COVER SHEET

PW-998

SEC Registration Number

MACAY HOLDINGS, INC. & SUBSIDIARIES

(Company's Full Name)

137 Yakal Street, San Antonio Village, Makati City 1203

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

RENATO J. JAMLANG	(02) 8893-0733
(Contact Person)	(Company Telephone Number)

12	31	17-Q	4th Wed of June
Month	*Day*	(Form Type)	*Month* *Day*
(Fiscal Year)			(Annual Meeting)

NONE

(Secondary License Type, If Applicable)

CFD	
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

388		
Total No. of Stockholders	Domestic	Foreign

File Number

LCU

Document ID

Cashier

To be accomplished by SEC Personnel concerned

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE

1. For the quarterly period ended: **30June 2020**
2. Commission identification number:**PW-998**
3. BIR Tax Identification No: **000-410-269-000**
4. Exact name of issuer as specified in its charter: **MACAY HOLDINGS, INC.**
5. Province, country or other jurisdiction of incorporation or organization

Securities and Exchange Commission, Pasay City, Metro Manila, Philippines

6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office Postal Code

137 Yakal Street, San Antonio Village, Makati City 1203

8. Issuer's telephone number, including area code: **(632)893-0733**
9. 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	Number of Shares of common Stock Outstanding	Amount of debt outstanding (Unpaid Subscription)
Common Share	1,068,393,223	None

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:

THE PHILIPPINE STOCK EXCHANGE, INC.

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 [X] No [ ]

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

Yes [X] No [ ]

PART I--FINANCIAL INFORMATION

Item 1.Financial Statements.

Please see attached Financial Statements and Notes to Financial Statements.

Item 2.Management's Discussion and Analysis of Financial Condition and Results of Operations.

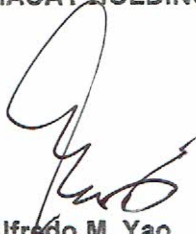
Please see attached MD & A

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.

Issuer: **MACAY HOLDINGS, INC.**

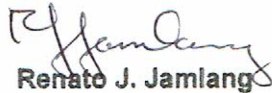
Signature and Title:



Alfredo M. Yao

Chairman

Date:



Renato J. Jamlang

Controller

Date:

MACAY HOLDINGS, INC. AND SUBSIDIARIES
INTERIM STATEMENT OF FINANCIAL POSITION
June 30, 2020
(With Comparative Audited Figures as at December 31, 2019)

	June 30, 2020 (Unaudited)	DEC 31, 2019 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	4,400,606,279	3,555,813,420
Trade and other receivables	368,115,056	361,044,730
Inventories	839,326,908	844,422,662
Other current assets	140,722,355	186,700,600
Total Current Assets	5,748,770,598	4,947,981,411
Noncurrent Assets		
Investment in joint venture	15,734,989	15,734,989
Property, plant and equipment	1,380,651,443	1,405,112,805
Deferred containers	2,128,601,875	2,314,900,996
Right of Use Asset	316,366,999	385,351,160
Deferred tax assets	54,970,515	54,970,517
Other non-current assets	564,393,502	551,030,272
Total Noncurrent Assets	4,460,719,323	4,727,100,739
TOTAL ASSETS	10,209,489,921	9,675,082,150
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables	2,045,433,084	1,572,556,329
Lease Liability-current	73,362,915	126,366,798
Dividends Payable	2,695,818	2,695,818
Income tax payable	-	622,474
Short-term loans payable	13,704,092	13,925,126
Total Current Liabilities	2,135,195,909	1,716,166,545
Noncurrent Liability		
Retirement liability	41,844,798	32,457,704
Lease Liability-non current	290,794,338	290,794,338
Total Noncurrent Liabilities	332,639,136	323,252,042
Total Liabilities	2,467,835,045	2,039,418,586
Equity		
Capital stock	1,068,393,223	1,068,393,223
Additional paid-in capital	1,153,568,289	1,153,568,289
Stock Dividends Payable	224,362,576	224,362,576
Other Comprehensive Income	42,528,519	42,528,519
Retained earnings	4,246,802,269	4,140,810,957
Appropriated Retained Earnings	1,006,000,000	1,006,000,000
Total Equity	7,741,654,876	7,635,663,564
TOTAL LIABILITIES AND EQUITY	10,209,489,921	9,675,082,151

MACAY HOLDINGS, INC. AND SUBSIDIARIES
INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the Quarter Ended, June 30, 2020
(With Comparative Figures for the Quarter ended June 30, 2019)

	For the Six-Months Period ended June 30 (unaudited)		For the Quarter Ended June 30 (Unaudited)	
	2020	2019	2020	2019
REVENUES	4,744,097,010	5,716,679,956	2,625,085,621	3,235,257,193
COST OF GOODS SOLD	3,824,073,166	4,547,946,769	2,059,512,538	2,489,762,109
GROSS PROFIT	920,023,844	1,168,733,187	565,573,082	745,495,084
OPERATING EXPENSES				
Selling, marketing and distribution	607,112,430	676,133,665	297,461,218	372,591,195
General and administrative	192,547,684	196,631,893	95,614,687	107,542,610
	799,660,115	872,765,558	393,075,905	480,133,805
OTHER INCOME (CHARGES)				
Interest income	34,468,827	38,855,509	14,350,047	21,245,594
Interest expense	(20,615,040)	(1,306,403)	(7,932,065)	(557,650)
Foreign exchange (gains) losses - net	(4,253,781)	1,866,368	(5,135,403)	2,876,225
Miscellaneous (income) expenses	4,306,986	9,027,258	1,213,147	5,392,534
	13,906,993	48,442,732	2,495,726	28,956,702
INCOME BEFORE INCOME TAX	134,270,722	344,410,360	174,992,903	294,317,982
INCOME TAXES				
Current	28,279,403	91,374,547	26,270,253	76,279,395
Deferred	-	-	18,756,805	-
	28,279,403	91,374,547	45,027,058	76,279,395
NET INCOME	105,991,319	253,035,813	129,965,846	218,038,587
Other comprehensive income	-	-	-	-
TOTAL COMPREHENSIVE INCOME	105,991,319	253,035,813	129,965,846	218,038,587

