019 and 2018, respectively.

14. Equity

Capital Stock

On October 14, 2016, SEC approved the Parent Company's application to increase its authorized capital stock from ₱1,000.0 million to ₱2,000.0 million. Details of the movement in capital stock are as follows:

	June 30, 2019		December 31, 2018	
	Number of shares	Amount	Number of shares	Amount
Authorized capital stock - ₱1 par value				
Beginning	2,000,000,000	₱2,000,000,000	1,000,000,000	₱1,000,000,000
Increase in capital stock	–	–	1,000,000,000	1,000,000,000
	2,000,000,000	₱2,000,000,000	2,000,000,000	₱2,000,000,000
Issued and outstanding capital stock - ₱1 par value				
Beginning	1,531,321,053	₱1,531,321,053	768,614,050	₱768,614,050
Issuance	–	–	762,707,003	762,707,003
	1,531,321,053	₱1,531,321,053	1,531,321,053	₱1,531,321,053

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

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

The issued and outstanding shares as at June 30, 2019 and December 31, 2018 are held by 31 equity holders.

Retained Earnings

Details of cash dividends declared in 2016, 2017 and 2018 are as follows:

Date of Declaration	Dividend		Record Date
	Rate (per share)	Amount	
February 29, 2016	₱0.06	46,116,843	March 29, 2016
February 29, 2016	1.22	940,800,000	March 30, 2016
October 4, 2016	0.15	115,000,000	September 30, 2016
May 8, 2017	0.10	153,132,105	June 6, 2017
August 16, 2018	0.10	153,132,105	October 10, 2018
June 20, 2019	0.10	153,132,105	July 19, 2019

Outstanding dividends payable amounted to ₱153.1 million and nil as at June 30, 2019 and December 31, 2018, respectively.

Undistributed earnings of the subsidiaries included in the Group's retained earnings amounting to ₱518.1 million as at June 30, 2019 and ₱467.0 million as at December 31, 2018 are not currently available for dividend distribution.

APIC

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

15. Earnings per Share (EPS)

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

There are no dilutive financial instruments as of June 30, 2019 and December 31, 2018, hence, diluted EPS is the same as the basic EPS.

The Group's EPS were computed as follows:

	For the six months ended June 30,	
	2019	2018
(a) Net income	₱417,750,252	₱396,122,797
(b) Weighted average number of shares outstanding	1,531,321,053	1,531,321,053
Basic/ diluted EPS (a/b)	₱0.27	₱0.26

16. Financial Risks Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, AFS investments and loan to a related party. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables, rental deposit, accounts payable and other current liabilities arising directly from operations and dividends payable.

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

Credit Risk. Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by trading only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The main risks arising from the Group's financial instruments are credit risk, liquidity risk and equity price risk on AFS investment. The BOD reviews and approves policies for managing each of these risks and they are summarized below:

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

	June 30, 2019	December 31, 2018
Cash and cash equivalents*	P442,044,932	P264,452,799
Trade and other receivables:		
Trade receivables	157,309,927	189,428,210
Receivable from NAF	104,105,124	38,938,469
Receivable from franchisees	57,125,966	38,358,086
Royalty receivable	39,039,168	43,131,150
Receivables from employees	17,611,675	18,801,952
Other receivables	33,720,319	20,627,511
Rental deposits	144,696,483	129,950,317
Total credit risk exposure	P995,653,593	P743,688,494

*Excluding cash on hand.

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

June 30, 2019						
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1–180 Days	181–360 Days	Subtotal		
Cash and cash equivalents*	P442,044,932	P–	P–	P–	P–	P442,044,932
Trade and other receivables:						
Trade receivables	119,121,171	22,813,522	15,370,813	38,184,335	4,492,525	161,798,031
Receivable from NAF	104,105,124	–	–	–	–	104,105,124
Receivable from franchisees	57,125,966	–	–	–	–	57,125,966
Royalty receivable	39,039,168	–	–	–	–	39,039,168
Receivables from employees	10,558,911	4,051,564	3,001,199	7,052,763	1,499,477	19,111,152
Other receivables	6,596,925	16,213,480	10,914,334	27,127,815	480,915	34,205,655
Rental deposits	144,696,483	–	–	–	2,070,290	146,766,773
	P923,288,680	P43,078,567	P29,286,346	P72,364,913	P8,543,207	P1,004,196,800

*Excluding cash on hand.

