



# **CIRTEK HOLDINGS**

## **Philippines Corporation**

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

The management of Cirtek Holdings Philippines Corporation (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018 and December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

JERRY LIU  
Chairman and CEO

ROBERTO JUANCHITO T. DISPO  
Vice Chairman/President

CARLOS M. GACUSANA JR.  
Deputy Chief Finance Officer

Signed this 3rd day of May 2019

MAY 06 2019

SUBSCRIBED AND SWORN TO before me this day \_\_\_\_\_ of \_\_\_\_\_ at **MAKATI CITY** City, Philippines, affiant exhibited to me the following:

Affiant	Type Of ID	ID Number and Expiry Date (if applicable)
Jerry Liu	TIN	113-279-728
Roberto Juanchito Dispo	TIN	129-882-308
Carlos Gacusana ,Jr.	TIN	253-263-248

Doc. No. 112  
Page No. 24  
Book No. 920  
Series of 2019.

**ROBEN T.M. RAMIREZ**  
NOTARY PUBLIC  
UNTIL DEC. 31, 2019  
IEP. NO. 058333/01-03-2019  
ROLL NO. 28947/MCL 5/6-8-17  
P.R. NO. MKT. 7333572/1-3-19 APPT. NO. M-127  
2086 E. PASCUA ST., MAKATI CITY

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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## COMPANY NAME

C	I	R	T	E	K		H	O	L	D	I	N	G	S		P	H	I	L	I	P	P	I	N	E	S			
C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S		

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

1	1	6		E	a	s	t		M	a	i	n		A	v	e	n	u	e	,		P	h	a	s	e		V	-	
S	E	Z	,		L	a	g	u	n	a		T	e	c	h	n	o	p	a	r	k	,		B	i	f	i	a	n	,
L	a	g	u	n	a																									

Form Type

A	A	F	S
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A	
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## COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

(049) 729-6205

Mobile Number

N/A

No. of Stockholders

26

Annual Meeting (Month / Day)

05/31

Fiscal Year (Month / Day)

12/31

## CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Roberto Juanchito Dispo

Email Address

jojo.dispo@cirtek.ph

Telephone Number/s

N/A

Mobile Number

N/A

## CONTACT PERSON'S ADDRESS

116 East Main Avenue, Phase V-SEZ, Laguna Technopark, Biñan, Laguna

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

**2 :** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders  
Cirtek Holdings Philippines Corporation  
116 East Main Avenue  
Phase V-SEZ  
Laguna Technopark  
Biñan, Laguna

### Opinion

We have audited the consolidated financial statements of Cirtek Holdings Philippines Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

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

### Key Audit Matters

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





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

***Finalization of Purchase Price Allocation for the Acquisition of Quintel Cayman Ltd. (Quintel)***

In 2018, the Group finalized the fair values of the net assets and liabilities acquired from its acquisition of Quintel on July 28, 2017. PFRS 3, *Business Combinations*, allows the fair values of assets acquired and liabilities assumed to be refined continually for a period of one year after the acquisition date in cases where judgment is required to ensure the adjustments made reflect new information obtained about facts and circumstances that existed as of acquisition date. The adjustments resulted to an increase in customer relationships, technology and trademark of \$5.9 million and \$2.4 million, respectively, and a decrease in technology and goodwill of \$2.1 million and \$6.4 million, respectively. We consider this as a key audit matter because of the materiality of the adjustment and the significant degree of management judgment in estimating the fair values of the net assets.

The Group's disclosures about the finalization of purchase price allocation for the acquisition of Quintel are included in Note 5 to the consolidated financial statements.

***Audit response***

We obtained an understanding of the Group's purchase price allocation process which includes the identification of the fair values of the net assets acquired. We have reviewed the measurement of fair value of the net assets and adjustments made by the Group. Where the Group used an external specialist to perform valuation on its assets, we considered the competence, capabilities and objectivity of the Group's external specialist. We involved our internal specialist in reviewing the valuation methodology. We also evaluated the presentation and the disclosure of the transaction in the consolidated financial statements.

***Recoverability of Intangible Assets with Indefinite Useful Lives including Goodwill***

Intangible assets with indefinite useful lives, including goodwill, amounting to \$86.8 million accounts for 33% of the Group's consolidated total assets as at December 31, 2018 which are attributable to only one (1) cash generating unit. We consider the recoverability of intangible assets with indefinite useful lives including goodwill as a key audit matter due to the materiality of the amount involved and the significant management assumptions and judgment involved, which includes revenue assumptions, variable costs, terminal growth rate and discount rate.

Refer to Note 15 to the consolidated financial statements for the discussion of significant management estimates and assumptions used in impairment testing of intangible assets with indefinite useful lives including goodwill.



*Audit response*

We involved our internal specialist in evaluating the methodology and assumptions used, which include revenue assumptions, variable costs, terminal growth rate and discount rate. We compared the key assumptions used such as sales volume and price, and variable costs against the historical information and inquired from management about the plans to support the forecasted information. We tested the parameters used in the determination of the terminal growth rate and discount rate against market data.

We performed sensitivity analyses to understand the impact of reasonable change in the key assumptions. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of intangible assets with indefinite useful lives including goodwill.

***Reclassification of Noncurrent Assets Held for Sale to Property, Plant and Equipment to Investment Properties and Valuation of Investment Properties***

The Group has noncurrent assets held for sale valued at \$11.4 million which consists of land, building and building improvements, and machineries as of December 31, 2017. In 2018, these assets were reclassified to property, plant and equipment and investment properties as management assessed that the sale of these properties is no longer probable and no longer meet the classification criteria set by PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Assessing whether the noncurrent assets may continue to be classified as held for sale involves management's judgment.

Furthermore, the noncurrent assets that ceases to be classified as held for sale requires to be measured at the lower of its (a) carrying amount before the asset was classified as held for sale, adjusted for any depreciation and amortization that would have been recognized had the asset not been reclassified as held for sale; and (b) recoverable amount at the date of the subsequent decision not to sell or distribute. On the other hand, determining fair value of the investment properties requires management to make judgments regarding the appropriate valuation methodology and involves estimation based on available inputs.

The Group's disclosures about management's exercise of judgment and estimates is included in Note 3 to the consolidated financial statements and details about the non-current assets held for sale and investment properties are included in Notes 12, 13 and 14 to the consolidated financial statements.

*Audit response*

We inquired the Group's plan on the noncurrent assets which ceased to be classified as held for sale. We reviewed management's assessment and relevant accounting policies related to the reclassified noncurrent assets. For the noncurrent assets held for sale reclassified to property, plant and equipment, we tested management's calculation on the adjustments to depreciation and amortization, that would have been recognized had the asset not been reclassified as held for sale. For the noncurrent assets held for sale which were reclassified to investment properties carried at fair value, we involved our internal specialist in the review of the methodology and assumptions used by an external appraiser in determining the fair value. We evaluated the competence, capabilities and objectivity of the external appraiser. We compared the assumptions used, specifically the sales price of comparable properties and adjusted benchmark construction costs, against relevant external information. We inquired from the external appraiser the basis of adjustments made.



## **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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



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

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

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

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



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

The engagement partner on the audit resulting in this independent auditor's report is Kristopher S. Catalan.

SYCIP GORRES VELAYO & CO.



Kristopher S. Catalan  
Partner

CPA Certificate No. 109712

SEC Accreditation No. 1509-AR-1 (Group A),  
October 18, 2018, valid until October 17, 2021

Tax Identification No. 233-299-245

BIR Accreditation No. 08-001998-109-2018,  
February 14, 2018, valid until February 13, 2021

PTR No. 7332534, January 3, 2019, Makati City

May 3, 2019



# CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	December 31	
	2018	2017 (As restated, Notes 5 and 31)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	\$17,443,001	\$37,222,737
Trade and other receivables (Note 7)	14,725,878	13,035,433
Inventories (Note 8)	28,303,005	38,996,592
Amounts owed by related parties (Note 20)	57,004,906	50,383,831
Other current assets (Note 9)	2,617,509	2,523,380
	120,094,299	142,161,973
Noncurrent assets held for sale (Note 12)	-	11,408,611
<b>Total Current Assets</b>	120,094,299	153,570,584
<b>Noncurrent Assets</b>		
Available-for-sale (AFS) financial asset (Note 10)	-	1,667,000
Other financial asset at amortized cost (Note 11)	469,588	-
Held-to-maturity (HTM) investment (Note 11)	-	480,563
Investment properties (Note 13)	10,605,040	-
Property, plant and equipment (Note 14)	38,160,729	31,293,890
Intangible assets (Note 15)	93,083,644	92,856,336
Deferred income tax assets - net (Note 27)	205,074	207,375
Other noncurrent assets (Note 16)	1,950,980	2,002,376
<b>Total Noncurrent Assets</b>	144,475,055	128,507,540
<b>TOTAL ASSETS</b>	\$264,569,354	\$282,078,124
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 17)	\$16,810,575	\$39,998,617
Short-term loans (Note 18)	53,710,000	64,040,088
Current portion of long-term debt (Note 19)	11,045,751	4,253,270
Amounts owed to related parties (Note 20)	601,193	543,203
Dividend payable (Notes 20 and 31)	20,601	-
Income tax payable	458,785	235,000
<b>Total Current Liabilities</b>	82,646,905	109,070,178
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Note 19)	62,300,920	33,624,575
Deposit for future stock subscriptions (Notes 20 and 31)	189,107	-
Retirement benefit obligation (Note 25)	1,555,062	1,890,149
Deferred income tax liabilities - net (Note 27)	4,090,991	3,510,136
<b>Total Noncurrent Liabilities</b>	68,136,080	39,024,860
<b>Total Liabilities</b>	150,782,985	148,095,038
<b>Equity (Note 31)</b>		
Common stock	9,594,321	9,594,321
Preferred stock	2,615,995	2,037,113
Additional paid-in capital	100,469,659	100,469,659
Equity reserve	4,030,214	4,030,214
Other comprehensive income (loss)	(1,255,830)	196,292
Retained earnings	25,144,690	24,672,847
	140,599,049	141,000,446
Parent company shares held by a subsidiary	(26,812,680)	(7,017,360)
<b>Total Equity</b>	113,786,369	133,983,086
<b>TOTAL LIABILITIES AND EQUITY</b>	\$264,569,354	\$282,078,124

See accompanying Notes to Consolidated Financial Statements.



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2018	2017 (As restated, Notes 5 and 31)	2016
<b>REVENUE FROM CONTRACTS WITH CUSTOMERS</b> (Note 21)	<b>\$106,474,833</b>	<b>\$–</b>	<b>\$–</b>
<b>NET SALES</b>	<b>–</b>	<b>88,709,634</b>	<b>74,322,312</b>
<b>COST OF SALES</b> (Note 22)	<b>(84,624,337)</b>	<b>(70,430,440)</b>	<b>(61,566,107)</b>
<b>GROSS PROFIT</b>	<b>21,850,496</b>	<b>18,279,194</b>	<b>12,756,205</b>
<b>OPERATING EXPENSES</b> (Note 23)	<b>(15,587,401)</b>	<b>(12,214,355)</b>	<b>(4,353,603)</b>
<b>FINANCIAL INCOME (EXPENSES)</b>			
Interest income (Notes 6, 9 and 11)	42,204	84,463	380,095
Interest expense (Notes 18 and 19)	(4,847,519)	(3,404,730)	(1,375,227)
	<b>(4,805,315)</b>	<b>(3,320,267)</b>	<b>(995,132)</b>
<b>OTHER INCOME - Net</b> (Note 26)	<b>8,328,056</b>	<b>506,256</b>	<b>747,890</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>9,785,836</b>	<b>3,250,828</b>	<b>8,155,360</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 27)			
Current	884,352	521,332	559,457
Deferred	567,239	(420,537)	(12,125)
	<b>1,451,591</b>	<b>100,795</b>	<b>547,332</b>
<b>NET INCOME</b>	<b>8,334,245</b>	<b>3,150,033</b>	<b>7,608,028</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on retirement benefit, net of deferred tax (Note 25)	214,878	155,963	(486,091)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$8,549,123</b>	<b>\$3,305,996</b>	<b>\$7,121,937</b>
<b>Basic/Diluted Earnings Per Share</b> (Note 28)	<b>\$0.011</b>	<b>\$0.008</b>	<b>\$0.018</b>

See accompanying Notes to Consolidated Financial Statements.





# CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Other Comprehensive Income (Loss)							Parent Company Shares Held by a Subsidiary (Note 31)	Retained Earnings (Note 31)	Subtotal	Total
	Common Stock (Note 31)	Preferred Stock (Note 31)	Additional Paid-in Capital (Note 31)	Equity Reserve	Remeasurement gains (losses) on retirement benefit (Note 25)	Change in Fair Value of Investments at FVTOCI (Note 10)	\$-				
<b>BALANCES AT DECEMBER 31, 2015</b>	\$9,594,321	\$221,239	\$35,896,893	\$4,138,375	\$526,420	\$-	\$-	\$-	\$20,896,548	\$526,420	\$71,273,796
Net income	-	-	-	-	-	-	-	-	7,608,028	-	7,608,028
Other comprehensive income (loss)	-	-	-	-	(486,091)	-	-	-	-	(486,091)	(486,091)
Total comprehensive income (loss)	-	-	-	-	(486,091)	-	-	-	7,608,028	(486,091)	7,121,937
Cash dividends declared	-	-	-	-	-	-	-	-	(3,620,000)	-	(3,620,000)
Acquisition by subsidiary of parent company's shares	-	-	-	-	-	-	-	(49,566,535)	-	-	(49,566,535)
<b>BALANCES AT DECEMBER 31, 2016</b>	9,594,321	221,239	35,896,893	4,138,375	40,329	-	-	(49,566,535)	24,884,576	40,329	25,209,198
Net income, as previously reported	-	-	-	-	-	-	-	-	4,296,210	-	4,296,210
Effect of restatements (Note 5)	-	-	-	-	-	-	-	-	(1,146,177)	-	(1,146,177)
Net income, as adjusted	-	-	-	-	-	-	-	-	3,150,033	-	3,150,033
Other comprehensive income	-	-	-	-	155,963	-	-	-	-	155,963	155,963
Total comprehensive income	-	-	-	-	155,963	-	-	-	3,150,033	155,963	3,305,996
Issuance of capital stock (Note 31)	-	1,815,874	65,673,267	-	-	-	-	-	-	-	67,489,141
Stock issue costs (Note 31)	-	-	(1,100,501)	-	-	-	-	-	-	-	(1,100,501)
Cash dividends declared (Note 31)	-	-	-	-	-	-	-	-	(3,361,762)	-	(3,361,762)
Sale by subsidiary of parent company's shares, as previously reported	-	-	-	(108,161)	-	-	-	47,067,228	-	-	46,959,067
Effect of restatements (Note 31)	-	-	-	-	-	-	-	(4,518,053)	-	-	(4,518,053)
Sale by subsidiary of parent company's shares, as restated	-	-	-	(108,161)	-	-	-	42,549,175	-	-	42,441,014
<b>BALANCES AT DECEMBER 31, 2017, AS RESTATED</b>	\$9,594,321	\$2,037,113	\$100,469,659	\$4,030,214	\$196,292	\$-	\$-	(\$7,017,360)	\$24,672,847	\$196,292	\$133,983,086
<b>BALANCES AT DECEMBER 31, 2017, AS PREVIOUSLY REPORTED</b>	\$9,594,321	\$2,037,113	\$100,469,659	\$4,030,214	\$196,292	\$-	\$-	(\$2,499,307)	\$25,819,024	\$196,292	\$139,647,316
Effect of restatements (Notes 5 and 31)	-	-	-	-	-	-	-	(4,518,053)	(1,146,177)	-	(5,664,230)
<b>BALANCES AT DECEMBER 31, 2017, AS RESTATED</b>	\$9,594,321	\$2,037,113	\$100,469,659	\$4,030,214	\$196,292	\$-	\$-	(\$7,017,360)	\$24,672,847	\$196,292	\$133,983,086



	Other Comprehensive Income (Loss)							Total
	Common Stock (Note 31)	Preferred Stock (Note 31)	Additional Paid-in Capital (Note 31)	Equity Reserve	Remeasurement gains (losses) on retirement benefit (Note 25)	Fair Value of Equity Investments at FVTOCI (Note 10)	Subtotal	
BALANCES AT JANUARY 1, 2018	\$9,594,321	\$2,037,113	\$100,469,659	\$4,030,214	\$196,292	\$-	\$196,292	\$133,983,086
Effect of PFRS 9 (Note 2)	-	-	-	-	-	(1,667,000)	(1,667,000)	(1,667,000)
BALANCES AT JANUARY 1, 2018, AS ADJUSTED	9,594,321	2,037,113	100,469,659	4,030,214	196,292	(1,667,000)	(1,470,708)	132,316,086
Net income	-	-	-	-	-	-	-	8,334,245
Other comprehensive income	-	-	-	-	214,878	-	214,878	214,878
Total comprehensive income	-	-	-	-	214,878	-	214,878	8,549,123
Issuance of preferred stock (Note 31)	-	578,882	-	-	-	-	-	578,882
Cash dividends declared (Note 31)	-	-	-	-	-	-	-	(7,862,402)
Acquisition by subsidiary of parent company's shares (Note 31)	-	-	-	-	-	-	-	(19,795,320)
BALANCES AT DECEMBER 31, 2018	\$9,594,321	\$2,615,995	\$100,469,659	\$4,030,214	\$411,170	\$(1,667,000)	\$(25,144,690)	\$113,786,369

See accompanying Notes to Consolidated Financial Statements.



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2018</b>	<b>2017 (As restated, Note 31)</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	\$9,785,836	\$3,250,828	\$8,155,360
Adjustments for:			
Depreciation and amortization (Notes 14 and 15)	5,860,524	4,126,018	2,906,520
Interest expense (Notes 18 and 19)	4,847,519	3,404,730	1,375,227
Net gain on changes in fair value of investment properties (Notes 13 and 26)	(2,042,656)	-	-
Interest income (Notes 6, 9 and 11)	(42,204)	(84,463)	(380,095)
Movement in net retirement benefit obligation (Note 25)	(16,361)	245,263	34,812
Net unrealized foreign exchange gains	(31,798)	(48,619)	(19,282)
Loss on disposal of property, plant and equipment	10,389	-	-
Gain on disposal of financial assets at FVTPL (Notes 9 and 26)	-	-	(262,332)
Operating income before working capital changes	18,371,249	10,893,757	11,810,210
Decrease (increase) in:			
Trade and other receivables	10,693,587	14,063,141	(9,508,529)
Inventories	(1,685,925)	(13,685,238)	(9,544,825)
Other current assets	(166,056)	472,975	(79,881)
Increase (decrease) in trade and other payables	(23,614,099)	(183,095)	5,628,543
Cash generated from (used in) operations	3,598,756	11,561,542	(1,694,482)
Interest received	48,659	78,888	465,984
Income taxes paid	(656,080)	(616,191)	(353,536)
Net cash from (used in) operating activities	2,991,335	11,024,239	(1,582,034)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Property, plant and equipment (Note 14)	(8,501,832)	(5,553,216)	(7,546,010)
Product development costs (Note 15)	(1,617,281)	-	-
A subsidiary, net of cash acquired (Note 5)	-	(81,303,212)	-
HTM investment (Note 12)	-	(480,563)	-
Proceeds from disposal of:			
Property, plant and equipment	280	-	-
Financial assets at FVTPL (Note 9)	-	-	19,709,049
Redemption of HTM investments (Note 11)	-	371,520	518,269
Increase (decrease) in other noncurrent assets	44,804	(754,094)	(1,291,781)
Net cash from (used in) investing activities	(10,074,029)	(87,719,565)	11,389,527

(Forward)



	Years Ended December 31		
	2018	2017 (As restated, Note 31)	2016
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of:			
Short-term loans (Note 18)	\$39,778,000	\$94,414,857	\$22,080,857
Long-term debt (Note 19)	—	—	30,000,000
Proceeds from issuance of preferred stock	—	67,489,141	—
Payments of:			
Cash dividends (Note 31)	(7,841,801)	(3,361,762)	(3,620,000)
Interest (Notes 18 and 19)	(4,220,235)	(3,823,363)	(1,271,687)
Long-term debts (Note 19)	(4,360,000)	(7,025,962)	(9,121,198)
Short-term loans (Note 18)	(10,108,088)	(62,000,714)	(1,290,000)
Debt issuance costs (Note 19)	(300,274)	—	(321,605)
Stock issue costs	—	(775,635)	—
Proceeds from sale by a subsidiary of parent company shares (Note 31)	—	42,441,015	—
Acquisition by subsidiary of the parent company shares (Note 31)	(19,795,320)	—	(49,566,535)
Collection of subscription receivables (Note 31)	578,882	—	—
Cash received as deposit for future stock subscription (Note 31)	189,107	—	—
Net movement in amounts owed by and owed to related parties (Note 20)	(6,563,085)	(37,924,203)	(1,805,357)
Net cash from (used in) financing activities	(12,642,814)	89,433,374	(14,915,525)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(54,228)	(26,804)	(157,341)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(19,725,508)	12,711,244	(5,265,373)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	37,222,737	24,511,493	29,776,866
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	\$17,443,001	\$37,222,737	\$24,511,493

See accompanying Notes to Consolidated Financial Statements.



# **CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Corporate Information and Authorization for Issuance of Consolidated Financial Statements**

#### **Corporate Information**

Cirtek Holdings Philippines Corporation (CHPC or the “Parent Company”) was incorporated under the laws of the Republic of the Philippines on February 10, 2011 to invest in, purchase or acquire personal property of every kind, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities. The Parent Company’s corporate life is 50 years starting from the date of registration with the Philippine Securities and Exchange Commission (SEC).

The Parent Company was listed in the Philippine Stock Exchange on November 18, 2011.