MACAY HOLDINGS, INC. AND SUBSIDIARIES
INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the Quarter Ended, June 30, 2020
(With Comparative Figures for the Quarter ended June 30, 2019)

	For the Six-Months Period ended June 30 (unaudited)		For the Quarter Ended June 30 (Unaudited)	
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TOTAL COMPREHENSIVE INCOME	105,991,319	253,035,813	129,965,846	218,038,587

MACAY HOLDINGS, INC AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX - MONTH ENDED JUNE 30, 2020 (Unaudited)							
		Additional Paid-in	Stocks Dividend	Other Comprehensive	Retained Earnings		
	Capital Stock	Capital	Payable	Income	Approprited	Unappropriated	Total
Balance at January 1, 2020	1,068,393,223	1,153,568,289	224,362,576	42,528,519	1,006,000,000	4,140,810,957	7,635,663,564
Cash Dividends							0
Net Income						105,991,319	105,991,319
Appropriation							0
Balances at June 30, 2020	1,068,393,223	1,153,568,289	224,362,576	42,528,519	1,006,000,000	4,246,802,276	7,741,654,883

FOR THE SIX - MONTH ENDED JUNE 30, 2019 (Unaudited)							
Balance at January 1, 2019	1,068,393,223	1,153,568,289	224,362,576	65,446,772	1,400,000,000	3,734,235,886	7,646,006,746
Cash Dividends						0	0
Net Income						253,035,813	253,035,813
Appropriation							0
Balances at June 30, 2019	1,068,393,223	1,153,568,289	224,362,576	65,446,772	1,400,000,000	3,987,271,699	7,899,042,559

MACAY HOLDINGS, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Six-Months Ended June 30	
	2020 (Unaudited)	2019 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	134,270,722	344,410,360
Adjustments for:		
Depreciation and amortization	533,660,736	511,675,608
Interest expense	20,615,040	1,306,403
Interest income	(34,468,828)	(38,855,509)
Unrealized foreign exchange gain - net	4,253,780	(1,866,368)
Retirement expense	9,387,095	8,811,500
Operating income before working capital changes	667,718,545	825,481,994
Decrease (increase) in:		
Trade and other receivables	(7,070,327)	(64,784,260)
Inventories	5,095,754	(85,231,918)
Other current assets	45,978,245	96,486,252
Increase (decrease) in:	-	-
Trade and other payables	472,876,755	126,701,129
Lease Liability-current	(53,003,884)	
Short-term loans payable	(221,033)	(1,092,647)
Net cash generated from operations	1,131,374,056	897,560,550
Interest received	34,468,826	38,855,509
Interest paid	(20,615,041)	(1,306,403)
Income taxes paid	(28,901,877)	(38,241,892)
Net cash flows from operating activities	1,116,325,964	896,867,764
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Deferred pallets and containers expense	(150,788,101)	(413,759,618)
Investment in Joint Venture	-	-
Property, plant and equipment	(103,127,992)	(120,701,339)
Increase in other noncurrent assets	(13,363,230)	(19,370,946)
Net cash flows used in investing activities	(267,279,323)	(553,831,902)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(4,253,781)	1,866,368
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	844,792,860	344,902,229
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,555,813,420	3,771,512,294
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,400,606,279	4,116,414,523

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Corporate Information

Macay Holdings, Inc. (the Parent Company or MHI) is a company incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on October 16, 1930 primarily to reflect the business of a holding company. Under its amended Articles of Incorporation, the corporate life of the Parent Company was extended for another 50 years up to October 16, 2030. The shares of stock of MHI are listed and traded as “MACAY” on the Philippine Stock Exchange (PSE) starting 2013.

As of December 31, 2019, the Parent Company is 84.24% owned by Mazy’s Capital, Inc. (MCI, a Filipino Corporation) and 15.76% owned by the public.

As of December 31, 2018, the Parent Company is 89.75% owned by Mazy’s Capital, Inc. (MCI, a Filipino Corporation) and 10.25% owned by the public.

MCI is 42.86% owned by Mega Asia Bottling Corporation (Mega Asia) and 57.14% owned by Zest-O Corporation (Zest-O). Mega Asia is an entity under common control while Zest-O is the ultimate parent company of the Group.

On August 13, 2015, the Parent Company executed a Share Purchase Agreement with all shareholders of ARC Holdings Inc. (ARCHI). ARCHI is the holder of the trademark of Royal Crown Cola, Inc. (RCCI), owner of the RC Cola brand. The purpose of the acquisition is to consolidate all the licensing, trademark and related rights on the RC Cola brand. All issued and outstanding common shares totaling 1.70 million shares shall be purchased by the Parent Company at ₱10 per share for a total consideration of ₱17.00 million. The consideration was settled on November 10, 2016.

The Parent Company owns 100% interest and operates as the holding company of ARC Refreshments Corporation (ARCRC), a beverage company, and ARCHI, a holding company.