December 31, 2018						
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1–180 Days	181–360 Days	Subtotal		
Cash and cash equivalents*	P264,452,799	P–	P–	P–	P–	P264,452,799
Trade and other receivables:						
Trade receivables	137,911,315	30,113,703	21,403,192	51,516,895	4,492,525	193,920,735
Receivable from NAF	38,938,469	–	–	–	–	38,938,469
Receivable from franchisees	38,358,086	–	–	–	–	38,358,086
Receivables from employees	1,284,709	9,029,361	8,487,882	17,517,243	1,499,477	20,301,429
Royalty receivable	43,131,150	–	–	–	–	43,131,150
Other receivables	10,722,547	4,212,439	5,692,525	9,904,964	480,915	21,108,426
Rental deposits	129,950,317	–	–	–	3,322,293	133,272,610
	P664,749,392	P43,355,503	P35,583,599	P78,939,102	P9,795,210	P753,483,704

*Excluding cash on hand.

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

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

June 30, 2019				
	High grade	Medium grade	Standard grade	Total
Cash and cash equivalents*	P442,044,932	P–	P–	P442,044,932
Trade and other receivables:				
Trade receivables	90,174,726	10,840,027	18,106,418	119,121,171
Receivable from NAF	–	–	104,105,124	104,105,124
Receivable from franchisee	–	–	57,125,966	57,125,966
Royalty receivable	39,039,168	–	–	39,039,168
Receivables from employees	–	–	10,558,911	10,558,911
Other receivables	2,173,687	4,423,238	–	6,596,925
Rental deposits	–	–	144,696,483	144,696,483
	P573,432,512	P15,263,265	P334,592,903	P923,288,680

*Excluding cash on hand.

December 31, 2018				
	High grade	Medium grade	Standard grade	Total
Cash and cash equivalents*	P264,452,799	P–	P–	P264,452,799
Trade and other receivables:				
Trade receivables	98,648,386	12,336,186	26,926,743	137,911,315
Royalty receivable	43,131,150	–	–	43,131,150
Receivable from franchisee	–	–	38,358,086	38,358,086
Receivable from NAF	–	–	38,938,469	38,938,469
Receivables from employees	–	–	1,284,709	1,284,709
Other receivables	2,606,868	8,115,679	–	10,722,547
Rental deposits	–	–	129,950,317	129,950,317
	P408,839,203	P20,451,865	P235,458,324	P664,749,392

*Excluding cash on hand.

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

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

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

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

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

(forwarded)

June 30, 2019						
	Due and Demandable	< 90 Days	91–180 Days	181–365 Days	Over 365 Days	Total
Cash and cash equivalents	P508,583,368	P–	P–	P–	P–	P508,583,368
Trade and other receivables						
Trade	119,121,171	22,813,522	15,370,813	–	4,492,525	161,798,031
Receivable from NAF	104,105,124	–	–	–	–	104,105,124
Receivable from franchisees	57,125,966	–	–	–	–	57,125,966
Royalty receivables	–	39,039,168	–	–	–	39,039,168
Receivables from employees	10,558,911	4,051,564	3,001,199	–	1,499,477	19,111,152
Other receivables	6,596,925	16,213,480	9,044,378	1,869,957	480,915	34,205,655
Rental deposits	144,696,483	–	–	–	2,070,290	146,766,773
	950,787,949	82,117,735	27,416,390	1,869,957	8,543,207	1,070,735,237
Accounts payable and other current liabilities:						
Trade payables	–	199,182,151	4,555,664	–	–	203,737,814
Accrued expenses	–	173,959,088	–	–	–	173,959,088
Nontrade payables	–	70,119,024	–	–	–	70,119,024
Other payables*	–	253,865,226	–	–	–	253,865,226
Dealers' deposit and other noncurrent payables	–	–	–	–	78,574,172	78,574,172
Loan payable**	804,230,650	–	114,037,813	113,463,375	5,238,910,902	6,270,642,739
	804,230,650	697,125,488	118,593,476	113,463,375	5,317,485,073	7,050,898,063
Liquidity gap	P146,557,299	(P615,007,754)	(P91,177,086)	(P111,593,418)	(P5,308,941,867)	5,980,162,826