Prior to the listing, the Parent Company had undergone a corporate reorganization on March 1, 2011 which includes an acquisition from Cirtek Holdings, Inc. (CHI) of 155,511,952 common shares of Cirtek Electronics Corporation (CEC), and 50,000 shares of Cirtek Electronics International Corporation (CEIC), representing 100% of the outstanding capital stock of both companies. The above transaction was treated as a business combination of entities under common control and was accounted for similar to pooling-of-interests method.

Camerton Inc. (Camerton) is the immediate parent of CHPC, while Carmetheus Holdings, Inc. is the ultimate parent company of CHPC and its subsidiaries (the “Group”).

CHPC, through its subsidiaries CEC and CEIC, is primarily engaged in two major activities: (1) the manufacture and sales of semiconductor packages as an independent subcontractor for outsourced semiconductor assembly, test and packaging services, and (2) the manufacture of value-added, highly integrated technology products. CEC provides turnkey solutions that include package design and development, wafer probing, wafer back grinding, assembly and packaging, final testing of semiconductor devices, and delivery and shipment to its customers’ end users. CEIC sells integrated circuits principally in the United States of America, and assigns the production of the same to CEC. In 2014, CEIC acquired Remec Broadband Wireless Inc. (RBWI or REMEC), renamed as Cirtek Advanced Technologies and Solutions, Inc. (CATS), a manufacturer of value-added, highly integrated technology products. CATS offers complete “box build” turnkey manufacturing solutions to radio frequency, microwave and millimeterwave products used in the wireless industry such as telecommunication, satellite, aerospace and defense, and automotive wireless devices.

The Parent Company’s registered address is 116 East Main Avenue, Phase V-SEZ, Laguna Technopark, Biñan, Laguna.

#### ***Incorporation of Cirtek Corporation and Cirtek Cayman Ltd. (CCL, Merger Subsidiary)***

Cirtek Corporation was incorporated on July 7, 2017 under the laws of Delaware, USA, to engage in lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware. Cirtek Corporation is a wholly owned subsidiary of CEIC.

In the same period, CCL was incorporated in the Cayman Islands. CCL is a wholly owned subsidiary of Cirtek Corporation and was merged with Quintel Cayman Ltd. (Quintel) in accordance with the Agreement and Plan of Merger (“Agreement”) between the Group and the previous stockholders of Quintel.



#### *Acquisition of Quintel*

On July 28, 2017, the Parent Company's Board of Directors, (BOD) approved the acquisition of Quintel and its subsidiaries for \$83.2 million (see Note 5). Quintel is a leading innovator of spectrum and space-efficient base station antennas for wireless networks.

In accordance with the Agreement, CCL was merged with and into Quintel, with the latter as the surviving corporation. All outstanding shares, warrants, and stock options of the previous stockholders of Quintel were converted to a right to receive the consideration from CHPC and Cirtex Corporation. As a result of the merger, each of CCL's one hundred (100) issued and outstanding shares shall be converted into and exchanged for one (1) validly issued, fully paid and non-assessable share of the surviving company. On the other hand, each of Quintel's issued and outstanding shares before the merger shall be cancelled and extinguished, and be converted automatically into the right to receive a portion of the purchase price.

The Group believes that Quintel's cutting edge research and development and product capabilities significantly add to and complement the Group's growing portfolio in wireless communication, and is aligned with its business focus on high-growth market segments. Furthermore, being the strategic manufacturing partner of Quintel products places the Group in a unique situation to achieve significant synergies through value engineering, research and development collaboration as well as cost reduction, resulting in high-quality, reliable and cost-competitive products.

On August 4, 2017, the Assistant Registrar of Companies for the Cayman Islands issued a Certificate of Merger stating that the companies have merged effective on said date.

#### Authorization for Issuance of Consolidated Financial Statements

The consolidated financial statements of the Group as at December 31, 2018 and 2017 and for each of the three years ended December 31, 2018 were approved and authorized for issuance by the BOD on May 3, 2019.

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## **2. Summary of Significant Accounting and Financial Reporting Policies**

#### Basis of Preparation

The consolidated financial statements of the Group are prepared on a historical cost basis except for financial asset at fair value through profit or loss (FVTPL), certain equity instruments and investment properties, which are carried at fair value, and noncurrent assets held for sale, which are stated at the lower of carrying amount and fair value less costs to sell. The consolidated financial statements are presented in United States (US) dollars (\$), which is the Parent Company's functional and presentation currency. All amounts are rounded off to the nearest US dollar except when otherwise indicated.

#### Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) as issued by the Financial Reporting Standards Council (FRSC). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations issued by the Philippine Interpretations Committee.



### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2018 and 2017:

	Country of Incorporation	Percentage of Ownership			
		2018		2017	
		Direct	Indirect	Direct	Indirect
CEC	Philippines	100	—	100	—
CEIC	BVI	100	—	100	—
CATS	BVI	—	100	—	100
CATS - Philippine Branch	Philippines	—	100	—	100
RBW Realty and Property, Inc. (RBWRP)	Philippines	—	100	—	100
Cirtek Corporation	United States of America	—	100	—	100
Quintel	Cayman Islands	—	100	—	100
Quintel Technology, Ltd.	United Kingdom	—	100	—	100
Quintel USA	United States of America	—	100	—	100
Telecom Quintel Mauritius, Ltd.*	Republic of Mauritius	—	100	—	100

\*In the process of dissolution.

Subsidiaries are entities over which the Parent Company has control. 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;
- 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 consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments, where necessary, are made to ensure consistency with the policies adopted by the Group.

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 stand-alone 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 Company'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.

#### Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as an acquirer shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.



Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9 (previously PAS 39) is measured at fair value with changes in fair value recognized either in profit or loss. If the contingent consideration is not within the scope of PFRS 9, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

#### *Common control business combinations*

Where there are group reorganizations and business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent (i.e., controlling shareholders) before and after the business combination and the control is not transitory (business combinations under common control), the Group accounts for such group reorganizations and business combinations similar to a pooling-of-interests method. The assets and liabilities of the acquired entities and that of the Parent Company are reflected at their carrying values at the stand-alone financial statements of the investee companies. The difference in the amount recognized and the fair value of the consideration given is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction without loss of control, the difference in the amount recognized and the fair value of consideration received is also accounted for as an equity transaction.

The Group records the difference as equity reserve and is presented as a separate component of equity in the consolidated balance sheet. Comparatives shall be restated to include balances and transactions as if the entities have been acquired at the beginning of the earliest period presented in the consolidated financial statements, regardless of the actual date of the combination.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new pronouncements starting January 1, 2018. Unless otherwise indicated, the adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.



- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*, address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight. These amendments are not applicable to the Group.
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*, address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*, clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*, clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.
- PFRS 9, *Financial Instruments*  
PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied PFRS 9 using the modified retrospective method, with an initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39.



The impact of the adoption is described below:

*Classification and measurement*

Under PFRS 9, debt instruments are subsequently measured at FVTPL, amortized cost or FVTOCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application and then applied to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Financial assets previously carried at amortized cost continue to be carried at amortized cost under PFRS 9, whereas, financial assets previously held a fair value under PAS 39, continue to be measured at fair value under PFRS 9. The following are the changes in the classification of the Group's financial assets:

The following are the changes in the classifications of the Group's financial assets.

- a. Cash and cash equivalents, trade and other receivables, amounts owed by related parties, rental and security deposits, loan to employees and miscellaneous deposits previously classified as "Loans and receivables" and government securities classified as "HTM investments" qualified as held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as debt instruments financial assets to be measured at amortized cost.
- b. Equity investment classified as an AFS financial asset as at December 31, 2017 is classified and measured as equity instrument designated at FVTOCI beginning January 1, 2018. The Group elected to classify irrevocably its equity investment under this category at the date of initial application as it intends to hold this investment for the foreseeable future. There were no impairment losses recognized in profit or loss for this investment in prior periods.

As the Group availed of the cost exemption under PAS 39, the equity investment is carried at cost as of December 31, 2017. The Group revalued the equity investment at its fair value as at January 1, 2018 resulting to a reduction of net changes in fair value amounting to \$1.7 million.

- c. The adoption of PFRS 9 did not result to changes to the classification and measurement of financial liabilities. All of the Group's financial liabilities are classified and measured at amortized cost.



A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 as of January 1, 2018, is as follows:

PAS 39 measurement category	Balances	PFRS 9 measurement category		
		FVTPL	FVTOCI	Amortized cost
<b>Loans and receivables:</b>				
Cash and cash equivalents	\$37,222,487	\$—	\$—	\$37,222,487
Trade and other receivables	13,035,433	—	—	13,035,433
Amounts owed by related parties	50,383,831	—	—	50,383,831
<b>Other current assets:</b>				
Rental deposit	1,203,004	—	—	1,203,004
Loans to employees	312,451	—	—	312,451
Security deposit	182,510	—	—	182,510
<b>Other noncurrent assets:</b>				
Miscellaneous deposits	177,591	—	—	177,591
Loans to employees	233	—	—	233
<b>HTM investment</b>	<b>480,563</b>	<b>—</b>	<b>—</b>	<b>480,563</b>
<b>Financial asset at FVTPL*</b>	<b>501</b>	<b>501</b>	<b>—</b>	<b>—</b>
<b>AFS financial asset**</b>	<b>1,667,000</b>	<b>—</b>	<b>1,667,000</b>	<b>—</b>
	<b>\$104,665,604</b>	<b>\$501</b>	<b>\$1,667,000</b>	<b>\$102,998,103</b>

\*Included in 'Other current assets'

\*\*As discussed, the Parent Company recognized a reduction of net changes in fair value of equity investment at FVTOCI amounting to \$1.7 million as at January 1, 2018.

#### Impairment

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at FVTPL.

For cash and cash equivalents, other receivables and amounts owed by related parties, management evaluated that these financial assets have low credit risk. Hence, the Company measured ECL on these instruments on a 12-month basis applying the low credit risk simplification. The Company uses external credit ratings both to determine whether the cash and cash equivalents, other receivables and amounts owed by related parties has significantly increased in credit risk and to estimate ECL.

For the Group's trade receivables, PFRS 9's simplified approach was applied where ECLs are calculated based on lifetime 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 adoption of PFRS 9 did not have any significant impact on the Group's provision for impairment on its financial assets.

- **PFRS 15, Revenue from Contracts with Customers**  
PFRS 15 supersedes PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.



PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Group adopted PFRS 15 using the modified retrospective approach of adoption with January 1, 2018 as the date of initial application. Under this method, the standard can be applied either to all contracts at date of initial application or only to contracts that are not completed at the date of initial application. The Company elected to apply the standard to all contracts as of January 1, 2018.

*Sale of goods*

Prior to the adoption of PFRS 15, the Group recognized revenue from sale of goods when goods are delivered, title and risk of ownership have passed, the price to the buyer is fixed or determinable, and recoverability is reasonably assured.

Under PFRS 15, the Group assessed that the contracts with customers did not meet any criteria in recognizing revenue over time. Although the products created have no alternative use to the Group considering that goods manufactured are based on customer purchase order or scheduling agreement, the Group's right to payment for performance completed to date in case of termination for reasons other than the Group's failure to perform as promised do not include a reasonable profit margin. Thus, the Group assessed that the adoption of PFRS 15 did not change the timing of revenue recognition and amount of revenue to be recognized.

Furthermore, the Group reclassified "Advances from customers" to "Contract liabilities" amounting to \$2.8 million as at January 1, 2018.

The Group provided new disclosures to comply with the requirements of PFRS 15 such as disaggregated revenue information, among others.

New Accounting Standards, Amendments to Existing Standards and Interpretation Effective Subsequent to December 31, 2018

The standards, amendments and interpretation which have been issued and are effective as at December 31, 2018 are disclosed below. The Group intends to adopt these standards, amendments and interpretation, if applicable, when they become effective.

*Effective beginning on or after January 1, 2019*

- *Amendments to PFRS 9, Prepayment Features with Negative Compensation*  
Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.



- **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 leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) 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. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

- **Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement***

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in consolidated statement of income. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in OCI.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.





- **Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures***  
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

These amendments are not expected to have any significant impact on the consolidated financial statements.

- **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.

This interpretation is not expected to be relevant to the Group because there has been no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred income taxes as of December 31, 2018 and 2017.

- **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***  
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.



An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- **Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity***

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- **Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization***  
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

***Effective beginning on or after January 1, 2020***

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

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply on future business combinations of the Group.

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

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of



the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective beginning on or after January 1, 2021*

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

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

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

*Deferred effectivity*

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

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

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2018 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.



## **Summary of Significant Accounting Policies**

### **Current versus Noncurrent Classification**

The Group presents assets and liabilities in the consolidated balance sheet based on current/noncurrent classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as noncurrent.

### **Fair Value Measurement**

The Group measures certain financial instruments and nonfinancial assets at fair value at each balance sheet date. Also, the Group discloses the fair values of financial instruments measured at amortized cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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



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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

#### Financial Instruments - Effective January 1, 2018

##### *Financial assets*

##### *Initial recognition and measurements*

Financial assets are classified as financial assets measured at amortized cost, FVTPL and FVTOCI.

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 or for which the Group has applied the practical expedient, 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 or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15 (refer to the Revenue Recognition policy).

In order for a financial asset to be classified and measured at amortized cost or FVTOCI, it needs to give rise to cash flows that are 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*

The subsequent measurement of financial assets depends on their classification as described below:

- *Financial assets at amortized cost* - This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:
  - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

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

As at December 31, 2018, this category includes the Group's cash and cash equivalents, trade and other receivables, amounts owed by related parties, investment in Philippine government securities, rental and security deposits, loans to employees and miscellaneous deposits.

- *Financial assets designated at FVTOCI (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 the profit or loss. Dividends are recognized as other income in the 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 FVTOCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

As at December 31, 2018, this category includes the Group's investment in unquoted shares.

- *Financial assets designated at FVTOCI (debt instruments)* - The Group measures debt instruments at FVTOCI 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 FVTOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in 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.



As of December 31, 2018, the Group has no debt instruments classified as financial assets designated at FVTOCI.

- *Financial assets at FVTPL* - Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are accounted for as financial assets at FVTPL unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the consolidated balance sheet at fair value with net changes in fair value presented as “Unrealized mark-to-market gain” (positive net changes in fair value) or “Unrealized mark-to-market loss” (negative net changes in fair value) in profit or loss.

As of December 31, 2018, this category includes the Group’s investment in Unit Investment Trust Fund (UITF).

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired; or
- the Group has transferred its right 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 the Group (a) has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all 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 that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

#### *Financial liabilities*

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, 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, short-term loans, amounts owed to related parties, dividend payable and long-term debts.

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below.

- *Financial liabilities at FVTPL* - Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVTPL.

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 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 profit or loss.

Financial liabilities designated upon initial recognition at FVTPL 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 at FVTPL.

- *Loans and borrowings* - This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well through the amortization process.

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 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.

#### *Derecognition*

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

#### Impairment of Financial Assets - Effective January 1, 2018

Beginning January 1, 2018, upon adoption of PFRS 9, the Group recognizes an allowance for ECLs for all financial assets except debt instruments held at FVTPL. 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 (EIR). 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 receivables that do not contain significant financing component, 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.

For debt instruments at FVTOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument.

For financial assets at amortized costs being individually assessed for ECLs, the Group applied lifetime ECL calculation. This involves determination of probability of default and loss-given default based on available data, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants. 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 Instruments - Effective Prior to January 1, 2018

##### *Financial assets*

##### *Initial recognition*

Financial assets within the scope of PAS 39 are classified as either financial assets at FVTPL, loans and receivables, HTM investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such classifications at every reporting date.

Financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVTPL, directly attributable transaction costs.

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

The Group's financial assets include cash and cash equivalents, trade and other receivables, financial assets at FVTPL, HTM investments, AFS financial asset, amounts owed by related parties, loans to employees (reported as part of 'Other current assets' and 'Other noncurrent



assets' in the consolidated balance sheet) and deposits (reported as part of 'Other current assets' and 'Other noncurrent assets' in the consolidated balance sheet).

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

#### *Financial assets at FVTPL*

Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition as at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or purchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39. Financial assets at FVTPL are carried in the consolidated balance sheet at fair value with gains or losses recognized in profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value when their risks and economic characteristics are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVTPL. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of FVTPL.

Financial assets designated as FVTPL are designated by management on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

As of December 31, 2017, the Group designated its investment in UITF as financial asset at FVTPL.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest method, less impairment. This method uses an EIR that exactly discounts estimated cash receipts through the expected life of the financial assets to the net carrying amount of the financial asset. 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. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Assets in this category are included in current assets except for maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

As of December 31, 2017, the Group has designated as loans and receivables its cash in banks and cash equivalents, trade and other receivables, amounts owed by related parties, loans to



employees (reported as part of 'Other current assets' and 'Other noncurrent assets' in the consolidated balance sheet) and deposits (reported as part of 'Other current assets' and 'Other noncurrent assets' in the consolidated balance sheet).

*HTM investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Group has the positive intention and ability to hold it to maturity. After initial measurement, HTM investments are measured at amortized cost using the effective method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2017, the Group has HTM investments in Philippine government securities.

*AFS financial assets*

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or change in market conditions.

After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized directly in OCI until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in profit or loss, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized in profit or loss.

As of December 31, 2017, the Group's AFS financial asset pertains to investment in unquoted equity shares.

*Financial liabilities*

*Initial recognition*

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVTPL, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial liabilities are recognized initially at fair value and, in the case of financial liabilities not at FVTPL, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, short-term loans, long-term debt and amounts owed to related parties.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at FVTPL*

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by PAS 39.



Gains and losses on liabilities held for trading are recognized in profit or loss.

The Group does not have a financial liability at FVTPL as of December 31, 2017.

*Other financial liabilities*

Other financial liabilities are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

As of December 31, 2017, the Group's other financial liabilities includes trade and other payables, short-term loans, amounts owed to related parties and long-term debt.

Impairment of Financial Assets - Effective Prior to January 1, 2018

The Group assesses, at each balance sheet date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss is recognized in profit or loss.

*Financial assets carried at amortized cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or 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 loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's 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 EIR (i.e., the EIR 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 profit or loss. 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.



*Financial assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Offsetting of Financial Instruments

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

Inventories

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

- |   |   |
|---|---|
| Raw materials, spare parts, supplies and others | - purchase cost on a first-in, first-out (FIFO) basis;  |
| Finished goods and work-in-process inventories  | - cost of direct materials and labor and a proportion of manufacturing overhead cost. Costs are determined on a standard cost basis. Standard costs take into account normal levels of materials and supplies, labor, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in light of current conditions. |

NRV of finished goods and work-in-process inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV of raw materials, spare parts, supplies and others is the current replacement cost.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment and borrowing cost when that cost is incurred and if the recognition criteria are met. Repairs and maintenance are recognized in profit or loss as incurred. Land is carried at cost less any impairment in value.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

Construction in progress represents property under construction and is stated at cost. This includes costs of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.



Depreciation commences when an asset is in its location and condition and capable of being operated in the manner intended by management. Depreciation is calculated on a straight-line method over the estimated useful lives of the property, plant and equipment as follows:

Category	Number of Years
Machinery and equipment	7-15
Buildings and improvements	5-25
Facility and production tools	5-8
Furniture, fixtures and equipment	2-5
Transportation equipment	5-7

Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The property, plant and equipment's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

Fully depreciated assets are retained in the accounts until these are no longer in use. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

#### Noncurrent Assets Held for Sale

Property, plant and equipment are classified as held for sale if their carrying amount will be recovered principally through a sale transaction expected to be completed within one year from the date of classification, rather than through continuing use. Noncurrent assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification, unless the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the assets.

Property, plant and equipment are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheet.

The Group shall measure a noncurrent asset that ceases to be classified as held for sale at the lower of its:

- a. carrying amount before the asset was classified as held for sale, adjusted for any depreciation and amortization that would have been recognized had the asset not been classified as held for sale; and
- b. recoverable amount at the date of the subsequent decision not to sell or distribute.



If the Group has classified an asset as held for sale, but the criteria for held for sale classification are no longer met, the Group shall cease to classify the asset as held for sale.

The Group shall recognize any required adjustment to the carrying amount of a noncurrent asset that ceases to be classified as held for sale in profit or loss in the period in which the criteria are no longer met.

#### Investment Properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee (IVSC).

Investment properties are derecognized either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in PFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. Foreign currency exchange differences are included in the determination of borrowing costs to be capitalized, but only to the extent that they are an adjustment to the interest cost on the borrowing.

#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible asset with finite life is amortized over its economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each balance sheet date. Changes in the expected useful life or the expected





pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the assessment can be supported. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The Group recognizes an intangible asset acquired in a business combination if it is identifiable and distinguishable from goodwill. The Group considers an intangible asset as identifiable if:

- it is separable, i.e., there is evidence of exchange transactions for the asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the Group is involved in those transactions; or
- it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations (“contractual-legal” criterion).

The Group’s intangible assets recognized from business combination pertain to customer relationship, trademark and technology. Trademark and customer relationships are estimated to have an indefinite useful life, and will be subject to yearly impairment testing. The Group estimates that technology will have an economic life of 10 years.

#### Research and Development Costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit, which is estimated to be five (5) to ten (10) years. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

#### Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. The Group has designated as nonfinancial assets its prepaid expenses, advances to suppliers, property, plant and equipment, intangible assets, project development costs and other assets. If any such indication exists, or when annual impairment testing for a nonfinancial asset is required, the Group makes an estimate of the nonfinancial asset’s recoverable amount. A nonfinancial asset’s estimated recoverable amount is the higher of a nonfinancial asset’s or CGU’s fair value less costs to sell and its value in use (VIU) and is determined for an individual asset,



unless the nonfinancial asset does not generate cash inflows that are largely independent of those from other nonfinancial assets or groups of nonfinancial assets. Where the carrying amount of a nonfinancial asset exceeds its estimated recoverable amount, the nonfinancial asset is considered impaired and is written down to its estimated recoverable amount. In assessing VIU, 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 nonfinancial asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the nonfinancial asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the nonfinancial asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the non-financial asset in prior years. Such reversal is recognized in profit or loss.