The registered office address and principal place of business of the Parent Company is 137 Yakal Street, San Antonio Village, Makati City, Philippines 1203.

The Parent Company and its subsidiaries are collectively referred to in the notes to the consolidated financial statements as the “Group”.

The accompanying consolidated financial statements of the Group as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, were approved and authorized for issue by the Board of Directors (BOD) on June 29, 2020.

2. Basis of Preparation, Statement of Compliance and Changes in Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared under the historical cost basis. The consolidated financial statements are presented in Philippine peso (₱), which is the Group’s functional currency. All amounts are rounded off to the nearest ₱, except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only, if the Group 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.

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

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. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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 Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;

- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Changes in Accounting Policies

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.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance lease under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - lease of 'low-value' assets (e.g., photocopiers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

  Under the modified retrospective approach, a lessee will apply PFRS 16 with cumulative effect of initial application recognized in retained earnings or other component of equity, as appropriate, at date of initial application, and will not restate any comparative information. Under this approach, the Group recognizes a lease liability at date of initial application at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at date of initial application. At the same time, the Group recognizes a right-of-use (ROU) asset at date of initial application, measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

  The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases') and lease contracts for which the underlying asset is of low value ('low-value assets').

The Company accounted for the deferred tax at transition date by considering the asset and liability as in-substance linked to each other. The Company regards the right-of-use asset and the lease liability as a single item. On this basis, the net asset or liability is compared to its tax base and deferred tax is recognized on that net amount. On this basis, the net carrying amount of the right-of-use asset and the lease liability is zero on initial recognition, as is the tax base except when there is any prepaid or accrued lease payments relating to previous operating leases. Deferred tax is recognized on subsequent temporary differences that arise when the net asset or liability changes from zero.

The effects of adoption of PFRS 16 as at January 1, 2019 are as follows:

Assets	Increase (Decrease)
Right-of-use assets (Note 20)	₱669,278,002
Total Assets	₱669,278,002
Liabilities	
Trade and other payables (Note 11)	(₱6,822,286)
Lease liabilities (Note 20)	676,100,288
Total Liabilities	₱669,278,002

Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use asset were recognized based on the amount equal to the lease liability, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The adoption of PFRS 16 will not have an impact on equity in 2019, since the Group elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. The Group used incremental borrowing rates ranging from 4.25% to 8.94% to measure lease liabilities at the date of initial application of PFRS 16. Any difference between the result of discounting the operating lease commitments reported under PAS 17 at the end of the annual reporting preceding the date of application and the lease liabilities recognized on the statement of financial position immediately after posting the cumulative catch-up adjustment on the date of initial application can be reconciled as follows .

Operating lease commitments as at December 31, 2018	₱380,990,368
Add: Payments in optional extension periods not included as at December 31, 2018	415,864,577
	796,854,945
Discounted using incremental borrowing rate at January 1, 2019	(120,754,657
Lease liabilities recognized at January 1, 2019	₱676,100,288

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, Income Taxes, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately.
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities.
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
  - How an entity considers changes in facts and circumstances.

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance and assessment, that it is probable that its tax treatments (including those for its subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have material impact on the financial statements.

The Group also adopted the following new accounting pronouncements starting January 1, 2019. The adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *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, Borrowing Costs Eligible for Capitalization*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Group's consolidated financial statements

Effective beginning on or after January 1, 2020
- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

Effective beginning on or after January 1, 2021
- PFRS 17, *Insurance Contracts*

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

Summary of Significant Accounting Policies

Revenue Recognition Prior to the adoption of PFRS 15
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods
Revenues reflected in the consolidated statement of comprehensive income pertain to sale of goods. Revenue fromthe sale of goods is recognized when the risks and rewards of ownership of the goods have passed to the buyer, which is upon delivery of the goods. Revenue recognized is net of trade deals and pick-up discounts.

In 2017, the Group recognized net revenues amounting to ₱10.72 billion, net of trade and pick-up discounts of ₱ 2.68 billion, respectively.

Tolling Revenues
Revenue from tolling services is recognized when the service has been rendered.

Revenue recognition After the Adoption of PFRS 15
Revenue from contracts with customers is recognized when control of goods or services are transferred to the customers at an amount that reflects the consideration which the Group expects to be entitled to in exchange for those goods or services. Control refers to the ability of the customer to direct and obtain substantially all the transferred product benefits. Also, it implies that the customer has the ability to prevent a third-party from directing the use and obtaining substantially all the benefits of the transferred product. The Group consider the following five-step model in accounting for its revenue from contract with customers.

Determine the contract in a revenue arrangement
The Group accounts for a contract when it meets the following criteria: (a) the parties have approved the contract and are committed to perform their respective obligations; (b) each party's rights regarding the goods or services to be transferred can be identified; (c) payment terms can be identified; (d) the contract has commercial substance; and (e) the collectability of consideration is probable.

Identify the related performance obligation in a contract
At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. A good or service is distinct if it is capable of being distinct by providing a benefit to the customer either on its own or together with other resources that are readily available

to the customer and the promised good or service is separately identifiable from other promises in a contract.

Determine the transaction price
The Group determines the transaction price in a contract as the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (e.g. value added tax). In determining the transaction price, the Group considers the terms of the contract with customers and the Group's customary business practice.

If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. The Group estimates the amount of variable consideration in a contract either using the expected value or the sum of probability weighted amounts in a range of possible consideration amounts or the single most likely amount in a range of possible consideration amounts. The Group includes the estimated variable consideration in the transaction price only if it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group has no variable considerations related to its contracts with customers.

The Group accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group.