*excluding statutory payables

**Including future interest payments

December 31, 2018						
	Due and Demandable	< 90 Days	91–180 Days	181–365 Days	Over 365 Days	Total
Cash and cash equivalents	P433,777,621	P–	P–	P–	P–	P433,777,621
Trade and other receivables						
Trade	137,911,315	30,113,704	21,403,191	–	4,492,525	193,920,735
Royalty receivables	–	43,131,150	–	–	–	43,131,150
Receivable from NAF	38,938,469	–	–	–	–	38,938,469
Receivable from franchisees	38,358,086	–	–	–	–	38,358,086
Receivables from employees	1,284,709	13,333,012	4,184,231	–	1,499,477	20,301,429
Other receivables	10,722,547	3,691,428	6,213,536	–	480,915	21,108,426
Rental deposits	129,950,317	–	–	–	3,322,293	133,272,610
	790,943,064	90,269,294	31,800,958	–	9,795,210	922,808,526
Accounts payable and other current liabilities:						
Trade payables	–	406,026,106	–	–	–	406,026,106
Nontrade payables	–	123,277,661	–	–	–	123,277,661
Accrued expenses	–	89,393,216	–	–	–	89,393,216
Other payables*	–	68,499,992	–	–	–	68,499,992
Dealers' deposit and other noncurrent payables	–	–	–	–	63,425,467	63,425,467
Loan payable**	–	43,440,174	68,404,134	111,731,829	5,357,448,202	5,581,024,339
	–	730,637,149	68,404,134	111,731,829	5,420,873,669	6,331,646,781
Liquidity gap	P790,943,064	(P640,367,855)	(P36,603,176)	(P111,731,829)	(P5,411,078,459)	5,408,838,255

*excluding statutory payables.

**Including future interest payments.

Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. The Group's debt-to-equity ratios is as follows:

	June 30, 2019	December 31, 2018
Total liabilities	P5,870,763,163	P5,063,358,089
Total equity	4,834,439,279	4,569,821,133

17. Fair Value Information

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

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

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

As at June 30, 2019				
	Date of Valuation	Carrying Value	Fair Value	
			Level 1 Quoted	Level 2 Significant Observable Input
Asset for which fair value are disclosed:				
Rental deposits	June 30, 2019	₱130,274,957	₱–	₱99,546,319
Liabilities for which fair value are disclosed:				
Loan payable	June 30, 2019	₱4,660,415,919	₱–	₱4,468,657,637
Dealers' deposits	June 30, 2019	20,250,000	–	16,473,386
		₱4,680,665,919	₱–	₱4,485,131,023
As at December 31, 2018				
	Date of Valuation	Carrying Value	Fair Value	
			Level 1 Quoted	Level 2 Significant Observable Input
Asset for which fair value are disclosed:				
Rental deposits	December 31, 2018	₱133,272,610	₱–	₱101,836,900
Liabilities for which fair value are disclosed:				
Loan payable	December 31, 2018	₱3,885,415,919	₱–	₱3,692,415,813
Dealers' deposits	December 31, 2018	13,532,615	–	11,008,789
		₱3,898,948,534	₱–	₱3,703,424,602

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

Rental Deposits. The fair values were obtained by discounting the instruments' expected cash flows using interest rates of 5.41% to 7.07% as at June 30, 2019 and December 31, 2018.

Loans Payable. The fair value of loan payable which was discounted using prevailing market rate of 7.06% and 5.70% as at June 30, 2019 and December 31, 2018 approximates the carrying value since these bear interest at current market rates. Fair value category is Level 2, significant observable inputs.

Dealers' Deposits. The fair values were obtained by discounting the instruments' expected cash flows using interest rates of 7.05% as at June 30, 2019 and December 31, 2018.

As at June 30, 2019 and December 31, 2018, there were no transfers between Level 1 and 2 fair value measurements.