#### Capital Stock

Capital stock, which consists of common stock and preferred stock, is measured at par value for all shares issued. Proceeds and/or fair value of consideration received in excess of par value, if any, are recognized as additional paid-in capital (APIC).

#### Subscription Receivable

The unpaid portion of the subscribed shares is deducted from capital stock and is measured at subscription price for all shares subscribed.

#### Deposit for Future Stock Subscription

Deposit for future stock subscription represent the amount received that will be applied as payment in exchange for a fixed number of the Parent Company's own shares of stock. When the Parent Company does not have sufficient unissued authorized capital stock but the BOD and stockholders have approved for a proposed increase in authorized capital stock that has been presented for filing or has been filed with the Philippine SEC as of the balance sheet date, the deposit for future stock subscription is presented in the equity section of the consolidated balance sheet. Otherwise, this is presented in the liability section of the consolidated balance sheet.

#### Retained Earnings

The amount included in retained earnings includes profit or loss attributable to the Group's equity holders and reduced by dividends on capital stock. Retained earnings may also include effect of changes in accounting policies as may be required by the standards' transitional provisions.

The Group may pay dividends in cash or by the issuance of shares of stock. Cash and property dividends are subject to the approval of the BOD, while stock dividends are subject to approval by the BOD, at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose, and by the Philippine SEC. Cash and property dividends on preferred and common stocks are recognized as liability and deducted from equity when declared. Stock dividends are treated as transfers from retained earnings to paid-in capital.



#### Equity Reserve

Equity reserve represents the effect of the application of the pooling-of-interests method and the difference of carrying amount and consideration of reissued Parent Company shares held by a subsidiary.

#### Parent Company Shares Held by a Subsidiary

These shares represent the Parent Company's common shares acquired by its subsidiary. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of these equity instruments. Any difference between the carrying amount and the consideration, if reissued, is charged or credited to Equity Reserve.

#### Other Comprehensive Income

Other comprehensive income comprises items of income and expenses that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income of the Group includes net changes in fair values of financial assets at FVTOCI and AFS financial assets, and remeasurements on retirement benefit obligation.

#### Revenue Recognition - Effective January 1, 2018

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company has concluded that it is principal in all of its revenue arrangements since it is the primary obligor in all revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

#### *Sale of goods*

Revenue from sale of goods is recognized at the point in time when the goods have been transferred to the customer (i.e., upon delivery). The Group's normal credit term is 30 to 120 days upon delivery.

Revenue is measured based on the transaction price the Group expects to be entitled to. The Group's contracts with customers generally provide customers with discounts. If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Variable considerations include discounts and right of return. Discounts and returns are not significant to the Group.

#### *Contract balances*

- *Contract assets.* A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays the consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.
- *Trade receivables.* A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets under Financial Assets and Financial Liabilities - Financial assets at amortized cost (debt instruments).
- *Contract liability.* A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is



due) from the customer. If the customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

#### Revenue Recognition - Effective Prior to January 1, 2018

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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, returns, rebates and other sales taxes or duties. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

##### *Sale of goods*

Revenue from the sale of goods (including scrap) is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods, net of discounts and returns. Discounts and returns are not significant to the Group.

##### Interest Income

Interest income is recognized as it accrues using the effective interest method.

##### Costs and Expenses Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

##### *Cost of sales*

Cost of sales is recognized when the related sale has met the criteria for recognition.

##### *Operating expenses*

Operating expenses are recognized in the period in which they are incurred.

##### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfillment of the arrangements is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised and extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. There is a substantial change to the asset.

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances give rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).



*The Group as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term.

**Retirement Benefits Costs**

*Defined benefit plans*

CEC and CATS are covered by a noncontributory defined benefit retirement plan. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

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 profit or loss. 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 profit or loss.

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.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information.

When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.



The Group's right to be reimbursed of some or all the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value and when, and only when, reimbursement is virtually certain.

#### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

The Group has a defined contribution plan covering substantially all employees of Quintel USA and Quintel Technology, Inc.

#### Foreign Currency-denominated Transactions

The consolidated financial statements are presented in US dollars, which is the Parent Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency spot rate ruling at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

All differences are taken to profit or loss. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of 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 taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the financial reporting date. Current income tax for the current and prior periods, shall, to the extent unpaid, be recognized as a liability in the consolidated balance sheet. If the amount already paid in respect of the current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset and be presented as part of "Other current assets" in the consolidated balance sheet.

##### *Deferred income tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary difference, and the carryforward of unused tax credits from excess MCIT over RCIT and unused NOLCO can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred income 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 laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized directly in equity and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to offset current tax assets against current tax liabilities exist and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax assets or liabilities are expected to be settled or recovered. Subsidiaries file income tax returns on an individual basis. Thus, the deferred income tax assets and deferred income tax liabilities are offset on a per entity basis.

#### Earnings Per Share (EPS)

Basic EPS is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year, adjusted for the effects of shares held by subsidiaries and with retroactive adjustments for any stock dividends and stock split.

For the purpose of calculating diluted earnings per share, the net income and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.



#### Operating Segments

The Group operating businesses are organized and managed separately according to the nature of products as well as the geographical locations of businesses. The segments are segregated as follows: (a) manufacture and sale of semiconductor packages based in the Philippines through CEC, (b) manufacture and sale of radio frequency, microwave, and millimeter-wave products based in the Philippines through CATS - Philippine Branch, and (c) sale of advanced high-efficiency, high-performance antenna solutions for wireless cellular networks based in the U.S. through Quintel. Information with respect to these subsidiaries are disclosed in Note 4. The Group operates and derives its revenue from its domestic operation and from its operation in the U.S. through Quintel.

#### Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and 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. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. 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 assessments 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.

#### Contingencies

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

#### Events After the Balance Sheet Date

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

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### **3. Significant Judgments, Accounting Estimates and Assumptions**

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, if any, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.





### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements:

#### *Determination of functional currency*

The functional currencies of the entities under the Group are the currencies of the primary economic environment in which the entities operate. It is the currency that mainly influences the sales prices of goods and cost of goods sold. Based on the economic substance of the underlying circumstances, the functional currency of the Parent Company and its subsidiaries is the US dollar.

#### *Determination of operating segments*

Determination of operating segments is based on the information about components of the Group that management uses to make decisions about operating matters. Operating segments use internal reports that are regularly reviewed by the Parent Company's chief operating decision maker, which is defined to be the Parent Company's BOD, in order to allocate resources to the segment and assess its performance. The Parent Company reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) its assets are 10% or more of the combined assets of all operating segments.

Management assessed that the Group's operating businesses are organized and managed separately according to the nature of products as well as the geographical locations of businesses (see Note 4).

#### *Reclassification from noncurrent assets as held for sale to investment properties and property, plant and equipment*

When CEIC acquired RBWRP and CATS, the manufacturing activities of CATS had been transferred to CEC facility for operational efficiency measures. As a result, the investment properties, machineries and building improvements owned by RBWRP and CATS became idle. On December 9, 2014, the BOD approved the plan to sell and dispose the said aforementioned assets to interested buyers. PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, requires entities to classify a noncurrent asset held for sale if its carrying amount will be recovered mainly through selling rather than through usage.

In 2017, the Group made a judgment that the noncurrent assets are held for sale since the Group's management was committed to selling the assets and was actively looking for interested buyers. During the one-year period, circumstances arose that were previously considered unlikely and, as a result, the noncurrent assets held for sale were not sold by the end of the one-year period. Furthermore, management took the necessary actions to respond to the change in circumstances and ensured that the noncurrent assets are being actively marketed at a price that is reasonable, given the change in circumstances. The properties were still classified as noncurrent assets held for sale as of December 31, 2017.



During the subsequent periods, the assets have not been sold by the end of those periods. Despite the Group's efforts to market the properties for sale as evidenced by a published advertisement form, the management does not expect the sale of the assets to be a "completed sale" within one year from December 31, 2018. As a result, the Group made the following plans in 2018:

- the land will be held for a currently undetermined future use. As per PAS 40, if an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation;
- the building will remain vacant but is held to be leased out under operating leases;
- machineries and building improvements will be held for administrative purposes and are expected to be used over a period of one year.

The Group reclassified land and building to investment properties and machineries and building improvements to property, plant and equipment. Land and building qualify as investment properties under PAS 40.

*Deferred income tax liability on a subsidiary's undistributed profits*

CEIC has undistributed profits as of December 31, 2018 and 2017 that will become taxable when distributed to the Parent Company. PAS 12 requires the recognition of deferred income tax liability on taxable temporary difference associated with investments in subsidiaries and interests in joint ventures, unless the Group has the ability to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group has made a judgment that it is probable that the temporary difference will not reverse in the foreseeable future based on management's plan that the Group will not be declaring dividends from CEIC in the foreseeable future. Accordingly, the Parent Company did not recognize deferred income tax liability on CEIC's undistributed earnings amounting to \$6.9 million and \$7.2 million as of December 31, 2018 and 2017, respectively.

*Impairment of nonfinancial assets (excluding goodwill and intangible assets with indefinite useful lives)*

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its estimated recoverable amount which is the higher of an asset's fair value less costs to sell and VIU. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Based on management's evaluation, no indication of impairment was noted on the Group's nonfinancial assets as of December 31, 2018 and 2017.



*Estimation of useful life of intangible assets acquired as part of business combination*

The assigned useful lives of intangibles assets acquired as part of business combination are estimated based on the period over which the asset is expected to be available for use. Such estimation is based on collective assessment of similar businesses, internal evaluation and experience with similar assets. Further, management considers the probability of renewal of certain permits and the cost and efforts in renewing such permits based on past experience. The useful life of each asset is reviewed at each financial year and updated if expectations differ from previous estimates due to technical or commercial obsolescence and legal or other limits on the use of the asset.

The Group estimates that technology will have an economic life of 5 years. Customer relationships and trademarks are estimated to have an indefinite useful lives, and will be subjected to annual impairment testing.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Determination of final fair values in business combination*

In 2018, the Group finalized the fair values of the net assets and liabilities acquired from its acquisition of Quintel on July 28, 2017. PFRS 3 allows the fair values of assets acquired and liabilities assumed to be refined continually for a period of one year after the acquisition date in cases where judgment is required to ensure the adjustments made reflect new information obtained about facts and circumstances that existed as of acquisition date.

The fair values of Quintel are disclosed in Note 5 to the consolidated financial statements (see Notes 5 and 15).

*Impairment testing of goodwill and intangible assets with indefinite useful life*

The Group determines whether goodwill and intangible assets with indefinite useful life are impaired at least on an annual basis or more frequently, if events or changes in circumstances indicate that it may be impaired. The Group performs impairment test of trademark and goodwill annually every reporting period.

Impairment is determined by assessing the recoverable amount of the CGU or group of CGU's to which the goodwill and intangible assets relate, which in this case was determined to be Quintel. The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets as approved by management covering five years of projections. The projected cash flows are based on expectations of future outcomes taking into account past experience and are consistent with external sources of information. Key assumptions on which management has based its cash flow projections include sales volume and price, variable costs, terminal growth rate and discount rate. Cash flows beyond the forecast period are extrapolated into perpetuity assuming 1.50% growth rate for impairment test purposes. The discount rate is a pre-tax measure based on the weighted average cost of capital of listed entities with similar assets or similar in terms of potential risk. The discount rate used is 10.7%.



Management believes that no reasonably possible change in any of the above assumptions would cause the carrying value of the goodwill, customer relationships and trademark to exceed its recoverable amount. Based on management's assessment, the recoverable amount of the goodwill and intangible assets with indefinite useful life is higher than the carrying value, thus no impairment loss was recorded. As of December 31, 2018 and 2017, the carrying value of the goodwill, customer relationships and trademark subjected to impairment testing amounted to \$55.5 million, \$23.7 million and \$7.5 million, respectively (see Note 15).

*Estimation of fair value less cost to sell of noncurrent assets held for sale - December 31, 2017*

The determination of the fair value less cost to sell of noncurrent assets held for sale is made with reference to the selling price of the asset in the market and other factors such as the local market conditions and the asking price of the potential buyers. As of December 31, 2017, the Group carries its noncurrent assets held for sale at lower of carrying amount and fair value less cost to sell of \$11.4 million (see Note 12).

*Estimation of fair value of investment properties - December 31, 2018*

The fair value of the Company's investment properties, consisting of land, and building and improvements, is based on a valuation made by professionally qualified independent appraisers who hold a recognized and relevant valuation license. The fair value was arrived at using Cost Approach. In this approach, the fair values of land and improvements are estimated separately. The value of the land is computed using the Market Approach and the value of the improvements is arrived at by computing the estimated replacement cost less estimated accrued depreciation. Based on the appraisal study on April 22, 2019 effective December 31, 2018, the fair value of these properties amounted to \$10.6 million (see Note 13).

*Fair values of financial instruments*

The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, fair values are validated and periodically reviewed by qualified independent personnel. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of the financial instruments of the Group are disclosed in Note 30 to the consolidated financial statements.

*Estimating useful lives of property, plant and equipment*

The Group estimates the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment 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 that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets. There were no changes in the useful lives of property, plant and equipment in 2018 and 2017.

Depreciation charged in the consolidated statements of comprehensive income amounted to \$4.5 million, \$3.4 million and \$2.7 million in 2018, 2017 and 2016, respectively. As of December 31, 2018 and 2017, the Group's property, plant and equipment have a net book value of \$38.2 million and \$31.3 million, respectively (see Note 14).



*Estimating allowance for inventory obsolescence*

The Group recognizes allowance for inventory obsolescence when the inventory items are no longer marketable and diminishes in value. Obsolescence is based on the physical and internal condition of inventory items. The Group reviews on a monthly basis the condition of its stocks. The assessment of the condition of the inventory goods either increase or decrease the expenses or total inventory.

In 2018, the Group's obsolete inventories written off amounted to \$0.7 million. The estimated allowance for inventory obsolescence amounted \$0.9 million and \$1.6 million as of December 31, 2018 and 2017, respectively. The carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to \$28.3 million and \$39.0 million as of December 31, 2018 and 2017, respectively (see Note 8).

*Provision for ECL on financial assets at amortized cost (expected credit loss model) - Effective starting January 1, 2018*

For cash in banks and cash equivalents, other receivables, amounts owed by related parties, various deposits and loans to employees, management evaluated that these financial assets have low credit risk. Hence, the Group measured ECL on these instruments on a 12-month basis applying the low credit risk simplification. The Group uses external credit ratings to determine whether the cash and cash equivalents, other receivables, amounts owed by related parties, various deposits and loans to employees have significantly increased in credit risk and to estimate ECL.

The Group uses a simplified approach to calculate ECL for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in forward-looking estimates are analyzed.

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

In its ECL model, the Group relies on a broad range of forward looking information as economic inputs such as gross domestic product and inflation. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Group's allowance for ECL on trade receivables as at December 31, 2018 amounted to \$0.5 million. The carrying amount of cash in banks and cash equivalents, trade and other receivables, amounts owed by related parties, various deposits, loans to employees and other financial assets at amortized cost amounted to \$92.6 million as at December 31, 2018 (see Notes 6, 7, 9, 11 and 16).



*Estimating of impairment of loans and receivables (incurred loss model) - Effective prior to January 1, 2018*

The Group maintains allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this impairment allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors, their payment behavior and known market factors. The Group reviews the age and status of receivable, and identifies accounts that are to be provided with allowance on a continuous basis either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment would increase the Group's recorded expenses and decrease current assets.

The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing the impairment is the inability to collect from the counterparty based on the contractual terms of the receivables.

For collective assessment, allowance is assessed for receivables that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectability.

The Group recognized allowance for impairment loss on trade and other receivables amounting to \$0.2 million for the year ended December 31, 2017. Allowance for impairment losses on trade receivables as of December 31, 2017 amounted to \$0.2 million. The carrying amount of loans and receivables, which include cash in banks and cash equivalents, trade and other receivables, amounts owed by related parties, loans to employees and deposits amounted to \$107.0 million as of December 31, 2017, respectively (see Notes 6, 7, 9, 11 and 16).

*Estimating retirement benefit cost and liability (defined benefit plans)*

The determination of the obligation for retirement benefits is dependent on the selection by management of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 25 and include among others, discount rate and salary increase rate. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While management believes that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligation.

The Group's retirement benefits costs arising from its defined benefit plans amounted to \$0.3 million, \$0.6 million and \$0.2 million in 2018, 2017 and 2016, respectively. As of December 31, 2018 and 2017, the Group's retirement benefit obligation amounted to \$1.6 million and \$1.9 million, respectively (see Note 25).

*Estimating useful life of software costs and capitalized product development costs*

The estimated useful lives of amortizing software costs and capitalized product development cost were determined on the basis of management's assessment of the period within which the benefits of these costs are expected to be realized by the Group.



As of December 31, 2018 and 2017, software with a total cost of \$39,278 has been fully amortized. The carrying amount of capitalized development costs amounted to \$2.1 million and \$0.7 million as of December 31, 2018 and 2017, respectively. The amortization of capitalized development cost amounted to \$0.2 million in 2018, 2017 and 2016 (see Note 15).

*Recoverability of deferred income tax assets*

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has recognized gross deferred income tax assets amounting to \$0.2 million as of December 31, 2018 and 2017 (see Note 27).

The Group did not recognize deferred income tax assets amounting to \$2.3 million and \$2.8 million on the deductible temporary differences, carryforward benefits of NOLCO and excess MCIT over RCIT as of December 31, 2018 and 2017, respectively.

*Determining provision for warranty*

The Group estimates the total warranty reserve to be recognized on the total internal and external sales for the period using a predetermined percentage rate. Assumptions made by the Group such as percentage used is based on their cumulative and industry experience on approximate inventory returns made by the customers.

The provision for warranty amounted to \$1.1 million and \$2.3 million as of December 31, 2018 and 2017, respectively (see Note 17).

*Provision and contingencies*

The Group is currently involved in various litigations and possible claims with third parties that are normal to its business. The estimate of probable costs for the resolution of these litigations and possible claims has been developed in consultation with outside legal counsel handling these matters and is based on an analysis of potential results. The Group currently does not believe that these litigations and possible claims will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings.

Provisions recognized as of and for the year ended December 31, 2018 amounted to \$0.2 million (see Notes 17 and 34).



#### 4. Operating Segments

Financial information on the Group's business segments as of and for the years ended December 31 are presented below. The amounts disclosed were determined consistent with the measurement basis under PFRS.

For the year ended December 31, 2018:

	CEC	CATS - Philippine Branch	Quintel	Eliminations and Consolidation Adjustments	Consolidated
Revenue from contracts with customers:					
External customers	\$44,240,950	\$7,599,796	\$54,634,087	\$-	\$106,474,833
Inter-segment	-	35,366,017	-	(35,366,017)	-
Total revenue from contracts with customers	\$44,240,950	\$42,965,813	\$54,634,087	(\$35,366,017)	\$106,474,833
Segment depreciation and amortization	\$3,206,711	\$1,165,693	\$1,488,120	\$-	\$5,860,524
Segment interest income	29,064	13,140	-	-	42,204
Segment interest expense	4,786,379	-	61,140	-	4,847,519
Segment profit (loss) before income tax	\$11,096,097	\$8,189,893	(\$684,778)	(\$8,815,376)	\$9,785,836
Segment provision for (benefit from) income tax	703,210	680,066	37,821	30,494	1,451,591
Segment profit (loss) after income tax	\$10,392,887	\$7,509,827	(\$722,599)	(\$8,845,870)	\$8,334,245





Other financial information of the operating segments as of December 31, 2018 is as follows:

	CEC	CATS - Philippine Branch	Quintel	Eliminations and Consolidation Adjustments	Consolidated
<b>Assets:</b>					
Current assets	\$124,850,608	\$46,770,966	\$17,004,639	(\$68,531,914)	\$120,094,299
Noncurrent assets	39,417,569	18,590,653	2,971,351	83,495,482	144,475,055
	<u>\$164,268,177</u>	<u>\$65,361,619</u>	<u>\$19,975,990</u>	<u>\$14,963,568</u>	<u>\$264,569,354</u>
<b>Liabilities:</b>					
Current liabilities	\$73,965,589	\$44,637,894	\$29,539,870	(\$65,307,341)	\$82,836,012
Noncurrent liabilities	63,352,537	693,806	360,000	3,540,630	67,946,973
	<u>\$137,318,126</u>	<u>\$45,331,700</u>	<u>\$29,899,870</u>	<u>(\$61,766,711)</u>	<u>\$150,782,985</u>

For the year ended December 31, 2017 (As restated, Note 5):

	CEC	CATS - Philippine Branch	Quintel	Eliminations and Consolidation Adjustments	Consolidated
<b>Net sales:</b>					
External customers	\$43,282,904	\$26,695,362	\$18,731,368	\$-	\$88,709,634
Inter-segment	-	18,972,071	-	(18,972,071)	-
<b>Total net sales</b>	<b>\$43,282,904</b>	<b>\$45,667,433</b>	<b>\$18,731,368</b>	<b>(\$18,972,071)</b>	<b>\$88,709,634</b>
Segment depreciation and amortization	\$2,896,683	\$616,010	\$123,775	\$489,550	\$4,126,018
Segment interest income	47,941	36,464	58	-	84,463
Segment interest expense	3,320,940	-	83,790	-	3,404,730
Segment profit (loss) before income tax	\$2,952,150	\$8,065,901	(\$4,230,097)	(\$3,537,125)	\$3,250,829
Segment provision for (benefit from) income tax	441,476	36,213	9,675	(386,570)	100,794
<b>Segment profit (loss) after income tax</b>	<b>\$2,510,674</b>	<b>\$8,029,688</b>	<b>(\$4,239,772)</b>	<b>(\$3,140,555)</b>	<b>\$3,150,035</b>



Other financial information of the operating segments as of December 31, 2017 (As restated, Notes 5 and 31) are as follows :

	CATS -		Eliminations and	
	CEC	Philippine Branch	Quintel	Consolidation
Assets:				Adjustments
Current assets	\$117,099,488	\$63,013,402	\$24,158,971	(\$50,701,277)
Noncurrent assets	29,389,777	6,407,924	574,332	92,135,507
	\$146,489,265	\$69,421,326	\$24,733,303	\$41,434,230
Liabilities:				
Current liabilities	\$74,354,747	\$47,913,288	\$33,394,679	(\$46,592,536)
Noncurrent liabilities	34,862,589	112,135	540,000	3,510,136
	\$109,217,336	\$48,025,423	\$33,934,679	(\$43,082,400)
				\$148,095,038

Prior to the Group's acquisition of Quintel, the Group has reported only one operating segment primarily because the Group operates out of one geographical location and the Group has previously reported information on an entity-wide basis.