Perform an allocation of the transaction price to performance obligation
If the contract has two or more performance obligation, the Group allocates the total transaction price in a contract to each of the performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation.

Recognize revenue upon satisfaction of performance obligation
The Group recognizes revenue in a contract with customer only when it satisfies an identified performance obligation by transferring a promised good or service to a customer. The Group considers a good or service to be transferred when the customer obtains control. Considering the terms of the contract and type of performance obligation, the Group assesses that it satisfies its performance obligation in a contract with customer, and therefore recognize revenue, either over time or point in time. The Group satisfies performance obligation over time if one of the following criteria are met: (a) as the Group performs, the customer simultaneously receives and consumes the benefits provided by the Group's performance; (b) the Group's performance creates or enhances an asset
(e.g., work in progress) that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. For performance obligation satisfied over time, the Group measures the progress towards complete satisfaction of its performance obligation in a contract with customer using input method or output method. For performance obligation not satisfied over time, the Group recognizes revenue at the point in time the control over goods or services have been transferred to the customer.

If the Group enters into an arrangement that does not meet the criteria for a contract above, the Group recognizes revenue only when either: (1) the Group has no remaining obligations to transfer goods or services and substantially all of the consideration has been received by the Group and is non-refundable; or (2) the contract has been terminated and the consideration received is non-refundable.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring to the customers.

Sale of Goods
Most of the Group's revenue arises from its contract for sale of goods (e.g. RC Cola products). Revenue from sale of goods is recognized at a point when control of the goods is transferred to the customer, generally on delivery and acceptance of the goods.

Tolling Revenues
Revenue from tolling services is recognized over time since the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs. The Group determined that the output method is the best method in measuring progress for tolling services because there is a direct relationship between the value to the customer of the services transferred to date and the transfer of service to the customer.

<u>Interest Income</u>
Interest income from bank deposits and short-term investments is recognized as it accrues using the effective interest rate (EIR) method.

<u>Cost and Expense Recognition</u>
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are generally recognized when the expense arises following the accrual basis of accounting.

Cost of Sales
Cost of sales, which comprise mainly of purchases of raw materials and related production cost, are recognized on a monthly basis in relation with the recognition of the related revenue arising from the sale.

Cost of Services
Cost of services which mainly pertain to the cost of tolling services rendered to Asiawide Kalbe Philippines, Inc. (AKPI) is recognized when the cost is incurred.

Selling and Marketing Expenses
Selling and marketing expenses consist of costs associated with the development and execution of marketing promotion activities and all expenses connected with selling, servicing and distributing Group products.

General and Administrative Expenses
General and administrative expenses are incurred in the normal course of business and are generally recognized when the services are used or the expenses arise.

<u>Current and Noncurrent Classification</u>
The Company presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is:
- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.
A liability is current when:

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

The Company classifies all other liabilities as non current.
Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents
Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of placement and that are subject of an insignificant risk of change in value.

Short-term Investment
Short-term investment pertains to bank time deposit with more than three (3) months but within one year, and earns interest at the respective short-term investment rates.

Financial Instruments Prior to the Adoption of PFRS 9
Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). The initial measurement of financial instruments, except for those classified as at fair value through profit or loss (FVPL), includes transaction costs.

The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, loans and receivables and available-for-sale (AFS) financial assets. The Group classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the financial assets were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where
allowed and appropriate, re-evaluates such designation at every financial reporting date. As at December 31, 2017, the Group has no AFS financial assets, financial assets at FVPL, HTM financial assets and financial liabilities at FVPL.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the EIR method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is included in interest income under "Interest income" account in the consolidated statement of comprehensive income. The losses arising from impairment of receivables are recognized in the consolidated statements of comprehensive income under "General and administrative expenses" account. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on *Impairment of Financial Assets Carried at Amortized Cost*).

They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated as at FVPL. This accounting policy relates to the Group's "Cash and cash equivalents", "Trade and other receivables", which arise primarily from sale of goods, short-term investment under "Other current assets" and security deposits under "Other non-current assets" accounts in the consolidated statement of financial position.

Loans and receivables are classified as current assets when they are expected to be realized within twelve months from the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g. payables, accruals).

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Any effects of restatement of foreign currency-denominated liabilities, if any, are recognized in "Foreign exchange gain - net" account in the consolidated statement of comprehensive income.

Other financial liabilities are classified as current liabilities when they are expected to be settled within 12 months from the reporting date or when the Group has an unconditional right to defer settlement for at least 12 months from reporting date. Otherwise, they are classified as noncurrent liabilities.

This accounting policy applies primarily to the Group's "Trade and other payables", "Short-term loans payable", "Dividends payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement benefits liability).

Impairment of Financial Assets Carried at Amortized Cost
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has or have occurred after initial recognition of the asset (an incurred "loss event") and that loss has an impact on the estimated future cash flows of the financial asset or the group of financial asset that can be reliably estimated. Objective evidence of impairment may include indications that borrower is experiencing significant financial difficulty, default or delinquency reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as charges in arrear or economic condition that correlate with default.

The Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of comprehensive income.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Impaired receivables are derecognized when they are assessed as uncollectible.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial Instruments After the Adoption of PFRS 9

Financial instruments are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under PFRS 15.

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

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost
The Group measures financial assets at amortized cost if both of the following conditions are met:

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

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

The Group's financial assets at amortized cost includes cash and cash equivalents and trade and other receivables and short-term investments.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group has no financial assets classified under this category.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group has no financial assets classified under this category.