For the year ended December 31, 2016:

	CATS - Philippine		Eliminations and	
	CEC	Branch	Consolidation	Consolidated
Net sales	\$43,685,317	\$30,636,995	\$-	\$74,322,312
Segment depreciation and amortization	2,438,874	467,646	-	2,906,520
Segment interest income	371,733	8,362	-	380,095
Segment interest expense	1,288,209	87,018	-	1,375,227
Segment profit before income tax	\$6,921,946	\$1,233,414	\$-	\$8,155,360
Segment provision for income tax	437,561	109,771	-	547,332
Segment profit after income tax	\$6,484,385	\$1,123,643	\$-	\$7,608,028



Inter-segment revenues, cost of sales, and operating expenses are eliminated on consolidation.

The operating income and profit before and after income tax for each operating segment includes net profit from inter-segment revenues aggregating to \$35.4 million and \$19.0 million in 2018 and 2017, respectively (nil in 2016), intersegment cost of sales of \$33.4 million and \$15.9 million in 2018 and 2017 (nil in 2016), and intersegment operating expenses aggregating to \$0.5 million, \$0.6 million and \$0.6 million in 2018, 2017 and 2016, respectively.

The Group's external customers are located in various countries, with the bulk of revenues contributed by customers located in Europe and the USA. Following shows the distribution of external customers by revenue contribution (amounts in thousands):

	2018	2017	2016
USA	\$51,728	\$55,801	\$41,144
Europe	35,336	22,307	19,390
Asia	19,411	10,602	13,788
	<b>\$106,475</b>	<b>\$88,710</b>	<b>\$74,322</b>

## 5. Business Combination

### *Acquisition of Quintel Cayman, Ltd. and Subsidiaries (Quintel Group)*

As discussed in Note 1, the Group acquired 100% of Quintel Group effective on August 4, 2017. The amount of all-cash consideration transferred for the acquisition was \$83.2 million.

The fair values of the identifiable assets and liabilities acquired as at the date of the acquisition are as follows:

	Provisional fair value	Final fair value recognized on acquisition date
<b>Assets</b>		
<i>Current Assets</i>		
Cash	\$1,849,741	\$1,849,741
Accounts receivable - net	3,920,576	3,920,576
Inventories - net	10,029,461	10,029,461
Prepayments and other current assets	306,517	306,517
<i>Noncurrent Assets</i>		
Intangible assets	30,900,000	37,083,900
Property and equipment	499,842	499,842
<b>Total Assets</b>	<b>47,506,137</b>	<b>53,690,037</b>
<b>Liabilities</b>		
<i>Current Liabilities</i>		
Accounts payable and accrued expenses	21,209,518	21,255,573
Current portion of long-term debt	300,000	300,000

(Forward)



	Provisional fair value	Final fair value recognized on acquisition date
<i>Noncurrent Liabilities</i>		
Long-term debt - net of current portion	\$625,962	\$625,962
Deferred income tax liabilities - net	4,158,315	3,896,706
<b>Total Liabilities</b>	<b>26,293,795</b>	<b>26,078,241</b>
<b>Fair Value of Net Identifiable Assets</b>	<b>21,212,342</b>	<b>27,611,796</b>
Acquisition cost	83,152,953	83,152,953
<b>Goodwill</b>	<b>\$61,940,611</b>	<b>\$55,541,157</b>

As allowed under PFRS 3, the Group has applied provisional accounting for the purchase price allocation, subject to finalization during the measurement period not exceeding one year from the acquisition date.

On August 4, 2018, the Group's valuation was completed and the fair values of the net identifiable assets as at acquisition date was finalized at \$27.6 million, or an increase of \$6.4 million from the provisional amount.

The 2017 comparative information was restated to reflect the adjustments to the provisional amounts below:

- *Intangible assets*  
The fair value of intangible assets acquired has been estimated based on the following assumptions:
  - Discount rate of 10.0%
  - Royalty rates of 1.1% to 3.3%
  - Terminal growth rate of 1.5%
  - Revenue and costs assumptions

Adjustments to intangible assets mainly pertain to the inclusion of new products and innovations that Quintel will introduce subsequent to acquisition. Details of intangible assets acquired as at acquisition date are as follows:

	Provisional amount	Final fair value recognized on acquisition date
Customer relationships	\$17,800,000	\$23,736,500
Trademarks	5,100,000	7,472,800
Technology	8,000,000	5,874,600
	<b>\$30,900,000</b>	<b>\$37,083,900</b>

- *Deferred income tax liabilities - net*  
As a result of the above fair value adjustments, net deferred income tax liabilities decreased by \$0.3 million.

In 2018, the Group received refund from the previous stockholders of Quintel amounting to \$0.7 million. The refund was from the adjustments on the consideration in accordance with the Agreement which was received and finalized after the one-year provisional accounting for the purchase price allocation. The refund was recorded as part of "Others" account in "Other income - net" in the consolidated statement of comprehensive income (see Note 26).



The goodwill represents the expected synergies through value engineering, research and development collaboration, as well as cost reduction, resulting in high-quality, reliable and cost competitive products. None of the goodwill recognized will be deductible for tax purposes.

As a result of the restatements, the following financial statement line items have been restated as follows:

	December 31, 2017
<u>Decrease (increase) in:</u>	
<u>Consolidated balance sheet</u>	
<i>Asset</i>	
Intangible assets	\$371,771
<i>Liabilities</i>	
Trade and other payables	(\$46,055)
Deferred income tax liabilities	(728,351)
<i>Equity</i>	
Retained earnings	\$1,146,177
	2017
<u>Consolidated statement of comprehensive income</u>	
Cost of sales	\$156,217
Provision for income tax	989,960
Net income	1,146,177
Total comprehensive income	1,146,177

The change did not have significant impact on the 2017 consolidated statement of cash flows and earnings per share.

The consolidated statement of comprehensive income for the year ended December 31, 2017 include the results of operations of Quintel from the date of acquisition to December 31, 2017, before elimination, as follows:

Net sales	\$18,731,368
Cost of sales	(16,904,277)
Gross income	1,827,091
Operating expenses	(6,508,884)
Other income - net	88,055
Financial expense - net	(83,733)
Loss before income tax	(4,677,471)
Provision for income tax	(9,675)
Net loss	(\$4,687,146)

The table below shows the analysis of cash flow on acquisition:

Cash consideration transferred	\$83,152,953
Net cash acquired with the subsidiary	(1,849,741)
Net cash flow on acquisition	\$81,303,212



Transaction costs of \$1.4 million were expensed and included as part of operating expenses in 2017 (see Note 23).

If the business combination had taken place at the beginning of 2017, the revenue of the Group would have been \$95.1 million and net loss incurred would have been \$5.2 million.

## 6. Cash and Cash Equivalents

	2018	2017
Cash on hand	\$245	\$250
Cash in banks	17,439,717	37,219,322
Cash equivalents	3,039	3,165
	<b>\$17,443,001</b>	<b>\$37,222,737</b>

Cash in banks earns interest at prevailing bank deposit rates. Cash equivalents are made for varying periods of between one (1) day and three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Interest income earned from cash in banks and cash equivalents amounted to \$30,581, \$49,564 and \$172,196 in 2018, 2017 and 2016, respectively.

## 7. Trade and Other Receivables

	2018	2017
Trade receivables	\$14,940,815	\$12,728,285
Others	276,075	548,160
	<b>15,216,890</b>	<b>13,276,445</b>
Less allowance for expected credit loss/impairment loss on trade receivables	<b>491,012</b>	<b>241,012</b>
	<b>\$14,725,878</b>	<b>\$13,035,433</b>

Trade receivables are noninterest-bearing and are generally on 30-120 days' terms.

The movements in the allowance for expected credit loss/impairment loss on trade receivables as at December 31, are as follows:

	2018	2017
Beginning of year	\$241,012	\$41,012
Provisions (Note 23)	250,000	200,000
End of year	<b>\$491,012</b>	<b>\$241,012</b>

In 2018 and 2017, Quintel USA entered into an agreement whereby it could sell receivables due from a certain customer to a financial institution. In 2018 and 2017, Quintel USA sold its receivables amounting to \$13.3 million and \$11.7 million, respectively. Sale of receivables under this arrangement convey all rights to the financial institution without recourse at a discount of LIBOR plus 1.05%. Quintel USA incurred discounting fees and charges amounting to \$81,800 and \$71,963 pertaining to this arrangement in 2018 and 2017, respectively. These were recorded as part of "Others" under "Operating expenses" account in the consolidated statement of comprehensive income.



Other receivables include accrued interest receivable from short-term deposits and nontrade receivable from suppliers which are expected to be collected within one year.

## 8. Inventories

	2018	2017
At cost:		
Finished goods	\$11,985,157	\$15,492,661
Work-in-process	4,901,773	5,338,381
Raw materials	9,814,321	16,781,199
Spare parts and others	847,330	739,631
Supplies and others	754,424	644,720
	<b>28,303,005</b>	<b>38,996,592</b>
At NRV:		
Finished goods	827,378	1,517,145
Supplies and others	96,884	96,884
Allowance for inventory obsolescence	(924,262)	(1,614,029)
	<b>\$28,303,005</b>	<b>\$38,996,592</b>

Certain inventories have been provided with allowance to reflect valuation for non-movement and obsolescence. A reconciliation of the allowance for inventory obsolescence for the years ended December 31 are as follows:

	2018	2017
Beginning of year	\$1,614,029	\$1,614,029
Write-off	(689,767)	—
End of year	<b>\$924,262</b>	<b>\$1,614,029</b>

The cost of inventories recognized as cost of sales amounted to \$54.0 million, \$44.3 million and \$42.4 million in 2018, 2017 and 2016, respectively (see Note 22).

## 9. Other Current Assets

	2018	2017
Rental deposit (Note 20)	\$1,142,374	\$1,203,004
Loans to employees	612,792	312,451
Prepaid expenses	389,399	208,786
Advances to suppliers	288,767	564,519
Security deposit	182,409	182,510
Others	1,768	52,110
	<b>\$2,617,509</b>	<b>\$2,523,380</b>

Loans to employees include loans extended to key management personnel in 2018 (see Note 20).

The Group has investment classified as financial asset at FVTPL. In 2016, the Group disposed the significant portion of these investments. Gain on disposal recognized amounted to \$0.2 million.

Advances to suppliers pertain mainly to down payments for production materials and services that are still to be delivered.



# 10. Equity Investment at FVTOCI/AFS Financial Asset

The Group's equity investment at FVTOCI (classified as AFS financial asset prior to January 1, 2018) pertains to its investment in unquoted equity shares acquired at a cost of \$1.7 million in 2015. The equity investment is carried at cost amounting to \$1.7 million as of December 31, 2017 but has been revalued at its fair value as of January 1, 2018 amounting to nil. The fair value of the equity investment is obtained through market comparable approach (Level 3).

The table below shows the rollforward of the equity investment at FVTOCI (classified as AFS financial asset in 2017) during the years ended December 31:

	2018	2017
Beginning of year, as previously reported	\$1,667,000	\$1,667,000
Fair value changes recognized directly in equity upon adoption of PFRS 9	(1,667,000)	-
Beginning of year, as adjusted	-	1,667,000
Fair value changes during the year recognized in other comprehensive income	-	-
End of year	\$-	\$1,667,000

There were no disposals of equity investment at FVTOCI in 2018 and 2017.

# 11. Other Financial Asset at Amortized Cost/HTM Investment

The movement of other financial asset at amortized cost/HTM investments are as follows:

	2018	2017
Beginning of year	\$480,563	\$371,520
Acquisition	-	487,030
Maturity	-	(366,827)
Amortization of premium	(10,975)	(11,160)
End of year	\$469,588	\$480,563

In compliance with the Corporation Code of the Philippines, foreign corporations doing business in the Philippines are required to deposit with the Philippine SEC securities worth at least \$2,300 (₱100,000) and additional securities with market values equivalent to a certain percentage of the amount by which CATS - Philippine Branch's gross income exceeds \$0.1 million (₱5.0 million).

The Philippine SEC shall also require a deposit of additional securities if the actual market values of the securities in deposit decreases by at least 10% of their actual market values at the time they were deposited.

The Group's other financial asset at amortized cost (previously classified as HTM investment) pertains to a government bond which was purchased by the Philippine Branch of CATS in compliance with above regulation.

In 2017, other financial asset at amortized cost (previously classified as HTM investment) with a face value of \$0.4 million matured. In the same year, the Group acquired a new HTM investment amounting to \$0.5 million. The remaining bond will mature in 2021 and bears an effective interest rate of 1.948% per annum.





Interest income in 2018, 2017 and 2016 amounting to \$11,625, \$34,899 and \$8,362, respectively, are presented as part of "Interest income" account in profit or loss.

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## 12. Noncurrent Assets Held for Sale

Prior to reclassification of the Group's investment properties into noncurrent assets held for sale, the carrying value of investment properties amounted to \$8,788,538, which was net of accumulated depreciation amounting to \$1,079,896. The Group's investment properties consist of land, and building and improvements, costing \$3,698,601 and \$6,169,833, respectively.

On December 9, 2014, the Parent Company's BOD approved the plan to sell and dispose certain assets such as land, building and other improvements, and building plant and machinery of CATS and RBWRP to any interested buyers as these are excess assets from the acquisition and are no longer needed in CATS - Philippine Branch's operations. An independent valuation was obtained to determine the fair values of property, plant and equipment. Effective December 31, 2014, property, plant and equipment with carrying value of \$11.4 million were classified as noncurrent assets held for sale in the consolidated balance sheets and have since been measured at the lower of carrying value and fair value less costs to sell.

The fair value of the noncurrent assets held for sale was determined as the sum of:

- Fair value of land computed using the Market Approach (Level 3); and
- Fair value of building and building improvements, and machinery and equipment computed as Replacement Cost New less estimated accrued depreciation (Level 3).

The valuations were performed by a Philippine SEC-accredited independent appraiser as of December 31, 2017.

Market Approach is a method of comparing recent sales and sales offerings of similar properties located in the surrounding area, adjusted for time, size, location and other relevant factors. Price per square meter of market comparables range from \$125 to \$150. Significant increases (decreases) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis.

Replacement Cost New is estimated as follows:

- For building and improvements, the appraiser used the Comparative Unit Method. This method is derived by dividing the total known cost of similar buildings or structures by the total construction floor area of those structures, combining all the costs of a particular type and quality of structure into one value as a cost per square meter. The resulting benchmark costs are then adjusted to reflect the difference between the benchmark building and structures to the subject property in terms of market conditions, location and/or physical characteristics.

Construction cost per square meter range from \$308 to \$411. Adjustments are then made to reflect depreciation resulting from physical deterioration, functional and economic obsolescence.

- For machinery and equipment, the appraiser considered the cost to reproduce or replace in new condition the assets appraised in accordance with the prevailing market prices for materials, equipment, labor, contractor's overhead, profit and fees, and all other attendant cost associated with its acquisition, installation and construction in place, but without provision for overtime or bonuses for labor and premiums for materials. An allowance for accrued depreciation arising



from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history, is also considered.

Costs to sell, such as marketing expenses, brokerage fees and relevant taxes, were also estimated to arrive at the amount of fair value less costs to sell.

In 2018, land and building with a total carrying value of \$8.6 million were reclassified to investment properties (see Note 13) and building plant and machineries with a total carrying value of \$2.8 million were reclassified to property, plant and equipment. Management assessed that the sale of these properties is no longer probable and no longer meet the classification criteria set by PFRS 5 (see Notes 12, 13 and 14). Depreciation recognized had the properties not been reclassified as noncurrent asset held for sale amounted to \$0.5 million presented under "Operating expenses" in the consolidated statement of comprehensive income (see Note 23).

As of December 31, 2017, the carrying value of noncurrent assets held for sale amounting to \$11.4 million is lower than fair value less costs to sell.

Land and building owned by RBWRP with carrying value of \$8.6 million as of December 31, 2015 were used as collateral for an interest-bearing loan with a local commercial bank. The Group prepaid the balance of the loan in 2016 (see Note 19).

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### 13. Investment Properties

As at December 31, 2018, the Group's investment properties (see Note 12) amounted to \$10.6 million. In 2018, net gain on fair value measurement amounted to \$2.0 million presented under "Other income (charges)" account in profit or loss.

As at December 31, 2018, the fair values of land and building are based on valuations performed by a Philippine SEC-accredited independent appraiser. The valuation model in accordance with that recommended by the IVSC has been applied.

Market Approach is a method of comparing recent sales and sales offerings of similar properties located in the surrounding area, adjusted for time, size, location and other relevant factors. Price per square meter of market comparable range from \$130 to \$240. Significant increases (decreases) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis (Level 2).

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements as at December 31, 2018.

In 2018, there were no expenses incurred and income generated from the investment properties.



## 14. Property, Plant and Equipment

	2018						
	Machinery and Equipment	Buildings and Improvements	Facility and Production Tools	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
<b>Cost:</b>							
Beginning of year	\$55,071,722	\$8,347,402	\$9,979,138	\$1,320,217	\$171,177	\$-	\$74,889,656
Additions	5,319,447	870,622	1,848,015	117,049	-	346,699	8,501,832
Reclassification from noncurrent assets held for sale (Note 12)	3,590,452	-	-	-	-	-	3,590,452
Reclassification due to change of use	(10,436)	-	-	10,436	-	-	-
Disposals	(15,000)	(7,827)	(86,636)	(124,149)	-	-	(233,612)
End of year	63,956,185	9,210,197	11,740,517	1,323,553	171,177	346,699	86,748,328
<b>Accumulated depreciation:</b>							
Beginning of year	31,371,775	5,314,809	5,643,127	1,146,300	119,755	-	43,595,766
Reclassification from noncurrent assets held for sale (Note 12)	744,225	-	-	-	-	-	744,225
Depreciation (Notes 22 and 23)	2,895,780	489,642	899,879	168,310	16,940	-	4,470,551
Reclassification due to change of use	(1,186)	-	-	1,186	-	-	-
Disposals	(13,593)	(7,827)	(77,374)	(124,149)	-	-	(222,943)
End of year	34,997,001	5,796,624	6,465,632	1,191,647	136,695	-	48,587,599
Net book values	\$28,959,184	\$3,413,573	\$5,274,885	\$131,906	\$34,482	\$346,699	\$38,160,729

	2017						
	Machinery and Equipment	Buildings and Improvements	Facility and Production Tools	Furniture, Fixtures and Equipment	Transportation Equipment		Total
<b>Cost:</b>							
Beginning of year	\$51,161,319	\$8,199,420	\$8,192,044	\$1,242,742	\$171,177		\$68,966,702
Additions from acquisition of Quintel (Note 5)	122,351	-	375,826	1,665	-		499,842
Additions	3,918,156	147,982	1,411,268	75,810	-		5,553,216
Disposals	(130,104)	-	-	-	-		(130,104)
End of year	55,071,722	8,347,402	9,979,138	1,320,217	171,177		74,889,656
<b>Accumulated depreciation:</b>							
Beginning of year	29,444,959	4,829,509	4,842,275	1,074,525	99,524		40,290,792
Depreciation (Notes 22 and 23)	2,056,920	485,300	800,852	71,775	20,231		3,435,078
Disposals	(130,104)	-	-	-	-		(130,104)
End of year	31,371,775	5,314,809	5,643,127	1,146,300	119,755		43,595,766
Net book values	\$23,699,947	\$3,032,593	\$4,336,011	\$173,917	\$51,422		\$31,293,890

## 15. Intangible Assets

	2018	2017, (As restated, Note 5)
Goodwill	\$55,541,157	\$55,541,157
Customer relationships	23,736,500	23,736,500
Trademark	7,472,800	7,472,800
Technology	4,210,130	5,385,050
Product development costs	2,123,057	720,829
	<b>\$93,083,644</b>	<b>\$92,856,336</b>



*Goodwill*

The goodwill acquired through business combination is only attributable to the Quintel business. As a result of the Quintel acquisition discussed in Note 5, the Group recognized goodwill amounting to \$55.5 million (see Note 5).

*Customer relationships*

Customer relationships represent Quintel's established relationships with two of the largest telecom companies in the US. Such relationships are deemed valuable given the length of their relationships (from as far back as 2008) and the difficulty in establishing connections. Management strongly believes that the relationships with their current customers will drive Quintel's business in the long run.

The fair value of customer relationships is determined based on discounted excess earnings, which is the difference between the post-tax cash flows attributable to the sales made to Quintel's current customers and the contributory asset charges used to generate the cash flows (i.e., multi-period excess earnings method). Customer relationships are estimated to have an indefinite useful life, and will be subject to yearly impairment testing.

*Technology and trademark*

The fair values of Quintel's technology and registered trademark were determined based on discounted notional royalty savings after tax plus discounted tax amortization benefit resulting from the amortization of the acquired assets (i.e., relief from royalty method). The Group estimates that technology will have an economic life of 5 years, which will result in yearly amortization of \$1.2 million. Details of technology as follows:

	2018	2017 (As restated, Note 5)
<b>Cost</b>		
Beginning of year	\$5,874,600	\$-
Additions from Quintel acquisition	-	5,874,600
End of year	5,874,600	5,874,600
<b>Accumulated Amortization</b>		
Beginning of year	489,550	-
Amortization (Note 22)	1,174,920	489,550
End of year	1,664,470	489,550
<b>Net Book Value</b>	<b>\$4,210,130</b>	<b>\$5,385,050</b>

On the other hand, trademark is estimated to have an indefinite useful life, and will be subject to yearly impairment testing.



*Product development costs*

Product development costs pertain to the capitalized cost of developing certain packages or products for specific customers. The development costs met the requirements of PAS 38 for capitalization.

	2018	2017
<b>Cost</b>		
Beginning of year	\$1,327,019	\$1,327,019
Additions	1,617,281	–
End of year	2,944,300	1,327,019
<b>Accumulated Amortization</b>		
Beginning of year	606,190	404,799
Amortization (Note 22)	215,053	201,391
End of year	821,243	606,190
<b>Net Book Value</b>	<b>\$2,123,057</b>	<b>\$720,829</b>

*Software*

As of December 31, 2018 and 2017, CEC has software with a total cost of \$39,278 which are fully amortized but are still used in operations.

*Impairment testing of goodwill, customer relationship and trademark*

Goodwill acquired through business combinations have been allocated to only one (1) CGU, which is the Group's Quintel business. The recoverable amount of the CGU has been determined based on value-in-use calculations using cash flow projections from financial budgets covering a five-year period.

Key assumptions with respect to the calculation of value-in-use of the CGU as at December 31, 2018 and 2017 used by management in its cash flow projections to undertake impairment testing of goodwill are as follows:

	2018	2017
Discount rate	10.7%	13.0%
Terminal growth rate	1.5%	1.9%
Revenue growth rates	30.0% to 38.0%	10.0% to 15.0%

- Discount rate represents the current market assessment of the risks specific to the CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group's Quintel business, derived from weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and equity. The cost of equity is calculated using the Capital Asset Pricing Model (CAPM).
- Terminal growth rate is the sustainable growth rate computed based on Quintel's comparable.
- Revenue growth rates are based on the most recent value achieved in the year preceding the start of the budget period, and adjusted for planned efficiency improvement, if any.

Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount of the CGU to exceed its recoverable amount.



No impairment losses were recognized for goodwill, customer relationships and trademark for the years ended December 31, 2018 and 2017.

# **16. Other Noncurrent Assets**

	2018	2017
Loans to employees (Note 20)	\$902,161	\$233
Advances to suppliers	875,662	1,818,041
Miscellaneous deposits	166,646	177,591
Others	6,511	6,511
	<b>\$1,950,980</b>	<b>\$2,002,376</b>

Loans to employees includes loans extended to key management personnel in 2018 (see Note 20).

Advances to suppliers pertain to down payments for the acquisition of software and building expansion.

Miscellaneous deposits pertain to refundable deposits with MERALCO for the installation of CEC's electrical meters and bill deposit equivalent to one month energy consumption.

# **17. Trade and Other Payables**

	2018	2017 (As restated, Note 5)
Trade	\$10,835,308	\$29,464,198
Accruals:		
Payroll	630,701	1,919,657
Utilities	355,676	355,164
Interest (Notes 18 and 19)	755,977	257,793
Others	628,723	2,433,654
Contract liabilities (Note 21)	2,041,270	—
Provisions (Note 34)	1,272,860	2,302,670
Advances from customers	—	2,762,953
Others	290,060	502,528
	<b>\$16,810,575</b>	<b>\$39,998,617</b>

Trade payables are noninterest-bearing and are generally on 60-90 days' terms.

Other accruals comprise mainly of accruals for communication, security, shuttle services and professional services.



Provisions pertain to the Group's estimate of the cost to repair or replace defective products in accordance with agreed specifications and potential liability for legal and other claims. The reconciliation of the carrying amounts of provisions follows:

	2018	2017 (As restated, Note 5)
Beginning of year	\$2,302,670	\$1,419,257
Provisions for (reversal of) warranty claims (Note 22)	(1,181,650)	479,513
Provision for legal and other claims (Note 34)	151,840	—
Additions from acquisition of Quintel	—	403,900
End of year	\$1,272,860	\$2,302,670

Other payables pertain to statutory liabilities and are generally payable within 12 months from the balance sheet date.

## 18. Short-term Loans

	2018	2017
Rizal Commercial Banking Corporation (RCBC) (a)	\$25,610,000	\$29,872,000
China Banking Corporation (CBC) (b)	11,000,000	—
Security Bank Corporation (SBC) (c)	10,000,000	10,000,000
BDO Unibank, Inc. (BDO) (d)	5,400,000	—
Metropolitan Bank and Trust Company (MBTC) (e)	1,700,000	1,900,000
Bank of the Philippine Islands (BPI) (f)	—	22,268,088
	\$53,710,000	\$64,040,088

- Revolving loan facilities with RCBC, which have payment terms of 60 to 360 days, are unsecured and charged interest of 2.80% to 4.00% and 2.25% to 4.00% per annum in 2018 and 2017, respectively.
- Revolving loan facilities with CBC, which have payment terms of 180 days, are unsecured and charged interest of 5.00% per annum in 2018.
- Revolving loan facilities with SBC, which have payment terms ranging from 90 to 180 days, are unsecured and charged interest of 2.54% to 5.00% and 1.95% to 2.54% per annum in 2018 and 2017, respectively.
- Revolving loan facilities with BDO, which have payment terms ranging from 160 to 180 days, are unsecured and charged interest of 2.75% to 3.50% per annum in 2018.
- Revolving loan facilities with MBTC, which have payment terms of 180 days, are unsecured and charged interest of 3.00% to 3.50% per annum in 2018.
- Revolving loan facilities with BPI, which have payment terms ranging from 180 to 360 days, are unsecured and charged interest of 1.80% per annum in 2017.

Interest expense incurred from these short-term loan facilities amounted to \$2.1 million, \$1.6 million and \$0.2 million in 2018, 2017 and 2016, respectively.



## 19. Long-term Debt

As of December 31, 2018 and 2017, the details of long-term debts are as follows:

	2018	2017
Principal	\$73,790,000	\$38,150,000
Less deferred financing costs	443,329	272,155
	<b>73,346,671</b>	<b>37,877,845</b>
Less current portion - net of deferred financing costs amounting to \$134,249 and \$106,730 as of December 31, 2018 and 2017, respectively	11,045,751	4,253,270
	<b>\$62,300,920</b>	<b>\$33,624,575</b>

Movement in deferred financing costs follow:

	2018	2017
Beginning of year	\$272,155	\$390,029
Transaction costs recognized during the year	300,274	-
Less amortization	(129,100)	(117,874)
End of year	<b>\$443,329</b>	<b>\$272,155</b>

### Parent Company

#### *2012 Note Facility Agreement (NFA)*

On July 25, 2012, the Parent Company entered into a \$10.0 million NFA with MBTC (Initial Note Holder), MBTC - Trust Banking Group (Facility and Paying Agent) and First Metro Investment Corporation (Arranger). The NFA provided for the issuance of 5-year fixed rate corporate note which bears interest of 3.6% per annum payable quarterly. On July 27, 2012 (Issue Date), the Parent Company drew \$10.0 million from the facility. The net proceeds from the issuance of the Notes shall be used to finance the Group's strategic acquisitions and for general corporate purposes.

Under the NFA, the Parent Company shall pay 30% of the loan outstanding on issue date in 12 equal consecutive quarterly installments in the amount equivalent to 2.5% of loan outstanding on issue date commencing on the end of the 5th quarter until end of the 16th quarter from the Issue Date. The remaining 70% of the loan outstanding on issue date is payable in four (4) equal consecutive quarterly installments in the amount equivalent to 17.5% of the loan outstanding on issue date commencing on the 17th quarter from the issue date until the maturity date, provided that each such date shall coincide with an interest payment date, and that the last installment shall be in an amount sufficient to fully pay the loan.

The NFA contained an embedded derivative arising from voluntary prepayment option where the Parent Company may redeem in whole but not in part, the relevant outstanding notes beginning on and after the third anniversary of the issue date, by paying the amount that is equivalent to 102% of the unpaid principal amount together with any and all accrued interest up to the date of prepayment. The Parent Company assessed that the embedded derivative in the NFA is closely related to the host contract, thus was not bifurcated from the host contract based on the provisions of PFRS 9/PAS 39.





In accordance with the NFA, the following financial ratios must be maintained:

- debt to equity ratio shall not, at any time, exceed 2:1;
- debt service coverage ratio shall not, as of relevant testing date, be less than 1.5; and
- current ratio shall not, at any time, be less than 1:1, provided however, this ratio shall not apply after the fourth anniversary of the issue date.

Equity is defined in the agreement as the aggregate of outstanding capital stock, additional paid-in capital stock, equity reserve and retained earnings at any date and as shown in the latest consolidated balance sheet of the Parent Company. Debt, on the other hand, is defined in the agreement as the aggregate of all obligations (whether actual or contingent) of the Parent Company and its subsidiaries to pay or repay money.

Debt service ratio is defined in the agreement as the net cash provided by operating activities plus unrestricted cash (as shown in the most recent audited consolidated financial statements) divided by the amount of debt service. Debt service, on the other hand, is defined in the agreement as the aggregate of all payments owing, scheduled repayments of principal, interest expenses (including capitalized interest expenses) and fees payable, whether or not actually paid, in respect of any debt, whether or not actually paid.

The loan was fully paid in 2017.

#### *2014 NFA*

On December 18, 2014, the Parent Company entered into another \$10.0 million Notes Facility Agreement with Metropolitan Bank & Trust Company (Initial Noteholder), Metropolitan Bank & Trust Company - Trust Banking Group (Facility and Paying Agent) and First Metro Investment Corporation (Arranger). The Notes Facility bears interest of 3.14% per annum payable quarterly. The net proceeds of the issuance of the Notes shall be used to finance the Group's strategic acquisitions and for general corporate purposes.

Under the NFA, the Parent Company shall pay 30% of the loan outstanding on issue date in 12 equal consecutive quarterly installments in the amount equivalent to 2.5% of loan outstanding on issue date commencing on the end of the 5th quarter until end of the 16th quarter from the Issue date. The remaining 70% of the loan outstanding on issue date is payable in 4 equal consecutive quarterly installments in the amount equivalent to 17.5% of the loan outstanding on issue date commencing on the 17th quarter from the issue date until the maturity date, provided that each such date shall coincide with an interest payment date, and that the last installment shall be in an amount sufficient to fully pay the loan.

The NFA contained an embedded derivative arising from voluntary prepayment option where the Parent Company may redeem in whole but not in part, the relevant outstanding notes beginning on and after the third anniversary of the issue date, by paying the amount that is equivalent to 102% of the unpaid principal amount together with any and all accrued interest up to the date of redemption at the applicable rate. The Parent Company assessed that the embedded derivative in the NFA is closely related to the host contract, thus was not bifurcated from the host contract based on the provisions of PFRS 9/PAS 39.

The 2014 NFA follows the same definition and calculation of financial ratios as the 2012 NFA.

The Parent Company is in compliance with the debt covenants as of December 31, 2018.



The carrying amount of the loan from the 2014 NFA as of December 31, 2018 and 2017 amounted to \$7.0 million and \$8.0 million, respectively.

#### *2016 NFA*

On September 20, 2016, the Parent Company entered into a \$30.0 million NFA with BPI (Initial Note Holder), BPI Asset Management and Trust Group (Facility and Paying Agent) and BPI Capital Corporation (Arranger). The NFA provided for the issuance of 5-year fixed rate corporate note which bears interest of 4.0% per annum payable quarterly. The net proceeds from the issuance of the Notes shall be used for capital expenditures, including production facilities and to refinance existing debt obligation and for working capital requirement.

Under the NFA, the Parent Company shall pay the 30% of the loan outstanding on issue date in 12 equal consecutive quarterly installments in the amount equivalent to 2.5% of loan outstanding on issue date commencing on the end of the 5th quarter until the end of the 16th quarter from the issue date. The remaining 70% of the loan outstanding on issue date in four (4) equal consecutive quarterly installments in the amount equivalent to 17.5% of the loan outstanding on issue date commencing on the 17th quarter from the issue date until the maturity date, provided that each such date shall coincide with an interest payment date, and that the last installment shall be in an amount sufficient to fully pay the loan.

The NFA contained an embedded derivative arising from voluntary prepayment option where the Parent Company may redeem in whole or in part, equivalent to an amount not less than \$100,000, the relevant outstanding notes on any interest payment date beginning on the third anniversary of the issue date, by paying the amount that is equivalent to the higher of (i) 102% of the unpaid principal amount together with any and all accrued interest up to the date of redemption at the applicable rate, and (ii) 100% of the unpaid principal amount of the loans together with any and all accrued interest up to date of redemption at the applicable rate and any related breakage costs (net of any breakage gains). The Parent Company assessed that the embedded derivative in the NFA is closely related to the host contract, thus was not bifurcated from the host contract based on the provisions of PFRS 9/PAS 39.

In accordance with the NFA, the following financial ratios must be maintained:

- debt to equity ratio shall not, at any time, exceed 2:1;
- debt service coverage ratio shall not, as of relevant testing date, be less than 1.5; and
- current ratio shall not at any time be less than 1:1, provided however, this ratio shall not apply after the fourth anniversary of the issue date.

Equity is defined in the agreement the aggregate of outstanding capital stock, additional paid-in capital stock, equity reserve and retained earnings at any date and as shown in the latest consolidated balance sheet of the Parent Company. Debt, on the other hand, is defined in the agreement as the aggregate of all obligations (whether actual or contingent) of the Parent Company and its subsidiaries to pay or repay money.

Debt service ratio is defined in the agreement as the net cash provided by operating activities plus unrestricted cash (as shown in the most recent audited consolidated financial statements) divided by the amount of debt service. Debt service, on the other hand, is defined in the agreement as the aggregate of all obligations (whether actual or contingent) of the Group to pay or repay including, without limitation: (i) all obligations of the Group for borrowed money evidenced by promissory notes or other instruments, (ii) all financial obligations of any other person guaranteed by the Group, (iii) all financial obligations of any other person secured by a security upon or in property owned by the Group, whether or not the Group have assumed or become liable for the payment of such financial



obligations, and (iv) capitalized lease obligations of the Group which are capitalized in accordance with PFRS.

The carrying amount of the loan from the 2016 NFA as of December 31, 2018 and 2017 amounted to \$26.1 million and \$29.0 million, respectively.

The Parent Company is in compliance with the debt covenants as of December 31, 2018 and 2017.

#### *2018 NFA*

On April 12, 2018, the Parent Company entered into a \$40.0 million NFA with BPI and RCBC (each a "Noteholder" and collectively, the "Noteholders"), RCBC Trust and Investments Group (Facility and Paying Agent) and RCBC Capital Corporation (Issue Manager). The NFA provided for the conversion of the outstanding balance of the Parent Company's short-term bridge loan facilities with the Noteholders amounting to \$20.0 million each Noteholder into long term credit facilities. The NFA provided for the issuance of 7-year fixed rate corporate note which bears interest of 6.25% per annum payable quarterly. The net proceeds from the issuance of the Notes shall be used to refinance the bridge loan facilities used to acquire the 100% ownership of Quintel.

Under the NFA, the Parent Company shall pay the 30% of the loan outstanding on issue date in 24 equal consecutive quarterly commencing at the end of the 1st year until the end of the 28th quarter from the issue date. The remaining 70% of the loan outstanding on issue date shall be paid in a single balloon payment at maturity date.

The NFA contained an embedded derivative arising from voluntary prepayment option where the Parent Company may redeem, in whole or in part, equivalent to an amount not less than and in multiples of \$5,000,000 on any interest payment date beginning on the first anniversary of the issue date, by paying a prepayment penalty equivalent to 2% of the principal amount of the Notes being redeemed, together with any and all accrued interest up to the date of redemption at the applicable rate and any related breakage costs (calculated from such non-interest payment date to the immediately succeeding interest payment date) actually incurred by the relevant Noteholders, if the redemption was made on a non-interest payment date. The prepayment penalty shall not apply if the redemption is due to: (i) interest costs or (ii) illegality. The Parent Company assessed that the embedded derivative in the NFA is closely related to the host contract, thus was not bifurcated from the host contract based on the provisions of PFRS 9.

In accordance with the NFA, the following financial ratios must be maintained:

- debt to equity ratio shall not, at any time, exceed 70:30;
- debt service coverage ratio shall not, as of relevant testing date, be less than 1.15; and
- current ratio shall not, at any time, be less than 1.10

Equity is defined in the agreement the aggregate of outstanding capital stock, additional paid-in capital stock, equity reserve and retained earnings at any date and as shown in the latest consolidated balance sheet of the Group. Debt, on the other hand, is defined in the agreement as the aggregate of all obligations (whether actual or contingent) of the Parent Company and its subsidiaries to pay or repay money.

Debt service ratio is defined in the agreement as the result obtained by dividing (i) EBITDA and (ii) the amount of debt service. Debt service, on the other hand, is defined in the agreement as the aggregate of all payments for: (a) interest and principal payments due under the Agreement in the next twelve (12) months; (b) the principal and interest payments due in the next twelve (12) months of all interest-bearing debt with tenor of more than twelve (12) months, and (c) netting obligations of the Issuer due in the next twelve (12) months under permitted hedging arrangements, if applicable.



The carrying amount of the loan from the 2018 NFA amounted to \$39.7 million as of December 31, 2018.

The Parent Company is in compliance with the debt covenants as of December 31, 2018.

#### CATS

In 2012, CATS obtained a secured interest-bearing loan from a local commercial bank amounting to \$13.0 million. The principal is payable in 28 quarterly payments of \$464,286 until 2018 and bears annual interest rate of 3.0% plus three month London inter-bank offer rate (LIBOR). This bank loan was specifically borrowed to refinance the parcel of land with improvements located along Innovation Drive, Carmelray Industrial Park 1, Brgy. Canlubang, Calamba City, Laguna and registered in the name of RBWRP. The land and building owned by RBWRP were used as collateral for the secured interest-bearing loan (see Note 14). The Group assumed the loan upon acquisition of REMEC's manufacturing division in 2014.

The loan contract gives the Group an option to prepay the loan in part or in full, subject to the Group giving the creditor at least 30 days advance notice of its intention to make such prepayment counted from the date of receipt by the creditor of such written notice.

On September 26, 2016, the Group prepaid the balance of the loan, including accrued interest, for \$4.7 million.

#### Quintel USA

Long-term debt amounting to \$540,000 and \$900,000 as of December 31, 2018 and 2017 pertains to a term note payable to a state development corporation accruing interest monthly through July 2021. The agreement includes a Convertible Loan Principal Reduction feature providing that if Quintel achieves annual minimum full-time permanent employment targets through 2021, as defined in the loan agreement, the principal is reduced by 20% at each annual measurement date. The first measurement date was amended to June 30, 2015. The note bears interest at 3.0% per annum.

The loan agreement does not require Quintel USA to maintain any financial ratio, but instead comply with certain financial reporting requirements.

Quintel USA is in compliance with the financial reporting requirements as of December 31, 2018 and 2017.

#### Interest Expense

Total interest expense (including amortization of deferred financing costs) recognized in the consolidated statements of comprehensive income amounted to \$2.7 million, \$1.8 million, and \$1.2 million in 2018, 2017 and 2016, respectively.

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## **20. Related Party Disclosures**

Related party relationship exists when the party has the ability to control, directly or indirectly through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships.



In the normal course of business, the Group has entered into transactions with affiliates. The significant transactions consist of the following:

- a. Advances for operating requirements of CHI, former parent of CEC and CEIC;
- b. Rental of land and lease deposit with Cirtex Land Corporation (CLC), an affiliate, where the manufacturing building 1 and administrative building is situated;
- c. Payments and /or reimbursements of expenses made or in behalf of the affiliates; and
- d. Rental of land with Cayon Holdings, Inc. (Cayon), an affiliate, where the building 2 of the Group is situated;
- e. Collections made by Camerton Inc. (Camerton) in behalf of the Group;
- f. Advances to officers and stockholders.

The consolidated balance sheets and consolidated statements of comprehensive income include the following significant account balances resulting from the above transactions with related parties:

a. Amounts owed by related parties

		Transactions		Balances as of		Terms	Conditions
		2018	2017 (As restated, Note 31)	2018	2017 (As restated, Note 31)		
<i>Parent</i>							
Camerton	Assignment of liabilities	\$54,888,948	\$-	\$54,960,066	\$71,118	Due on demand; noninterest-bearing	Unsecured; no impairment; to be settled in cash
	Reimbursements of expenses	18,809	-	18,809	-	Due on demand; noninterest-bearing	Unsecured; no impairment; to be settled in cash
<i>Entities under common control</i>							
CHI	Advances	-	-	1,809,256	1,809,256	Due on demand; noninterest-bearing	Unsecured; no impairment; to be settled in cash
Cayon	Reimbursement of expenses	2,548	7,943	216,775	214,227	Due on demand; noninterest-bearing	Unsecured; no impairment; to be settled in cash
Stockholders	Assignment of liabilities/Advances	54,960,066	37,980,190	-	48,289,230	Due on demand; noninterest-bearing	Unsecured; no impairment; to be settled in cash
				\$57,004,906	\$50,383,831		

b. Amounts owed to related parties

		Transactions		Balances as of		Terms	Conditions
		2018	2017	2018	2017		
<i>Entities under common control</i>							
CLC	Rental	\$11,559	\$12,078	\$470,607	\$459,048	Due on demand; noninterest-bearing	Unsecured
Cayon	Rental	10,503	10,973	94,658	84,155	Due on demand; noninterest-bearing	Unsecured
Stockholders	Payment made on behalf of the Group	35,928	-	35,928	-	Due on demand; noninterest-bearing	Unsecured
				\$601,193	\$543,203		



c. Others

		Transactions		Balances as of		Terms	Conditions
		2018	2017	2018	2017		
<i>Entities under common control</i>							
CLC	Rental deposit	\$-	\$-	\$1,142,374	\$1,203,440	Due on demand; noninterest-bearing	Unsecured
Camerton	Deposit for future stock subscription	189,107	-	189,107	-	Due on demand; noninterest-bearing	Unsecured
	Dividend payable	20,601	-	20,601	-	Due on demand; noninterest-bearing	Unsecured

The above related parties, except the stockholders, are entities under common control of the ultimate parent company.