Financial assets at fair value through profit or loss
Financial assets at FVTPL are measured as at unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in profit or loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in profit or loss.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

The Group has no financial assets classified under this category.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

The cash and cash equivalents and short-term investments are maintained in financial institution graded by the external credit rating agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the credit rating agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when

internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

The Group's financial liabilities include trade and other payables.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
After initial recognition, trade and other payables, dividends payable, and interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

Derecognition of Financial Instruments
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:
- The rights to receive cash flows from the assets have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amount and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted-average method and includes expenditures incurred in bringing the materials and supplies to their existing location and condition. NRV is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Any write-down of materials, supplies, spare parts and finished goods to NRV is recognized as an expense in consolidated statement of comprehensive income in the year incurred.

The Group provides allowance for inventory losses on finished goods and raw materials whenever utility of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Investment in a Joint Venture
A joint venture is a type joint arrangement whereby the parties that have joint control of an arrangement, and have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Under the equity method, the interest is initially recognized at cost. The carrying amount is increased or decreased to recognize the Group's share of the profits and losses of the joint venture after the date of the acquisition.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of the joint venture is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discontinues its share of further losses.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its interests in joint ventures. At each reporting date, the Group determines whether there is objective evidence that the interest in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as "Share in net income/losses of a joint venture" in the consolidated statement of comprehensive income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the statement of comprehensive income.

Deferred Pallets and Containers
The Group purchases returnable containers (i.e. beverage bottles) that are being circulated in the normal course of trade. The containers are initially recorded at cost. These containers are presented as "Deferred pallets and containers" in the statement of financial position, and are carried at cost less accumulated amortization and any impairment in value. The cost of the containers less the salvage value, which is equal to the deposit value of the container, is subjected to amortization over four (4) years representing the trip life of the containers. Amortization of "Deferred pallets and containers" is included under "Cost of sales and services" account in the statement of comprehensive income.

Amortization of bottles, and shells and pallets commences once they are available for use over the estimated useful life of four (4) years. An allowance is provided for excess, unusable and obsolete returnable bottles and cases based on the specific identification method.

Property, Plant and Equipment
Property, plant and equipment, except land, are carried at cost less accumulated depreciation, and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment consists of construction cost, and its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life.

The average estimated useful lives of property, plant and equipment are as follows:

Category	Number of Years
Machinery and equipment	10
Vehicles	5
Waste water facility	2-5
Leasehold improvements	Contract Dependent
Laboratory equipment	2

Tools	3
Office and other equipment	2-3

The useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When assets are disposed of, or are permanently withdrawn from use and no future economic benefits are expected from their disposals, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in statement of comprehensive income. Fully depreciated property, plant and equipment are retained in the accounts until these are no longer in use.

Construction in progress under "Property, plant and equipment" is stated at cost. This includes cost of construction, equipment and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and are available for use.

Leases After the Adoption of PFRS 16

Right-of-Use Assets

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

The average estimated useful lives of right-of-use assets are as follows:

Category	Number of Years
Land	More than one year to 5 years
Building	2-6
Office Space	2-5

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

Lease liabilities

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

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

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

Leases Prior to the Adoption of PFRS 16
Determination of Whether an Arrangement Contains a Lease
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating Leases - The Group as a Lessee
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Impairment of Nonfinancial Assets
Property, plant and equipment and deferred pallets and containers are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or cash generating unit (CGU) is written down to its recoverable amount. The estimated recoverable amount is the higher of fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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 non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

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. The Group used value in use to assess the recoverable amount of an asset.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of comprehensive income. However, the

increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

Input Value-Added Tax (VAT)

Input VAT represents VAT imposed to the Group by its suppliers for the acquisition of goods and services as required by the Philippine taxation laws and regulations.

Input taxes under "Other current assets" account is stated at its estimated NRV and will be used to offset against the Group's output VAT liabilities. Output VAT is the amount of VAT calculated and charged on the Group's own sale of goods and services to third parties.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium the difference between the proceeds and the par value is credited to "Additional paid-in capital".

Retained Earnings

Retained earnings represent all accumulated profits or losses of the Group and dividend distributions, if any, to shareholders of the Parent Company and other capital adjustments. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date.

Containers Deposit Liability

Containers deposit liability consists of cash deposit received by the Group associated with the returnable containers (i.e., beverage bottles) upon sale of product. The cash deposit is paid back to customers upon return of returnable containers or reversed against the salvage value of the deferred containers upon determination that the containers will no longer be returned.

Provisions

Provisions are generally recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Retirement Benefits Asset (Liability)

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

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

Foreign Currency-denominated Transactions
Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or reporting date are recognized in the consolidated statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Income Taxes
Current Income Tax
Current income tax liabilities for the current and prior periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefit of unused tax credits to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

Deferred income tax assets and liabilities are offset, if a legally enforceable right to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to income taxes levied by the same taxation authority.

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

Earnings Per Share ("EPS")
Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement. Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share and diluted earnings per only from the date when all necessary conditions are satisfied (i.e. the events have occurred). If the conditions are not satisfied, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period.

Segment Reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment subject to risks and rewards that are different from those of other segments, which operating results are regularly reviewed by the Chief Operating Decision Maker (CODM), to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available. Financial information on segment reporting is presented in Note 26.

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

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3. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect amounts reported in the financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from such estimates.

Judgments
In the process of applying the Group's accounting policies, management has made judgments,apart from those involving estimations, which has the most significant effect on the amountsrecognized in the financial statements.