*Transactions with individual stockholders, Camerton*

As of December 31, 2017, advances to individual stockholders, which are due and demandable and noninterest-bearing, amounted to \$48.3 million. In 2018, additional advances amounted to \$7.1 million, net of collections amounting to \$17.1 million.

On December 27, 2018, the Group and Camerton executed a Sworn Corporate Undertaking, whereby Camerton undertakes to pay the amounts owed by the stockholders amounting to \$55.0 million. Camerton undertakes to repay portion of the outstanding advances amounting to \$5.0 million on or before May 31, 2019 and the remaining balance in 2019. Loan agreements between Camerton and the Group were executed on the same day which indicates the terms and conditions disclosed in the table.

*Transactions with CHI, Charmview Enterprises Ltd (CEL)*

The amount owed by an officer amounting to \$7.7 million as of December 31, 2010 was transferred in 2011 to CEL, the former ultimate parent of CEC and CEIC. CEL now owns 40% interest in Camerton, the parent of CHPC.

The amounts owed by and to CHI as of December 31, 2010 represent advances for working capital in the normal course of business when CEC and CEIC were then still subsidiaries of CHI.

For purposes of settling outstanding balances with the Group and as part of corporate restructuring in preparation for the planned Initial Public Offering (IPO) of the Parent Company, on March 17, 2011, CHI, CEL and the officer, with the consent of the Group, entered into assignment agreements whereby CHI absorbed the amounts owed by CEL and by the officer as of March 17, 2011 amounting to \$7.7 million and \$0.8 million, respectively.

The Group, with the consent of the related parties, entered into assignment agreements whereby the Parent Company absorbed the amount owed by CEIC to CHI totaling \$3.6 million representing unpaid advances of \$2.3 million and dividends of \$1.3 million as of March 17, 2011.

Thereafter, on March 18, 2011, the Parent Company and CHI, in view of being creditors and debtors to each other as a result of the assignment agreements above, entered into a set-off agreement for the value of the Group's liability aggregating \$6.8 million. The amount represents the above mentioned total liability of \$3.6 million and the balance outstanding from the Parent Company's purchase of CEC and CEIC amounting to \$3.2 million, as revalued from the effect of foreign exchange rate.

The amount owed by CHI as of December 31, 2018 and 2017 pertains to the outstanding receivable arising from the assignments and set-off agreements as discussed above.



*Transactions with CLC and Cayon*

CLC is an entity under common control of the ultimate parent company. CEC had a lease agreement on the land where its manufacturing plant (Building 1) is located with CLC for a period of 50 years starting January 1, 1999. The lease was renewable for another 25 years at the option of CEC. The lease agreement provided for an annual rental of \$151,682, subject to periodic adjustments upon mutual agreement of both parties.

On January 1, 2005, CEC terminated the lease agreement with CLC but has continued to occupy the said land for no consideration with CLC's consent. With the termination of the lease agreement, the Group has classified the rental deposit amounting to ₱60.1 million (\$1.1 million and \$1.2 million as of December 31, 2018 and 2017, respectively) as current asset as the deposit has become due and demandable anytime from CLC (see Note 9).

On January 1, 2011, CEC entered into an agreement with CLC to lease the land where CEC's Building 1 is located. The agreement calls for a ₱640,704 rent per annum for a period of 10 years and renewable thereafter by mutual agreement of the parties subject to such new terms and conditions as they may then be mutually agreed-upon. Total rent expense charged to operations amounted to \$11,559, \$12,713 and \$12,777 in 2018, 2017 and 2016, respectively.

CEC also entered into an agreement with Cayon starting January 1, 2011 to lease the land where CEC's Building 2 is located. The agreement calls for an annual rental of ₱582,144 for a period of 10 years and renewable thereafter by mutual agreement of the parties subject to such new terms and conditions as they may then be mutually agreed upon. Total rent expense charged to operations amounted to \$10,503, \$11,551 and \$11,690 in 2018, 2017 and 2016, respectively.

Future minimum rental payables under these operating leases are as follows:

	2018	2017
Within one year	\$23,257	\$24,491
After one year but not more than five years	23,257	48,983
	<b>\$46,514</b>	<b>\$73,474</b>

*Key management personnel*

The compensation of key management personnel of the Group are as follows:

	2018	2017	2016
Short-term	\$2,017,640	\$2,598,525	\$1,963,109
Long-term	6,850	2,045	4,107
	<b>\$2,024,490</b>	<b>\$2,600,570</b>	<b>\$1,967,216</b>

On May 17, 2018, the Group extended loans to two key management personnel totaling to \$1.5 million. The loans bear interest of 2.69% per annum. Provided the executive is employed on August 4th of each year during the term of the note, 1/5th of the note is forgiven, including the proportionate accrued interest. If the executive is terminated for anything other than cause, as defined in the agreement, the remaining balance and accrued but unpaid interest is forgiven.

The carrying amount of the loan as of December 31, 2018 amounted to \$1.2 million (see Notes 9 and 16). No interest income was recognized in 2018 and 2017.



## 21. Revenue from Contracts with Customers

### Disaggregated Revenue Information

Set out below is the disaggregation of the Group's revenue from contracts with customers in 2018:

8 port antennas	\$28,874,102
12 port antennas	19,124,028
Multichips	11,043,990
Discrete	10,667,990
Integrated circuits	7,569,714
New product	6,808,873
Dual and quad flat no-leads	6,385,914
6 Port antennas	5,356,743
Remec manufacturing services	4,122,599
Hermetics	1,764,468
Outdoor unit	1,667,913
Indoor radio frequency unit	1,191,608
Brackets	1,034,534
Bridgewave	345,598
10 port antennas	244,681
Cougar	142,754
Others	129,324
	<b>\$106,474,833</b>

### Contract Balances

The Group's trade receivables amounted to \$14.9 million and \$12.7 million as at December 31, 2018 and January 1, 2018, respectively.

The Group has no contract assets as at December 31, 2018 and January 1, 2018.

The Group's contract liabilities pertain to advanced payments from customers amounting to \$2.0 million and \$2.8 million as at December 31, 2018 and January 1, 2018, respectively, which are included in "Trade and other payables" account (see Note 17). Contract liabilities as at January 1, 2018 were recognized as revenue in 2018.

## 22. Cost of Sales

	2018	2017 (As restated, Note 5)	2016
Raw materials, spare parts, supplies and other inventories used, and changes in inventories (Note 8)	\$53,980,162	\$44,347,102	\$42,434,652
Salaries, wages and employees' benefits (Note 24)	12,817,903	12,691,030	10,535,487
Inward freight and duties and others	8,148,510	5,397,161	2,283,854
Depreciation and amortization (Notes 14 and 15)	5,209,430	4,032,434	2,821,637
Utilities	4,468,332	3,962,713	3,490,477
	<b>\$84,624,337</b>	<b>\$70,430,440</b>	<b>\$61,566,107</b>





## 23. Operating Expenses

	2018	2017	2016
Salaries, wages and employees' benefits (Note 24)	\$7,579,136	\$5,181,761	\$2,563,292
Professional fees	2,308,451	2,965,595	191,305
Commissions	1,324,413	1,050,523	152,020
Transportation and travel	752,810	601,944	304,568
Depreciation and amortization (Notes 15 and 16)	651,094	93,584	84,883
Utilities	485,756	630,039	349,377
Taxes and licenses	417,298	676,068	84,242
Supplies	346,036	274,472	47,688
Provision for ECL/bad debts (Note 7)	250,000	200,000	—
Entertainment, amusement and recreation	198,932	186,020	192,109
Insurance premiums	154,756	122,041	71,871
Provision for probable losses (Note 17)	151,840	—	—
Others	966,879	232,308	312,248
	<b>\$15,587,401</b>	<b>\$12,214,355</b>	<b>\$4,353,603</b>

Others mainly consist of repairs and maintenance, bank and other individually immaterial charges.

## 24. Salaries and Wages and Employees' Benefits

	2018	2017	2016
Salaries and wages	\$16,755,724	\$15,174,955	\$10,480,573
Retirement benefits costs (Note 25)	253,291	639,583	216,687
Other employee benefits	3,388,024	2,058,253	2,401,519
	<b>\$20,397,039</b>	<b>\$17,872,791</b>	<b>\$13,098,779</b>

Other employee benefits consist of statutory contributions and other allowances.

## 25. Retirement Benefit Obligation

### Defined Benefit Plans

CEC has a funded, noncontributory defined benefit retirement plan administered by the Board of Directors while CATS - Philippine Branch has an unfunded and non-contributory defined benefit retirement plan, with both entities covering all regular employees. Retirement benefits costs are determined in accordance with an actuarial study and are based on the employees' years of service and monthly basic salary. CEIC has not established a retirement plan while the Parent Company and RBWRP have no employees.

Under the existing regulatory framework, R.A. No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.



The below tables summarize the components of retirement benefits cost recognized in consolidated statement of comprehensive income and amounts recognized in the consolidated balance sheets:

- a. Retirement benefits costs recognized in the consolidated statements of comprehensive income are as follows:

For the year ended December 31, 2018:

	CEC	CATS - Philippine Branch	Total
Current service cost	\$156,742	\$47,681	\$204,423
Net interest cost	96,549	6,132	102,681
Effect of asset ceiling	—	22,381	22,381
	<b>\$253,291</b>	<b>\$76,194</b>	<b>\$329,485</b>

For the year ended December 31, 2017:

	CEC	CATS - Philippine Branch	Total
Current service cost	\$142,990	\$39,068	\$182,058
Net interest cost	88,768	3,290	92,058
Past service cost	310,331	55,136	365,467
	<b>\$542,089</b>	<b>\$97,494</b>	<b>\$639,583</b>

For the year ended December 31, 2016:

	CEC	CATS - Philippine Branch	Total
Current service cost	\$98,124	\$50,189	\$148,313
Net interest cost	66,294	2,080	68,374
	<b>\$164,418</b>	<b>\$52,269</b>	<b>\$216,687</b>

- b. The amounts recognized in the consolidated balance sheets as retirement benefit obligation are as follows:

December 31, 2018:

	CEC	CATS - Philippine Branch	Total
Present value of defined benefit obligation	\$1,852,493	\$143,445	\$1,995,938
Fair value of plan assets	(440,876)	—	(440,876)
	<b>\$1,411,617</b>	<b>\$143,445</b>	<b>\$1,555,062</b>



December 31, 2017:

	CEC	CATS - Philippine Branch	Total
Present value of defined benefit obligation	\$2,204,062	\$112,135	\$2,316,197
Fair value of plan assets	(426,048)	—	(426,048)
	<u>\$1,778,014</u>	<u>\$112,135</u>	<u>\$1,890,149</u>

c. Changes in the present value of the defined benefit obligations are as follows:

December 31, 2018

	CEC	CATS - Philippine Branch	Total
Opening present value defined benefit obligation	\$2,204,062	\$112,135	\$2,316,197
Current service cost	156,742	47,681	204,423
Interest cost	119,684	6,132	125,816
Effect of asset ceiling	—	22,381	22,381
Remeasurement gains	(360,756)	4,168	(356,588)
Benefits paid from working capital	(160,152)	(39,806)	(199,958)
Transfer of employees	4,486	(4,486)	—
Translation difference	(111,573)	(4,760)	(116,333)
	<u>\$1,852,493</u>	<u>\$143,445</u>	<u>\$1,995,938</u>

December 31, 2017

	CEC	CATS - Philippine Branch	Total
Opening present value defined benefit obligation	\$2,020,158	\$60,124	\$2,080,282
Current service cost	142,990	39,068	182,058
Past service cost	310,331	55,136	365,467
Interest cost	99,261	3,290	102,551
Remeasurement gains	(139,287)	(45,747)	(185,034)
Benefits paid	(222,700)	—	(222,700)
Translation difference	(6,691)	264	(6,427)
	<u>\$2,204,062</u>	<u>\$112,135</u>	<u>\$2,316,197</u>



- d. Changes in the fair value of plan assets of CEC are as follows:

	2018	2017
Opening fair value of plan assets	\$426,048	\$272,435
Interest income included in net interest cost	23,190	10,493
Remeasurement losses	(124,032)	(20,863)
Contributions	139,214	169,054
Benefits paid	(2,058)	(5,378)
Translation difference	(21,486)	307
	<b>\$440,876</b>	<b>\$426,048</b>

CEC has an agreement with an insurance company to fund the retirement benefits of its employees. CEC believes that the insurance coverage qualifies as plan assets because the proceeds of the policy can be used only to pay or fund the retirement benefits.

- e. The details of the remeasurement losses (gains) in other comprehensive income follow:

For the year ended December 31, 2018:

	CEC	CATS - Philippine Branch	Total
Remeasurement losses (gains) on defined benefits obligation arising from:			
Changes in assumptions	(\$320,676)	(\$21,657)	(343,090)
Experience adjustments	(100,479)	18,771	(84,004)
Changes in demographic assumptions	62,453	7,054	69,655
Remeasurement losses on plan assets	128,226	—	124,032
	<b>(\$230,476)</b>	<b>\$4,168</b>	<b>(\$233,407)</b>

For the year ended December 31, 2017:

	CEC	CATS - Philippine Branch	Total
Remeasurement losses (gains) on defined benefits obligation arising from:			
Changes in assumptions	(\$177,175)	(\$2,797)	(\$179,972)
Experience adjustments	51,035	(39,632)	11,403
Changes in demographic assumptions	(13,147)	(3,318)	(16,465)
Remeasurement losses on plan assets	20,863	—	20,863
	<b>(\$118,424)</b>	<b>(\$45,747)</b>	<b>(\$164,171)</b>



For the year ended December 31, 2016:

	CEC	CATS - Philippine Branch	Total
Remeasurement losses (gains) on defined benefits obligation arising from:			
Changes in assumptions	(\$177,175)	(\$2,797)	(\$179,972)
Experience adjustments	51,035	(39,632)	11,403
Remeasurement losses on plan assets	(13,147)	(3,318)	(16,465)
	(\$139,287)	(\$45,747)	(\$185,034)

- f. The principal actuarial assumptions used to determine retirement obligations for the Group's retirement plan as of December 31 are as follows:

	2018		2017	
	CEC	CATS - Philippine Branch	CEC	CATS - Philippine Branch
Discount rate	7.60%	7.40%	5.73%	5.70%
Future salary increase rate	3.00%	2.00%	3.00%	2.00%

- g. The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the pension obligations as of December 31, 2018 and 2017, assuming all other assumptions were held constant:

	2018		2017	
	Change in variables	Impact on present value of defined benefits obligations Increase (Decrease)	Change in variables	Impact on present value of defined benefits obligations Increase (Decrease)
<b>CEC</b>				
Discount rate	+1.00%	(\$148,203)	+1.00%	(\$183,983)
	-1.00%	172,759	-1.00%	216,046
Salary increase rate	+1.00%	179,239	+1.00%	232,015
	-1.00%	(155,715)	-1.00%	(200,825)
<b>CATS - Philippine Branch</b>				
Discount rate	+1.00%	(8,554)	+1.00%	(12,708)
	-1.00%	9,731	-1.00%	14,281
Salary increase rate	+1.00%	10,176	+1.00%	15,598
	-1.00%	(9,061)	-1.00%	(13,329)

There were no changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis.



- h. The latest actuarial valuation reports of the Group is as of December 31, 2018. The average duration of the defined benefit obligation at the end of the reporting date ranges from 19 to 22 years. Shown below is the maturity analysis of the undiscounted benefit payments:

	2018		2017	
	CEC	CATS - Philippine Branch	CEC	CATS - Philippine Branch
1 year or less	\$475,353	\$171,902	\$392,288	\$-
More than 1 year to 5 years	555,796	558,211	627,983	52,910
More than 5 years	8,990,306	451,180	8,437,157	1,879,547

#### Defined Contribution Plans

Quintel USA has a retirement savings plan under Section 401(k) of the United States Internal Revenue Code. Employees are eligible to participate in the plan after completing three months of service. Quintel USA makes a matching contribution of 100% of each employee's contributions up to 4% of such employee's compensation. Quintel USA made matching contributions amounting to \$0.2 million and \$0.1 million in for the year ended December 31, 2018 and from the date of acquisition to December 31, 2017.

Quintel Technology, Ltd. has a defined contribution plan covering substantially all UK employees. In 2018 and from the date of acquisition to December 31, 2017, Quintel Technology, Ltd. made \$94,530 and \$6,915 in contributions.

#### **26. Other Income - Net**

	2018	2017	2016
Net gain on fair value changes on investment properties (Note 13)	\$2,042,656	\$-	\$-
Sale of scrap	239,473	258,610	231,552
Foreign exchange gains (losses) - net	(117,472)	178,456	(3,222)
Gain on disposal of financial assets at FVTPL (Note 9)	-	-	262,332
Others (Notes 5 and 34)	6,163,399	69,190	257,228
	<b>\$8,328,056</b>	<b>\$506,256</b>	<b>\$747,890</b>

#### **27. Income Taxes**

##### *CEC*

On March 24, 1998, the Philippine Economic Zone Authority (PEZA) approved CEC's registration as an ecozone export enterprise at the Laguna Technopark for the manufacture of standard integrated circuits, discrete, hybrid and potential new packages.

Beginning October 30, 2002, the manufacture and export of integrated circuits, discrete and hybrid transferred to PEZA from Board of Investments (where originally registered) and became subject to the 5% gross income tax incentive, as defined under R.A. No. 7916, the law creating the PEZA.



*CATS - Philippine Branch*

CATS - Philippine Branch was registered with PEZA as an Ecozone Export Enterprise to engage in the manufacture, fabrication and design of millimeterwave components and subsystems in a special economic zone to be known as the Carmelray Industrial Park I - Special Economic Zone (CIP I-SEZ) and Laguna Technopark in accordance with the project study, representations, commitments and proposals set forth in its application forming integral parts, subject to the terms and conditions provided in its registration.

As a PEZA-registered entities, CEC and CATS - Philippine Branch are entitled to tax incentives equivalent to 5% of the gross income earned on its registered activities after the income tax holiday (ITH) of four years.

Details of provision for (benefit from) income tax are as follows:

	2018	2017 (As restated, Note 5)	2016
Current	\$884,352	\$521,332	\$559,457
Deferred	567,239	(420,538)	(12,125)
	<b>\$1,451,591</b>	<b>\$100,794</b>	<b>\$547,332</b>

The provision for current income tax in 2018, 2017 and 2016 pertains to the special rate of 5% on taxable gross income of CEC and CATS - Philippine Branch.

Based on the National Internal Revenue Code Sec. 27, MCIT of two percent (2%) of the gross income as of the end of taxable year is imposed on corporation beginning on the fourth taxable year immediately following the year in which such corporation started its commercial operation when the MCIT is greater than the regular corporate income computed for the taxable year. The Parent Company is subject to MCIT beginning 2015.

A reconciliation of provision for income tax computed at the statutory income tax rate to provision for (benefit from) income tax shown in the consolidated statements of comprehensive income follows:

	2018	2017 (As restated, Note 5)	2016
Income tax at applicable statutory rate	\$1,092,525	\$913,960	\$637,810
Additions to (reduction in) income tax:			
Effect of change in tax rates arising from the Tax Act	—	(713,215)	—
Movement of temporary differences, carryforward benefits of NOLCO and excess MCIT over RCIT for which no deferred income tax assets were recognized	548,958	245,928	(12,125)
Taxable income subject to ITH	(230,729)	(275,165)	(19,665)
Nontaxable income	(45,420)	(123,161)	(139,433)
Income subject to higher tax rate	64,450	29,000	33,356
Other taxable income subject to 5%	(3,947)	12,930	—
Nondeductible expenses	9,551	8,926	34,930
Translation difference and others	16,203	1,591	12,459
Provision for income tax	<b>\$1,451,591</b>	<b>\$100,794</b>	<b>\$547,332</b>



In 2018, 2017 and 2016, CATS - Philippine Branch has availed ITH for certain product lines. Total gross income for the registered activities of CATS - Philippine Branch under ITH in 2018, 2017, and 2016 amounted to \$4.6 million, \$8.9 million and \$0.4 million, respectively.

The components of the net deferred income tax assets and liabilities of the Group as at December 31 are as follows:

Net deferred income tax assets

	2018	2017
<i>Deferred income tax assets recognized in profit or loss:</i>		
Fair value adjustment on nonfinancial assets	\$127,849	\$127,849
Retirement benefit obligation	114,618	114,997
HTM investments	1,408	1,408
	<u>243,875</u>	<u>244,254</u>
<i>Deferred income tax liabilities on recognized in profit or loss:</i>		
Effect of foreign exchange differences between tax base and financial reporting base	(1,351)	(19,773)
Unrealized foreign exchange gains	(13,192)	(8,765)
	<u>(14,543)</u>	<u>(28,538)</u>
<i>Deferred income tax liability related to retirement benefit obligation recognized under other comprehensive income</i>	<u>(24,258)</u>	<u>(8,341)</u>
	<u>\$205,074</u>	<u>\$207,375</u>

Net deferred income tax liabilities

	2018	2017 (As restated, Note 5)
<i>Deferred income tax assets (liabilities) acquired in business combination:</i>		
Intangible assets	(\$7,204,421)	(\$7,427,656)
NOLCO	3,528,204	3,528,204
Accrued expenses	135,587	389,316
	<u>(3,540,630)</u>	<u>(3,510,136)</u>
<i>Deferred income tax assets (liabilities) recognized in profit or loss:</i>		
Net fair value gain on change in fair market value of investment properties	(551,038)	—
Unrealized foreign exchange loss	677	—
	<u>(550,361)</u>	<u>—</u>
	<u>(\$4,090,991)</u>	<u>(\$3,510,136)</u>





The following are the Group's NOLCO, MCIT and deductible temporary differences for which no deferred income tax assets have been recognized as management believes that it may not be probable that sufficient future taxable profit will be available against which the deferred income tax assets can be utilized:

	2018	2017
NOLCO	\$7,681,943	\$7,203,027
Unrealized gross profit	1,896,262	3,047,575
MCIT	201,584	—
Unrealized foreign exchange losses	66,667	—

Deferred income tax asset on MCIT amounting to \$0.2 million is not recognized in 2018 because management believed it is not probable that sufficient future taxable profits will be available against which the MCIT may be applied. MCIT incurred in 2018 can be utilized until 2021.

The undistributed retained earnings of foreign subsidiaries for which no deferred income tax liability was recognized amounted to \$24.4 million and \$36.0 million as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, the Parent Company and RBWRP incurred NOLCO that can be claimed as deduction from future taxable income as follows:

#### Parent Company

Year incurred	Balances as of December 31, 2017	Additions	Applied	Expired	Balance as of December 31, 2018	Tax effect	Available until
2015	\$1,006,718	\$—	\$1,006,718	\$—	\$—	\$—	2018
2016	1,329,752	—	1,329,752	—	—	—	2019
2017	4,783,563	—	3,587,271	—	1,196,292	358,888	2020
	\$7,120,033	\$—	\$5,923,741	\$—	\$1,196,292	\$358,888	

#### RBWRP

Year incurred	Balances as of December 31, 2017	Additions	Applied	Expired	Balance as of December 31, 2018	Tax effect	Available until
2016	\$79,712	\$—	\$—	\$—	\$79,712	\$23,914	2019
2017	3,282	—	—	—	3,282	984	2020
2018	—	1,759	—	—	1,759	528	2021
	\$82,994	\$1,759	\$—	\$—	\$84,753	\$25,426	

#### Quintel USA

As of December 31, 2018, Quintel USA incurred NOLCO that can be claimed as deduction from future taxable income amounting to \$23.2 million.

	NOLCO	Deferred income tax asset recognized	Expiration
Quintel USA	\$23,201,869	\$3,528,204	2027 to 2037



CEIC and CATS are exempt from income tax under the tax privileged status as a BVI business company under the BVI Business Companies Act.

Changes in Legislation

*United States of America (U.S.)*

The Group is subject to income taxes in the U.S. owing to Quintel USA. The Tax Act was enacted on December 22, 2017 and introduces significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduces the U.S. statutory tax rate from 35% to 21% and creates new taxes on certain foreign-sourced earnings and certain related-party payments, which are referred to as the global intangible low-taxed income tax and the base erosion tax, respectively.

*Philippines*

Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax laws and includes several provisions that will generally affect businesses on a prospective basis, management assessed that the same did not have any significant impact on the consolidated financial statement balances as of balance sheet date.

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**28. Earnings Per Share (EPS)**

The following table presents information necessary to calculate EPS on net income.

	2018	2017 (As restated, Note 5)	2016
Net income	\$8,334,245	\$3,150,033	\$7,608,208
Adjustments on dividends declared:			
Preferred A shares	(8,400)	(8,400)	(11,200)
Preferred B-1 shares	(81,377)	(21,280)	—
Preferred B-2 shares	(4,103,750)	(341,979)	—
Net income attributable to common shareholders of the Parent Company	4,140,718	2,778,378	7,596,408
Divided by:			
Weighted average number of common shares outstanding	392,979,673	367,502,711	416,827,328
Basic and diluted EPS	\$0.011	\$0.008	\$0.018

As of December 31, 2018, 2017 and 2016, the Parent Company has no potential dilutive common shares.

The weighted average number of common shares outstanding used in the calculation of EPS is based on the outstanding shares of the Parent Company as adjusted with the effects of shares held by a subsidiary.



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## 29. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, short term loans and long-term debt. The main purpose of these financial instruments is to support the Group's operations. The Group has various other financial instruments such as trade and other receivables, amounts owed by related parties, rental deposits and loans to employees (presented as part of other current assets), miscellaneous deposits (presented under other noncurrent assets), trade and other payables, amounts owed to related parties and derivative liability which generally arise directly from its operations.

### Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

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

#### *Credit risk*

Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations.

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

For cash in bank and cash equivalents, other receivables, amounts owed by related parties, rental deposits, loans to employees and miscellaneous deposits, the Group applies the low credit risk simplification where the Group measures the ECLs on a 12-month basis based on the probability of default and loss given default which are publicly available. The Group also evaluates the credit rating of the bank and other counterparties to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers its cash in banks and cash equivalents as high grade since these are placed in financial institutions of high credit standing. For other receivables, amounts owed by related parties various deposits, loans to employees, the Group considers this as high to medium grade as the counterparties are of high credit standing. Accordingly, ECLs relating to these debt instruments rounds to nil.

For trade receivables, an impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- Gross domestic products
- Inflation rates



The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Based on the Group's credit risk experience, expected credit loss rate increases as the age of the receivables increase.

On the other hand, the Group considers its amounts owed by related parties as medium grade due to assured collectability through information from the related parties' sources of funding. No ECLs relating to these debt instruments was recognized.

The aging per class of financial assets and the expected credit loss as of December 31, 2018 follows:

	12-Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Simplified Approach	Total
<b>Amortized cost</b>					
Cash and cash equivalents*	\$17,442,756	\$-	\$-	\$-	\$17,442,756
Trade and other receivables	-	-	491,012	14,725,877	15,216,889
Amounts owed by related parties	56,641,388	-	-	-	56,641,388
Other current assets:					
Rental deposits	1,142,374	-	-	-	1,142,374
Loans to employees	612,792	-	-	-	612,792
Security deposit	182,409	-	-	-	182,409
Other financial assets at amortized cost	469,588	-	-	-	469,588
Miscellaneous deposits	166,646	-	-	-	166,646
	<b>\$76,657,953</b>	<b>\$-</b>	<b>\$491,012</b>	<b>\$14,725,877</b>	<b>\$91,874,842</b>

\*Excludes cash on hand.

Set out below is the information about the credit risk exposures of the Group's financial assets using a provision matrix as of December 31, 2018:

	Trade receivables and other receivables						
	Days past due					Impaired Financial Assets	Totals
	Current	<30 days	30-60 days	61-90 days	>91 days		
Expected credit loss rate	0%	0%	0%	0%	0%	22%	
Estimated total gross carrying amount at default	\$7,918,628	\$2,047,259	\$443,572	\$138,429	\$2,409,282	\$2,259,719	\$15,216,889
Expected credit loss	\$—	\$—	\$—	\$—	\$—	\$491,012	\$491,012



Expected credit loss rate on the Group's cash on hand and cash equivalents approaches zero.

December 31, 2018:

	Current	Past due				ECL	Net of ECL
		< 30 days	30< 60 days	60-90 days	> 90 days		
Cash and cash equivalents*	\$17,442,756	\$-	\$-	\$-	\$-	\$-	\$17,442,756
Trade and other receivables	7,918,628	2,047,259	443,572	138,429	4,669,001	(491,012)	14,725,877
Amounts owed by related parties	57,004,906	-	-	-	-	-	57,004,906
Other current assets:							
Financial assets at							
FVTPL	475	-	-	-	-	-	475
Rental deposit	1,142,374	-	-	-	-	-	1,142,374
Loans to employees	612,792	-	-	-	-	-	612,792
Security deposit	182,409	-	-	-	-	-	182,409
HTM investments	469,588	-	-	-	-	-	469,588
Other noncurrent assets:							
Loans to employees	902,161	-	-	-	-	-	902,161
Miscellaneous deposits	166,646	-	-	-	-	-	166,646
	<b>\$85,842,735</b>	<b>\$2,047,259</b>	<b>\$443,572</b>	<b>\$138,429</b>	<b>\$4,669,001</b>	<b>(\$491,012)</b>	<b>\$92,649,984</b>

\*Excluding cash on hand amounting to \$243.

December 31, 2017:

	Neither Past Due nor Impaired	Past Due but not Impaired				Impaired Financial Assets	Total
		< 30 days	30< 60 days	60-90 days	> 90 days		
Cash and cash equivalents*	\$37,222,487	\$-	\$-	\$-	\$-	\$-	\$37,222,487
Trade and other receivables	8,935,352	1,213,089	102,510	2,548,579	235,903	241,012	13,276,445
Amounts owed by related parties	50,383,831	-	-	-	-	-	50,383,831
Other current assets:							
Financial assets at							
FVTPL	501	-	-	-	-	-	501
Rental deposit	1,203,004	-	-	-	-	-	1,203,004
Security deposit	312,451	-	-	-	-	-	312,451
Loans to employees	182,510	-	-	-	-	-	182,510
AFS financial asset	1,667,000	-	-	-	-	-	1,667,000
HTM investments	480,563	-	-	-	-	-	480,563
Other noncurrent assets:							
Loans to employees	233	-	-	-	-	-	233
Miscellaneous deposits	177,591	-	-	-	-	-	177,591
	<b>\$100,565,523</b>	<b>\$1,213,089</b>	<b>\$102,510</b>	<b>\$2,548,579</b>	<b>\$235,903</b>	<b>\$241,012</b>	<b>\$104,906,616</b>

\*Excluding cash on hand amounting to \$250.



The tables below summarize the credit quality per class of the Group's financial assets that are neither past due nor impaired:

December 31, 2018

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalents*	\$17,442,756	\$-	\$-	\$17,442,756
Trade and other receivables	7,918,628	-	-	7,918,628
Amounts owed by related parties	-	57,004,906	-	57,004,906
Other current assets:				
Rental deposit	1,142,374	-	-	1,142,374
Loans to employees	612,792	-	-	612,792
Security deposit	182,409	-	-	182,409
Other financial assets at amortized cost	469,588	-	-	469,588
Other noncurrent assets				
Loans to employees	902,161	-	-	902,161
Miscellaneous deposits	166,646	-	-	166,646
	<b>\$28,837,354</b>	<b>\$57,004,906</b>	<b>\$-</b>	<b>\$85,842,260</b>

\* Excluding cash on hand.

December 31, 2017

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalents*	\$37,222,487	\$-	\$-	\$37,222,487
Trade and other receivables	8,935,352	-	-	8,935,352
Amounts owed by related parties	-	50,383,831	-	54,901,882
Other current assets:				
Financial assets at FVTPL	501	-	-	501
Rental deposit	1,203,004	-	-	1,203,004
Loans to employees	312,451	-	-	312,451
Security deposit	182,510	-	-	182,510
HTM investments	480,563	-	-	480,563
AFS financial asset	-	1,667,000	-	1,667,000
Other noncurrent assets:				
Loans to employees	233	-	-	233
Miscellaneous deposits	177,591	-	-	177,591
	<b>\$48,514,692</b>	<b>\$56,568,882</b>	<b>\$-</b>	<b>\$105,083,574</b>

\* Excluding cash on hand.

**High grade** - These are receivables which have a high probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables are readily enforceable).

**Medium grade** - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay and that have history of sliding beyond the credit terms but pay within 60 days.

**Low grade** - These are receivables where the counterparty's capability of honoring its financial obligation is doubtful.



### Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties in raising funds to meet commitments from financial instruments. Liquidity risk may result from a counterparty's failure on repayment of a contractual obligation or inability to generate cash inflows as anticipated.

The Group maintains sufficient cash to finance its operations and major capital expenditures and satisfy its maturing obligations. It may also from time to time seek other sources of funding, which may include debt or equity financing, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

The tables below summarize the maturity analysis of the Group's financial assets used for liquidity management and financial liabilities based on contractual undiscounted payments:

December 31, 2018

	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
<b>Financial Assets</b>					
Cash and cash equivalents	\$17,443,001	\$-	\$-	\$-	\$17,443,001
Trade and other receivables	7,918,628	6,807,249	-	-	14,725,877
Amounts owed by related parties	57,004,906	-	-	-	57,004,906
	<b>\$82,366,535</b>	<b>\$6,807,249</b>	<b>\$-</b>	<b>\$-</b>	<b>\$89,173,784</b>
<b>Financial Liabilities</b>					
Trade and other payables					
Trade payables	\$10,154,008	\$-	\$-	\$-	\$10,154,008
Accrued expenses	-	1,740,376	-	-	1,740,376
Short-term loans*	-	54,783,580	-	-	54,783,580
Amounts owed to related parties	930,745	-	-	-	930,745
Dividend payable	20,601	-	-	-	20,601
Long-term debts*	-	15,132,560	13,416,991	63,359,019	91,908,570
	<b>\$11,105,354</b>	<b>\$71,656,516</b>	<b>\$13,416,991</b>	<b>\$63,359,019</b>	<b>\$159,537,880</b>

\*Includes future interest payments

December 31, 2017

	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
<b>Financial Assets</b>					
Cash and cash equivalents	\$37,222,737	\$-	\$-	\$-	\$37,222,737
Trade and other receivables	8,935,352	4,100,081	-	-	13,035,433
Amounts owed by related parties	\$50,383,831	-	-	-	50,383,831
	<b>\$96,541,920</b>	<b>\$4,100,081</b>	<b>\$-</b>	<b>\$-</b>	<b>\$100,642,001</b>
<b>Financial Liabilities</b>					
Trade and other payables					
Trade payables	\$30,631,478	\$-	\$-	\$-	\$30,631,478
Accrued expenses*	-	3,758,037	-	-	3,758,037
Short-term loans**	-	65,133,176	-	-	65,133,176
Amounts owed to related parties	543,203	-	-	-	543,203
Long-term debts**	-	5,421,181	18,987,590	16,009,000	40,417,771
	<b>\$31,174,681</b>	<b>\$74,312,394</b>	<b>\$18,987,590</b>	<b>\$16,009,000</b>	<b>\$140,483,665</b>

\*Excluding statutory liabilities

\*\*Includes future interest payments

### Foreign currency risk

The Group uses the US dollar as its functional currency and is therefore exposed to foreign exchange movements. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-US dollar currencies.



The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's income before income tax as of December 31, 2018 and 2017:

US Dollars

	December 31, 2018	
	Original Currency in Php <sup>1</sup>	Total Dollar Equivalent
<b>Financial Assets</b>		
Cash and cash equivalents	P140,431,688	\$2,670,819
HTM investments	24,690,937	469,588
Other current assets	76,095,393	1,447,229
Other noncurrent assets	6,427,708	122,246
<b>Total Financial Assets</b>	<b>247,645,726</b>	<b>\$4,709,882</b>
<b>Financial Liability</b>		
Trade and other payables	115,680,925	2,200,094
<b>Net Financial Assets</b>	<b>P131,964,721</b>	<b>\$2,509,788</b>

<sup>1</sup>P 1 = \$0.0190

	December 31, 2017	
	Original Currency in Php <sup>1</sup>	Total Dollar Equivalent
<b>Financial Assets</b>		
Cash and cash equivalents	P272,996,324	\$5,467,581
HTM investments	23,994,511	480,563
Amounts owed by related parties	25,000	501
Other current assets	72,744,455	1,454,929
Other noncurrent assets	6,418,252	128,545
<b>Total Financial Assets</b>	<b>376,178,542</b>	<b>7,532,119</b>
<b>Financial Liabilities</b>		
Trade and other payables	88,901,769	1,780,528
<b>Net Financial Assets</b>	<b>P287,276,773</b>	<b>\$5,751,591</b>

<sup>1</sup>P 1 = \$0.0200

British Pounds

	December 31, 2018	
	Original Currency in GPB <sup>1</sup>	Total Dollar Equivalent
<b>Financial Assets</b>		
Cash and cash equivalents	£58,901	\$75,111
Other current assets	36,791	46,916
	<b>£95,692</b>	<b>\$122,027</b>

<sup>1</sup>£1 = \$1.2752





	December 31, 2017	
	Original Currency in GBP <sup>1</sup>	Total Dollar Equivalent
<b>Financial Asset</b>		
Cash and cash equivalents	£197,511	\$266,502
<sup>1</sup> £1 = \$1.3493		

### US Dollars

December 31, 2018				
	Foreign Currency Appreciates by	Effect on Income Before Tax	Foreign Currency Depreciates by	Effect on Income Before tax
Peso denominated assets	+5%	(\$235,494)	-5%	\$235,494
Peso denominated liabilities	+5%	125,489	-5%	(125,489)
		(\$110,005)		\$110,005

December 31, 2017				
	Foreign Currency Appreciates by	Effect on Income Before Tax	Foreign Currency Depreciates by	Effect on Income Before tax
Peso denominated assets	+1%	(\$75,321)	-1%	\$75,321
Peso denominated liabilities	+1%	17,805	-1%	(17,805)
		(\$57,516)		\$57,516

### British Pounds

December 31, 2018				
	Foreign Currency Appreciates by	Effect on Income Before Tax	Foreign Currency Depreciates by	Effect on Income Before tax
Peso denominated assets	+5%	\$6,101	-5%	(\$6,101)

December 31, 2017				
	Foreign Currency Appreciates by	Effect on Income Before Tax	Foreign Currency Depreciates by	Effect on Income Before tax
Peso denominated assets	+9%	\$23,985	-9%	(\$23,985)

The change in currency rate is based on the Group's best estimate of its expected change considering the historical trends and experiences. There is no other effect on the Group's equity other than those already affecting income before tax.



### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group's manages its capital structure, which pertains to its equity as shown in the consolidated balance sheet, and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes in 2018 and 2017.

The Company considers the following as capital:

	2018	2017
Common stock	\$9,594,321	\$9,594,321
Preferred stock	2,615,995	2,037,113
Additional paid-in capital	100,469,659	100,469,659
Equity reserve	4,030,214	4,030,214
Other comprehensive income (loss)	(1,225,830)	196,292
Retained earnings	25,144,690	24,672,847
Parent company shares held by a subsidiary	(26,812,680)	(7,017,360)
	<b>\$113,816,369</b>	<b>\$133,983,086</b>

As of December 31, 2018 and 2017, the Group is subject to quantitative loan covenants and financial ratios on its long-term debts.

As of December 31, 2018 and 2017, the Group was able to meet its capital requirements and management objectives.

### **30. Fair Values**

As of December 31, 2018 and 2017, the carrying values of the Group's financial assets and liabilities, excluding AFS financial asset carried at cost because its fair value cannot be reliably measured, are equal to or approximate their respective fair value.

*Cash and cash equivalents, trade and other receivables, loans to employees, trade and other payables, short-term loans, dividend payables, amounts owed by and owed to related parties and deposits*

The carrying amounts approximate fair value since these are mostly short-term in nature or due and demandable.

*Financial assets at FVTPL - UITF*

The investments in Unit Investment Trust Fund classified as financial asset at FVTPL are stated at their fair value based on lowest level input (Level 2).

*Investment properties*

The fair value of the investment properties are determined by a Philippine SEC-accredited independent appraiser using the market data approach, a method of comparing recent sales and sales offerings of similar properties located in the surrounding area, adjusted for time, size, location and other relevant factors.



*HTM investments/Other financial statements at amortized cost*

The fair value of HTM investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date or last trading day as applicable (Level 1).

*Miscellaneous deposits and loans to employees*

The miscellaneous deposits are carried at cost since the timing and related amounts of future cash flows cannot be reasonably and reliably estimated for purposes of establishing its fair value using an alternative valuation technique.

*Long-term debt*

The fair value of long-term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discounts rates used range from 4.19% to 6.37% and 4.19% to 4.29% in 2018 and 2017, respectively (Level 3).

Fair Value Hierarchy

December 31, 2018				
	Total	Level 1	Level 2	Level 3
<i>Financial asset measured at fair value</i>				
Financial asset at FVTPL	\$475	\$-	\$475	\$-
Investment properties	10,605,040	-	10,605,040	-
<i>Financial asset and liability measured at amortized cost but for which fair values are disclosed</i>				
HTM investments	469,588	469,588	-	-
Long-term debt	74,119,113	-	-	74,119,113
December 31, 2017				
	Total	Level 1	Level 2	Level 3
<i>Financial asset measured at fair value</i>				
Financial asset at FVTPL	\$501	\$-	\$501	\$-
<i>Financial asset and liability measured at amortized cost but for which fair values are disclosed</i>				
HTM investments	480,563	480,563	-	-
Long-term debt	38,210,093	-	-	38,210,093



### 31. Equity

#### a. Common Shares

	2018	2017
<i>Number of shares</i>		
Authorized - common shares (₱1.00 par value)	520,000,000	520,000,000
<i>Issued</i>		
Beginning and end of year	419,063,353	419,063,353
<i>Amount</i>		
Issued - 419,063,353 shares	\$9,594,321	\$9,594,321

On November 18, 2011, the Parent Company listed with the PSE its common stock, wherein it offered 42,163,000 shares to the public at issue price of ₱7 per share. The total proceeds with issuance of new shares amounted to ₱295.1 million (\$6.8 million). The Parent Company incurred transaction costs incidental to the IPO amounting to ₱47.3 million (\$1.1 million), which was charged against "Additional paid-in capital" in the 2011 consolidated balance sheets. As of December 31, 2011, the Parent Company's has 162,163,000 issued common shares.

On May 25, 2012, the BOD declared a twenty percent (20%) stock dividend to stockholders. On the same date, the stockholders approved and ratified the stock dividend payable to stockholders as of record as of June 8, 2012, to be distributed on June 29, 2012.

On September 14, 2012, the BOD declared a twenty percent (20%) stock dividend to stockholders of record as of December 21, 2012, to be distributed on January 10, 2013. On December 7, 2012, the stockholders approved the twenty percent (20%) stock dividend.

On January 16, 2013, the BOD declared a twenty percent (20%) stock dividend to stockholders. On the same date, the stockholders approved the stock dividend payable to stockholders of record as of March 15, 2013, to be distributed on April 5, 2013.

On January 29, 2014, the BOD also declared a ten (10%) stock dividend. During the special stockholders meeting on July 11, 2014, the shareholders approved and ratified the declaration of 10% stock dividend payable to stockholders of record as of July 25, 2014, to be distributed on August 20, 2014.