Determining the Lease Term of Contracts with Renewal and Termination options – The Company as Lessee after the adoption of PFRS 16
The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group included the renewal period as part of the lease term for leases of land and office spaces with shorter non-cancellable period. The Company typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of land and office spaces with longer non-cancellable periods are not included as part of the lease term as these are not reasonably certain to be exercised (see Notes 2 and 20).

Determining Operating Lease Commitments - The Group as Lessee before the Adoption of PFRS 16
The Group has entered into various operating lease agreements as a lessee. The Group has determined that, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all significant risks and rewards of ownership of these properties because the lease agreements do not transfer to the Group the ownership over the assets at the end of the lease term and do not provide the Group with a bargain purchase option over the leased assets and so accounts for the contracts as operating leases. Rent expense charged during the first semesterof operations amounted to ₱76.8 million and ₱191.03 million in 2020 and 2019, respectively.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty atreporting date, that have a significant risk of causing a material adjustment to the carrying amountsof assets within the next financial year are discussed below.

Estimating Useful Life of Deferred Pallets and Containers
In accordance with its policy, the Company periodically reviews the estimated useful life of the deferred pallets and containers based on the containers profiling and scuff level analysis. The estimation of useful life is based on internal technical evaluation done on a collective basis and the Group's experience with similar assets. A review in 2014 indicated that the actual trip lives of the containers were longer than 2013 estimate. As a result, effective February 1, 2014, in view of the change in the expected pattern of economic benefits from the assets, the Group revised its estimate of the useful life of its containers from three years to four years.

The Group recognized amortization expense amounting to ₱337.09million and₱379.12million during the six-month periodended June 30, 2020 and 2019, respectively. The carrying value of deferred pallets and containers as at June, 2020 and December 31, 2019 amounted to ₱2,128.6million and ₱2,314.9million, respectively.

Estimating Impairment Losses on Inventories
The Group maintains allowance for inventory losses at a level considered adequate to reflect the cost of materials and supplies over its NRV. The Group recognizes materials and supplies at NRV whenever NRV becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. Increase in the NRV of materials and supplies will increase cost of materials and supplies but only to the extent of their original acquisition costs.

As at June, 2020 and December 31, 2019, the carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to ₱839.33million and ₱844.42 million, respectively.

Estimating Useful Lives of Property, Plant and Equipment
The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. 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.

During the first semester, the Group recognized depreciation expense amounting to ₱196.57million and ₱132.6million in 2020 and 2019, respectively. The carrying amounts of property, plant and equipment, excluding construction-in-progress, amounted to ₱1,380.65million and ₱1,405.11million as at June 30, 2020 and December 31, 2019, respectively.

Estimating Salvage Value of Deferred Pallets and Containers
In determining the estimated salvage value of deferred pallets and containers, management takes into account the most reliable evidence available at the time the estimates are made. The salvage value is equal to the amount the Group would receive currently if the assets were already of the age and in the condition expected at the end of estimated trip life.

The deposit values of deferred pallets and containers are reviewed periodically and are updated if expectations differ from previous estimates based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information.

Estimating Retirement Benefits Cost
The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The Group's retirement liability amounted to ₱41.84million and ₱32.46million as of June 30, 2020 and December 31, 2019, respectively. Retirement benefit cost amounted to ₱9.39million and₱8.81million in the inclusive quarters of 2020 and 2019 , respectively.

Estimating Realizability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available in the future to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on forecasted taxable income. This forecast is based on the Group's past results and future expectations on revenues and expenses.

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4. Seasonality of Operations
Similar to other beverage group, the group's sales are subject to seasonality. Sales are at a peak during summer from March through June and lower during the rainy season of July to October. Higher sales are likewise experienced around the Christmas/New Year period in the middle of December through early January. These may cause the Group's results to fluctuate. In addition, the Group's performance may be affected by unforeseen events such as production interruptions. Consequently, comparisons of Sales and operating results between periods within a single year, or between different periods in different financial years may be pointless and should not be relied upon as indicators.

5. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are considered to be related if they are subject to common control and common significant influence. Related parties may be individuals or corporate entities. Transactions with related parties are based on terms agreed to by the parties.

First quarter transactions and quarter-end balances with related parties for 2020are set out below:

Category	Year	Revenues Note (a)	Interest Income Note (b)	Costs and Expenses Note (c)	Cash and Cash Equivalents Note (b)	Trade and Other Receivables Note (d)	Due from Related Parties Note (d)	Due to Related Parties Note (d)	Terms	Conditions
Entities under common control	2020	305,004	34,468,827	296,302,032	4,180,475,175		14,907,867	180,167,527	Non-interest bearing:due and demandable	no impairment unsecured
Stockholders	2020			40,834,694		46,221,981	63,968,389	54,810,055	Non-interest bearing:due and demandable	no impairment unsecured
		305,004	34,468,827	337,136,726	4,180,475,175	46,221,981	78,876,256	234,977,582		

a. ARC Refreshments was contracted to be the toll manufacturer of AKPI for its carbonated beverages starting February 1, 2014. Tolling revenues earned during the first semester of 2020and 2019amounted to ₱031 million and ₱1.21 million.

b. The Group earns interest income from its placements with Philippine Business Bank.

c. Costs and expenses incurred from transactions with entities under common control and stockholders pertain to various lease agreements entered into with Asiawide, Solmac Marketing Inc., SMI Development Corporation, and Mega Asia, professional service fees to Mega Asia and a procurement agreement with Bev-pack, Inc. for the supply of caps being used by ARC in its production of 800 ml bottled soft drinks.

d. Outstanding receivables are significantly from Zest-O for its PET and can sales. Zest-O was a distributor of ARC Refreshments' one-way products polyethylene terephthalate bottles (PET) and cans in supermarkets and convenience stores.

e. Due to related parties are amounts owed to Mega Asia for ARC's lease payables and service fees, to Zest-O, likewise for lease and for ARC's share in administrative expenses, to AKPI for advances obtained by ARC related to the production and distribution of the energy drink "EXTRA JOSS" and the unpaid balance with Bev-pack, Inc. for ARC's purchases of 800 ml bottle caps

6. Financial Risk Management and Capital Management

The main purpose of the Group's dealings in financial instruments is to fund its operations, capital expenditures and financing activities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls and to monitor and assess risks and compliance to internal control, identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

Management addresses the risks faced by the Group in the preparation of its annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Group's operations and forecasted results. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk and Quality
Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk exposure arises principally from the possibility that the counterparties may fail to fulfill their agreed obligations. To manage such risk, the Group monitors its receivables on an ongoing basis. The objective is to reduce the risk of loss through default of counterparties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main components of this allowance are specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective allowance is determined based on historical data of payment statistics for similar financial assets.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, receivables, short-term investment and security deposits the Group's exposure to credit risk arises from a possible default of the counterparties with a maximum exposure equal to the carrying amounts of these instruments.

The tables below show the credit quality by class of financial assets.

	June 30, 2020				
	Neither Past Due Nor Impaired				
	High Grade	Standard Grade	Past Due But Not Impaired	Impaired	Total
Cash and cash equivalents*	4,354,064,757				4,354,064,757
Trade and other recivables		330,098,297	10,378,894	90,363,304	430,840,494
Security deposits**	363,711,781				363,711,781
Total Credit Risk Exposure	4,717,776,538	330,098,297	10,378,894	90,363,304	5,148,617,032

*excluding cash on hand
**included in "Other non-current assets"

	December 31, 2019				
	Neither Past Due Nor Impaired				
	High Grade	Standard Grade	Past Due But Not Impaired	Impaired	Total
Cash and cash equivalents*	3,555,813,420	-	-	-	3,555,813,420
Trade and other recivables		273,288,306		90,363,304	363,651,610
Short-term investments***	0				0
Security Deposits***	364,646,364				364,646,364
Total Credit Risk Exposure	3,920,459,784	273,288,306	0	90,363,304	4,284,111,394

*excluding cash on hand
**included in "Other current assets"
*** included in "Other non-current assets"

The Group has assessed the credit quality of the following financial assets:

1. Cash and cash equivalents are assessed as high grade since these are deposited with reputable banks.

2. Trade and other receivables, which pertain to receivables from customers, related parties, officers and employees and others, were assessed based on past collection experience and the debtors' ability to pay the receivables. Amount assessed as standard grade pertain to accounts with no history of default on the outstanding receivables as of March 31, 2020 and December 31, 2019.

3. Security deposits are considered as high grade since these are deposits made with reputable counterparties.

The tables below show the aging analysis per class of financial assets as at June 30, 2020 and December 31, 2019.

	June 2020					
	Current	**1-30 Days**	**31-60 Days**	**More than 60 Days**	**Impaired**	**Total**
Cash and cash equivalents	**4,354,064,757**	**-**	**-**	**-**		**4,354,064,757.27**
Trade and other receivables	**103,020,875**	**60,936,299**	**23,915,918**	**152,604,097**	**90,363,304**	**430,840,494.31**
Security Deposits*				**363,711,781**		**363,711,780.78**
	4,457,085,633	**60,936,299**	**23,915,918**	**516,315,878**	**90,363,304**	**5,148,617,032.36**

** included in "Other non-current assets"*

	December 31, 2019					
	Current	**1-30 Days**	**31-60 Days**	**More than 60 Days**	**Impaired**	**Total**
Cash and cash equivalents	**3,555,813,420**	**-**	**-**	**-**	**-**	**3,555,813,419.65**
Trade and other receivables	**273,288,306**				**90,363,304**	**363,651,610.00**
Short-term investments	**0**					**0.00**
Security Deposits*				**364,646,364**		**364,646,363.96**
	3,829,101,726	**0**	**0**	**364,646,364**	**90,363,304**	**4,284,111,393.61**

**included in "Other current assets"*

*** included in "Other non-current assets"*

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The table below shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

**Excluding statutory payables*

	June 30, 2020				
	Due and Demandable	Within 6 Months	6 to 12 Months	Over 1 Year	Total
Trade and Other payables*	**1,974,027,629**	**1,449,512**	**-**	**-**	**1,975,477,141**
Short-term Loans Payable		**13,704,093**			**13,704,093**
Dividends Payable	**2,695,818**				**2,695,818**
Total Credit Risk Exposure	**1,976,723,447**	**15,153,605**	**0**	**0**	**1,991,877,052**

	December 31, 2019				
	Due and Demandable	Within 6 Months	6 to 12 Months	Over 1 Year	Total
Trade and Other payables*	**1,587,138,461**		**-**	**-**	**1,587,138,461**
Short-term Loans Payable		**13,925,126**			**13,925,126**
Dividends Payable	**2,695,818**				**2,695,818**
Total Credit Risk Exposure	**1,589,834,279**	**13,925,126**	**0**	**0**	**1,603,759,405**

**Excluding statutory payables*

The Group has financial assets of ₱5,748.77million and ₱4,947.98 million as of June, 2020 and December 31, 2019, respectively, that may be used to settle its financial liabilities.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group uses the Peso (₱) as its functional currency and is therefore exposedtoforeign exchange movements, primarily on the US Dollar ($). The Group follows a policy to manage this risk by closely monitoring its cash flow position and by providing forecast on itsexposures in non-peso currency.

The balances of the Group's financial assets and liabilities denominated in foreign currency translated in Philippine peso, as ofMarch 31, 2020 and December 31, 2019, are as follows:

	June 30, 2020			
	Original Currency in $	Translated in Php	Original Currency	Translated in Php
Financial Assets				
Cash and cash equivalents	**$ 5,815,654**	**Php289,916,179**	**€ 10,587**	**Php610,872**
Finanacial Liabilities				
Trade and Other Payables	**(1,449,512)**	**(72,259,631)**		**0**
Net Exposure	**$4,366,142**	**Php217,656,548**	**€ 10,587**	**Php610,872**

	December 31, 2019			
	Original Currency in $	Translated in Php	Original Currency	Translated in Php
Financial Assets				
Cash and cash equivalents	**$6,897,702**	**Php349,497,954**	**€ 192**	**Php10,822**
Receivables	**11,855**	**600,292**		
Finanacial Liabilities				
Trade and Other Payables	**(1,135,372)**	**(57,700,739)**		
Net Exposure	**$5,774,185**	**Php292,397,507**	**€ 192**	**Php 10,822**

As of June 30, 2020 and December 31, 2019, the exchange rate of the Philippine peso to the USD is ₱49.85and ₱50.63, respectively, while the exchange rate for EURis ₱57.70 and ₱56.35, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in Philippine Peso/US Dollar and Philippine Peso to Euro exchange rates, with all other variables held constant, of the Group's income before income tax. There is no other impact on the Group's equity other than those affecting the statement of comprehensive income.

	Change in exchange rate			
	$ strengthens by 5%	$ weakens by 5%	€ strengthens by 5%	€ weakens by 5%
Increase (decrease) in income beforeincome tax and equity				
June, 2020	**₱ 10,882,827**	**(₱ 10,882,827)**	**₱ 30,544**	**(₱ 30,544)**
December 31, 2019	₱ 14,619,875	(₱ 14,619,87)	₱541	(₱ 541)

<u>Fair Values of Financial Instruments</u>
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 a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following financial assets and financial liabilities approximate their fair values as of June, 2020 and December 31, 2019:

Cash and cash equivalents, Trade and other receivables, Short-term investments, Trade and other payables, Short-term loans payable and Dividends Payable and cash equivalents
The carrying amounts of cash and cash equivalents, trade and other receivables, short-term investments, trade and other payables, short-term loans payable and dividends payable approximate their fair values due to the short-term maturity of these financial instruments.

Security Deposits
These are presented at cost since the timing and amounts of future cash flows related to the refundable deposits are linked to the termination of the contract which cannot be reasonably and reliably estimated.

Similarly, the carrying amounts of these instruments which are all subject to normal trade terms, approximate their fair values due to their short-term nature.

Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to increase the value of shareholders' investment. The Group sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure upon commencement of its operations.

The BOD has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry. No changes were made in the objectives, policies or processes during thethree-month periodended June 30, 2020and for the years ended December 31, 2019 and 2018.

The following table summarizes what the Group considers as its total capital as at reporting dates:

	June 30, 2020	December 31, 2019
Capital Stock	**1,068,393,223**	1,068,393,223
Additional Paid-in Capital	**1,153,568,289**	1,153,568,289
Retained Earnings	**5,252,802,269**	5,146,810,957
	7,474,763,781	7,368,772,469

Item 2.Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Sales for the first semester of 2020 was 17.01% lower compared to the first semester of 2019. This was due to lower volume. On the other hand, cost of sales went down by 15.92% mainly due to lower volume. With the bigger decline in sales, gross profit rate declined to 21.28% from 16.25% mainly due to fixed overhead costs. Selling expenses decreased by ₱69.02 million. Net Other Income declined by ₱34.5 mainly due to the interest on lease liabilities of ₱16.1 million, FX loss of ₱4.3 million against FX gain of ₱1.9 last year. Interest rates were also lower. Net income to sales went down to 2.23% vs. 4.43% last year.

Financial Condition

The Group's total assets increased by 5.52% from ₱9,675 million as of December 31, 2019 to ₱10,209.41 million as of June 30, 2020. Current assets increased by 16.18% from ₱4,947 million to ₱5,749 million. Cash and cash equivalents, which account for almost 80% of current assets, increased from ₱3,556 million to ₱4,401million despite the decline in net income. This was due to lower purchases of containers and fixed assets and increase in accounts payable.All the other current assets had a net decrease of₱44 million or 3%.

Current Liabilities increased in first semester by ₱471 million from ₱1,716 million to ₱2,187 million. This is accounted for mainly by the increased in trade payables by ₱473 million due to the delay in processing payments because of the lockdown to control the spread of COVID 19.

Key Performance indicators

The following are the Group's key performance indicators.

		For 6 months Ended June 30	
		2020	2019
Net Sales		4.74 B	5.72 B
Gross Profit Margin	Gross Profit over Sales	0.19	0.20
Operating Margin	Operating Income over Net Sales	0.03	0.05
Net Profit Margin	Net Profit over Net Sales	0.02	0.04

		June 30, 2020	Dec 31, 2019
Current Ratio	Current Assets over Curent	2.69:1	2.88:1
Sovency Ratio	Net Income plus Depreciation and Amortization over Total Liabilities	.026:1	0.75:1
Bank Debt to Equity ratio	Bank Debt over Total Equity	.003:1	0.01:1
Asset To Equity ratio	Total Assets over Equity	1.32:1	1.27:1