On March 24, 2015, the BOD also declared a ten (10%) stock dividend. On May 12, 2015, the shareholders approved and ratified the declaration of 10% stock dividend payable to stockholders of record as of May 26, 2015, to be distributed on June 18, 2015.

On March 24, 2015, the Parent Company's BOD, by majority vote, and shareholders representing two-thirds of the outstanding capital stock thereof approved the amendment of the articles of incorporation to increase the Parent Company's authorized capital stock by ₱160,000,000 or from ₱400,000,000 divided into 400,000,000 common shares with a par value of ₱1.00 per share, to ₱560,000,000 divided into 520,000,000 common shares with a par value of ₱1.00 per share and 400,000,000 preferred shares with a par value of ₱0.10 per share.

The BOD also authorized the Parent Company to offer 120,000,000 shares for sale or subscription through a follow-on offering (FOO).



On July 22, 2015, the Philippine SEC approved the Company's application to increase its authorized capital stock.

On November 4, 2015, the Parent Company's FOO was completed. The Parent Company issued 80,000,000 new shares at issue price of ₱20 per share for a total amount of \$34.2 million. The Parent Company incurred transactions costs incidental to FOO amounting to \$1.2 million which was charged against "Additional paid-in capital" in the 2015 consolidated balance sheet.

On October 24, 2016, the Parent Company's BOD approved by majority vote the amendment of the articles of incorporation to increase the Parent Company's authorized capital stock by ₱1,440,000,000 or from ₱560,000,000 divided into 520,000,000 common shares with a par value of ₱1.00 per share and 400,000,000 preferred shares with a par value of ₱0.10 per share ("Preferred A" shares), to ₱860,000,000 divided into 520,000,000 common shares with a par value of ₱1.00 per share and 700,000,000 preferred shares classified into "Preferred A shares" with a par value of ₱0.10 per share, and ₱270,000,000 worth of new preferred shares classified into "Preferred B shares" with par value ₱1.00 per share, with preferences, convertibility voting rights and other features of which shall be determined by the Parent Company's BOD. On the same date, the Parent Company's BOD, by majority vote, approved the declaration of ten percent (10%) stock dividend for each of the 419,063,353 issued and fully paid common shares, and 400,000,000 issued and fully paid preferred shares of the Corporation. To date the shareholders have not approved and ratified the said declaration.

On May 26, 2017, the Parent Company's shareholders representing at least two-thirds of the outstanding capital stock thereof approved the amendment of the articles of incorporation to increase the Parent Company's authorized capital stock as endorsed by the BOD. The shareholders also approved a resolution to delegate to the BOD the power and authority to: (i) determine the manner (either in one or more tranches) by which the proposed increase in the authorized capital stock of the Parent Company will be implemented; and (ii) the manner by which the increase in the authorized capital stock will be subscribed and paid for, such as, but not limited to, a private placement transaction or public offering. The BOD was also granted authority to issue in one or more series the new preferred shares and to determine the preferences, convertibility, voting rights, features and other terms and conditions for each such series of the new preferred shares.

The Parent Company's application to increase its authorized capital stock, which was approved by Philippine SEC on September 29, 2017, did not include increase on authorized capital stock on common shares.

On July 18, 2018, the Parent Company's BOD approved by majority vote the amendment of the articles of incorporation to increase the Parent Company's authorized capital stock by ₱160,000,000 by increasing the authorized: (i) common stock by ₱120,000,000; and (ii) preferred A stock by ₱40,000,000. Furthermore, the par value of the common shares was reduced from ₱1.00 to ₱0.50 per share.

On September 7, 2018, the Parent Company's shareholders representing at least two-thirds of the outstanding capital stock thereof approved the amendment of the articles of incorporation to increase the Parent Company's authorized capital stock as endorsed by the BOD.

As of December 31, 2018, the Parent Company's BOD is in the process of filing applications and documents as may be necessary to amend the articles of incorporation and to implement and give effect to the foregoing resolution.



As of December 31, 2018 and 2017, the Parent Company has a total number of 26 and 25 stockholders, respectively.

*Parent Company Shares Held by a Subsidiary*

In 2016, CEC acquired a total of 102,018,659 common shares of the Parent Company for ₱2.3 billion (\$49.7 million). The shares purchased were recorded at cost and deducted from equity in the consolidated balance sheet and consolidated changes in equity.

In 2017, CEC sold 85,099,869 shares for \$42.4 million. Excess of acquisition cost over proceeds amounted to \$0.1 million which was offset against "Equity reserve" account.

The 2017 consolidated financial statements of the Group were restated to correct transactions related to the disposals of parent company shares held by a subsidiary, which were recognized under "Amounts owed by related parties" account. Management inadvertently included the disposals of shares held by Camerton, its immediate parent company, amounting to \$4.5 million (equivalent to 11,872,668 shares).

As a result, the following financial statement line items have been restated as follows:

	December 31, 2017
Increase (decrease) in:	
<u>Consolidated Balance Sheet</u>	
<i>Total current assets</i>	
Amounts owed by related parties	(\$4,518,053)
<i>Equity</i>	
Parent company shares held by a subsidiary	4,518,053
	2017
<u>Consolidated Statement of Changes in Equity</u>	
Sale by subsidiary of parent company shares held by a subsidiary	\$4,518,053

The restatement did not have impact on the 2017 consolidated statement of cash flows and consolidated statement of comprehensive income, except for the impact on earnings per share. As of December 31, 2017, prior to restatement, the earnings per share amounted to \$0.007. After restatement, earnings per share amounted to \$0.008.

In 2018, CEC acquired additional 32,152,644 parent company shares for ₱1.2 billion (\$20.7 million).

As of December 31, 2018 and 2017, the carrying value of Parent Company shares held by a subsidiary amounted to \$26.8 million and \$2.5 million, respectively.

b. Preferred Shares

	2018	2017
<i>Number of shares</i>		
Authorized		
Preferred shares A (₱0.10 par value)	700,000,000	700,000,000
Preferred shares B-1 (₱1.00 par value)	70,000,000	70,000,000
Preferred shares B-2 (₱1.00 par value)	200,000,000	200,000,000
Issued and Subscribed		



	2018	2017
<b>Issued and Subscribed</b>		
Preferred A shares	700,000,000	700,000,000
Preferred B-1 shares	70,000,000	70,000,000
Preferred B-2 shares	67,000,000	67,000,000
<b>Amount</b>		
Preferred A shares - (net of subscriptions receivable amounting to \$525,062 and \$1,103,944 as of December 31, 2018 and 2017, respectively)	\$946,863	\$367,981
Preferred B-1 shares - (net of subscriptions receivable amounting to \$1,027,196 as of December 31, 2017)	342,399	342,399
Preferred B-2 shares	1,326,733	1,326,733

In 2015, the 400,000,000 preferred shares at par value of ₱0.10 were subscribed by Camerton, a principal shareholder of the Parent Company.

On September 8, 2017, the Parent Company's BOD, by majority vote, approved the amendment in the Company's articles of incorporation to increase the Company's authorized capital stock by ₱300,000,000, or:

- a) from ₱560,000,000, consisting of:
  - i. ₱520,000,000 worth of common shares divided into 520,000,000 common shares with par value of ₱1.00 per share; and
  - ii. ₱40,000,000 worth of preferred shares divided into 40,000,000 Preferred A shares with par value of ₱0.10 per share,
- b) to ₱860,000,000, consisting of:
  - i. ₱520,000,000 worth of common shares divided in to 520,000,000 common shares with par value of ₱1.00 per share;
  - ii. ₱70,000,000 worth of preferred A shares divided into 700,000,000 preferred A shares with par value of ₱0.10 per share; and
  - iii. ₱270,000,000 worth of preferred B shares with par value of ₱1.00 per share. The preferred B shares are further classified into the following series: (a) ₱70,000,000 worth of preferred B-1 shares, and (b) ₱200,000,000 worth of preferred B-2 shares, both having a par value of ₱1.00 per share.

On the same date, the additional 300,000,000 preferred A shares and 70,000,000 preferred B-1 shares shall be issued to and subscribed by Camerton at their par value of ₱0.10 per share and ₱1.00 per share, respectively. The Parent Company recognized preferred stock and additional paid-in capital amounting to \$0.1 million and \$0.3 million, respectively, net of subscriptions receivable.

On September 29, 2017, the Philippine SEC approved the Company's application for the increase in authorized capital stock.

The features of the preferred A shares are (i) full voting rights, one vote for each share; (ii) preferred non-cumulative cash dividends at the rate of 1% of their par value per year, with no participation in further cash dividends which may be declared and paid to the common shares or any other class or series of shares; and (iii) the same stock dividends which may be declared and paid to the common shares or any other class or series of shares.



On September 15, 2017 and November 9, 2017, the Parent Company BOD approved the following features, rights and privileges of preferred B-2 shares:

- a. Non-voting;
- b. Preferred, cumulative cash dividends of up to 6.125% of the issue price per year, at the discretion of the Parent Company's BOD, with no participation in further cash dividends which may be declared and paid to the common shares, provided that, other than the basis being their respective issue prices, the cash dividend rate for preferred B-1 shares and preferred B-2 shares shall be paid before any cash dividends are paid to holders of common shares and preferred A shares;
- c. The same stock dividends which may be declared and paid to the common shares;
- d. As and if approved by the Parent Company BOD, redeemable in whole and not in part, at the sole option of the Parent Company at a price and at such time that the Parent Company BOD shall determine;
- e. In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Parent Company, the holders of preferred B-1 shares and preferred B-2 shares that are outstanding at that time shall enjoy preference in the payment in full or, if the remaining assets of the Parent Company are insufficient, on a pro-rata basis as among all holders of outstanding preferred B-1 shares and preferred B-2 shares, of the issue price of their shares plus any previously declared and unpaid dividends before any asset of the Parent Company is paid or distributed to the holders of other classes of shares.

On October 23, 2017 and November 9, 2017, the Parent Company BOD approved the following features, rights and privileges of preferred B-1 shares:

- a. Non-voting;
- b. Preferred, cumulative, non-participating, non-convertible;
- c. Entitled to cash dividends of up to 6.125% of the issue price per year, with no participation in further cash dividends which may be declared and paid to the common shares, and with no entitlement to any stock or property dividends;
- d. As and if approved by the Parent Company BOD, redeemable in whole and not in part, at the sole option of the Parent Company at a price and at such time that the Parent Company BOD shall determine; provided that management may grant up to 3% step-up rate on the cash dividends if the Parent Company is unable to redeem the preferred B-1 shares on the 5th anniversary of their issuance;
- e. In the event of change in control event where any person or persons acting in concert or any third person or persons acting on behalf of such person(s) at any time acquire(s) directly or indirectly a controlling participation in the Parent Company pursuant to the Philippine Laws, the dividend rate shall be increased by 4% commencing and including the day falling 180 days after the day on which a change in control event has occurred;
- f. In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Parent Company, the holders of preferred B-1 shares that are outstanding at that time shall enjoy preference in the payment in full or, if the remaining assets of the Parent Company are insufficient, on a pro-rata basis as among all holders of outstanding preferred B-1 shares and preferred B-2 shares, of the issue price of their shares plus any previously declared and unpaid dividends before any asset of the Parent Company is paid or distributed to the holders of other classes of shares; and
- g. Holders of preferred B-1 shares shall have no pre-emptive rights to subscribe to any class of shares (including, without limitation, treasury shares) that will be issued or sold by the issuer.





On November 8, 2017, the PSE BOD approved the public offering of up to \$200,000,000 preferred B-2 shares. A total of 140,000,000 preferred B-2 shares were offered to the public during the offer period.

On November 29, 2017, the Parent Company's public offering was completed. The Parent Company issued 67,000,000 preferred B-2 shares with par value of ₱1.00 at issue price of \$1.00 per share for a total amount of \$67.0 million. The Parent Company recognized preferred stock and additional paid-in capital stock amounting to \$1.3 million and \$65.7 million, respectively. The Parent Company incurred transaction costs incidental to FOO amounting to \$1.1 million which was charged against "Additional paid-in capital" in 2017 consolidated balance sheet. As of December 31, 2017, unpaid stock issue costs amounted to \$324,866 recorded under "Accrued expenses and other payables" account.

On December 8, 2017, the Parent Company listed with the PSE its 67,000,000 preferred B-2 shares.

On July 18, 2018, the Parent Company's BOD approved by majority vote the amendment of the articles of incorporation to increase the Parent Company's authorized capital stock by ₱160,000,000 by increasing the authorized: (i) common stock by ₱120,000,000; and (ii) preferred A stock by ₱40,000,000. The Parent Company authorized the subscription by Camerton, Inc. to ₱40,000,000 of preferred A shares. Furthermore, the par value of the preferred A shares was reduced from ₱0.10 to ₱0.05 per share. On the same date, the Parent Company's BOD approved by majority vote the reclassification of ₱100,000,000 preferred B-2 shares with a par value of ₱1.00 per share into ₱100,000,000 of a new class of shares denominated as preferred C shares, divided into 100,000,000 of ₱1.00 per share.

On September 7, 2018, the Parent Company's shareholders representing at least two-thirds of the outstanding capital stock thereof approved the amendment of the articles of incorporation to increase the Parent Company's authorized capital stock as endorsed by the BOD. The shareholders also approved a resolution to delegate to the BOD the power and authority to determine and fix the terms and conditions of preferred C shares.

On December 13, 2018, Camerton, Inc. paid 25% of the total additional subscription to preferred A shares amounting to ₱10,000,000. This amount was recorded as deposit for future stock subscription as of December 31, 2018.

As of December 31, 2018, the Parent Company's BOD is in the process of filing applications and documents as may be necessary to amend the articles of incorporation and to implement and give effect to the foregoing resolution.

As of December 31, 2018 and 2017, the Parent Company has unrecognized dividends on cumulative preferred B-1 and B-2 shares totaling to \$0.1 million and \$0.3 million, respectively.

c. Retained Earnings

On January 28, 2016, the Parent Company's BOD approved the declaration of cash dividends of \$0.0050 per share for each of 419,063,353 fully paid and issued common shares and \$0.000021 per share for each of the 400,000,000 outstanding preferred shares, amounting to an aggregate sum of \$2,100,000, for payment and distribution on February 29, 2016 to shareholders of record of February 12, 2016. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.



On June 9, 2016, the Parent Company's BOD approved the declaration of cash dividends of \$0.00362 per share for each of 419,063,353 fully paid and issued common shares and \$0.000001 per share for each of the 400,000,000 outstanding preferred shares, amounting to an aggregate sum of \$1,520,000, for payment and distribution on July 7, 2016 to shareholders of record of June 23, 2016. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

On January 23, 2017 the Parent Company's BOD approved the declaration of cash dividends of \$0.00432 per share for each of 419,063,353 fully paid and issued common shares and \$0.000021 per share for each of the 400,000,000 outstanding preferred shares, amounting to an aggregate sum of \$1,820,000, for payment and distribution on February 22, 2017 to shareholders of record of February 6, 2017. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date

On September 15, 2017 the Parent Company's BOD approved the declaration of cash dividends of \$0.004629 per share for each of 419,063,353 fully paid and issued common shares amounting to an aggregate sum of \$1,940,000, for payment and distribution on October 6, 2017 to shareholders of record of September 29, 2017. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

Accumulated earnings of the subsidiaries are not yet available for dividend distribution to the Parent Company's stockholders, unless received as cash dividends from the subsidiaries.

On February 2, 2018, the Parent Company's BOD approved the declaration of cash dividends of \$0.004609 per share for each of 419,063,353 fully paid and issued common shares and \$0.000012 per share for each of the 700,000,000 outstanding preferred A shares, amounting to an aggregate sum of \$1,940,000, for payment and distribution on February 21, 2018 to shareholders of record of February 19, 2018. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

On February 27, 2018, the Parent Company's BOD approved the declaration of cash dividend of ₱0.015313 per share for each of the outstanding and issued preferred B-1 shares amounting to an aggregate sum of ₱1,071,875 (\$20,601), for payment and distribution on March 8, 2018 to shareholders of record as of March 6, 2018. This amount remained unpaid as of December 31, 2018.

On the same date, the Parent Company's BOD approved the declaration of cash dividend of \$0.015313 per share for each of the 67,000,000 outstanding and issued preferred B-2 shares amounting to an aggregate sum of \$1,025,938, for payment and distribution on March 8, 2018 to shareholders of record as of March 6, 2018.

On June 4, 2018, the Parent Company's BOD approved the declaration of cash dividend of \$0.015313 per share for each of the 67,000,000 outstanding and issued preferred B-2 shares amounting to an aggregate sum of \$1,025,938, for payment and distribution on the following dates:

- (i) June 8, 2018 to shareholders of record as of June 6, 2018
- (ii) September 10, 2018 to shareholders of record as of September 6, 2018
- (iii) December 10, 2018 to shareholders of record as of December 6, 2018

The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.



On September 3, 2018, the Parent Company's BOD approved the declaration of cash dividends of \$0.0048 per share for each of 419,063,353 fully paid and issued common shares amounting to an aggregate sum of \$2,000,000, for payment and distribution on September 24, 2018 to shareholders of record of September 18, 2018. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

Retained earnings include undistributed earnings amounting to \$21.5 million, \$24.3 million and \$24.4 million as of December 31, 2018, 2017 and 2016, respectively, representing accumulated earnings of subsidiaries, which are not available for dividend declaration until received in the form of dividends from the combining entities. Retained earnings available for dividend declaration as at December 31, 2018 amounted to \$3.6 million.

Retained earnings are further restricted for the payment of dividends to the extent of unrealized foreign exchange gains except those attributable to cash and cash equivalents, net fair value gain on investment properties, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2018 and 2017.

### 32. Changes in Liabilities Arising from Financing Activities

The table below presents the changes in Group's liabilities arising from financing activities:

	2018					Ending
	Beginning	Net cash flows	Conversion of short-term loans into long-term debt	Capitalized debt issuance costs	Amortization of deferred financing costs	
Short-term loans	\$64,040,088	\$29,669,912	(\$40,000,000)	\$-	\$-	\$53,710,000
Long-term debt	37,877,845	(4,360,000)	40,000,000	(300,274)	129,100	73,346,671
Amounts owed to related parties	543,203	57,990	-	-	-	601,193
Deposit for future stock subscription	-	189,107	-	-	-	189,107
	<b>\$102,461,136</b>	<b>\$25,557,009</b>	<b>\$-</b>	<b>(\$300,274)</b>	<b>\$129,100</b>	<b>\$127,846,971</b>

	2017				Ending
	Beginning	Net cash flows	Amortization of deferred financing costs	Liabilities arising from acquisition of Quintel	
Short-term loans	\$31,625,945	\$32,414,143	\$-	\$-	\$64,040,088
Long-term debt	43,859,971	(7,025,962)	117,874	925,962	37,877,845
Amounts owed to related parties	520,152	23,051	-	-	543,203
	<b>\$76,006,068</b>	<b>\$25,411,232</b>	<b>\$117,874</b>	<b>\$925,962</b>	<b>\$102,461,136</b>

### 33. Events After the Reporting Period

On January 30, 2019, the Parent Company's BOD approved the declaration of cash dividends of \$0.015313 per share for each of the 67,000,000 outstanding and issued preferred B-2 shares amounting to an aggregate sum of \$1,025,938, for payment and distribution on the following dates:

- (i) March 8, 2019 to shareholders of record as of March 6, 2019
- (ii) June 10, 2019 to shareholders of record as of June 6, 2019



- (iii) September 9, 2019 to shareholders of record as of September 5, 2019
- (iv) December 9, 2019 to shareholders of record as of December 5, 2019

The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

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### 34. Contingencies and Commitments

The following are the significant commitments and contingencies involving the Group:

#### Outsourcing Manufacturing Agreement (OMA)

On July 30, 2014, CATS entered into an OMA (herein referred to as the "Agreement") with RBWHI in conjunction with the Share Purchase Agreement (SPA) entered into between CEIC and RBWHI. CATS will perform manufacturing services to RBWHI in accordance with the production files and specifications as provided in the Agreement. The contract term is for ten (10) years with automatic renewal of additional one (1) year period. All payments to CATS shall be made in US Dollars and shall be paid sixty (60) days after the receipt of the invoice.

#### Master Service Agreement (MSA)

CATS entered into an MSA with RBWHI on July 30, 2014 where CATS will provide to RBWHI the services of selected employees and consultants (or "Business Services") of CATS. CATS shall be responsible for and shall timely pay any and all compensation and benefits payable to the employees of and consultants of CATS who perform Business Services. MSA has a ten (10) year term with automatic renewal of additional one year period.

#### Contingencies

- a. In 2019, the Parent Company received a letter from a regulatory agency about transactions involving the Parent Company's shares. The Parent Company is currently discussing with the regulators, thus timing of the cash flows is uncertain as it depends upon the outcome of these discussions. Disclosure on additional details beyond the present disclosures may seriously prejudice the said discussions. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only general descriptions were provided.
- b. In accordance with the settlement agreement between the Group and a third party, the Group received a total amount of \$5.5 million as payment for the Group's legal case for patent infringement. The amount was recorded as part of "Others - net" account (see Note 26).

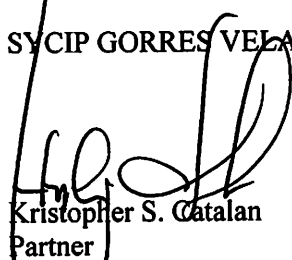


## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and the Stockholders  
Cirtek Holdings Philippines Corporation  
116 East Main Avenue  
Phase V-SEZ  
Laguna Technopark  
Binan, Laguna

We have audited in accordance with Philippine Standards on Auditing the consolidated financial statements of Cirtek Holdings Philippines Corporation and its subsidiaries (the Group) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 included in this Form 17-A, and have issued our report thereon dated May 3, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules I to III and A to H listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Kristopher S. Catalan  
Partner

CPA Certificate No. 109712  
SEC Accreditation No. 1509-AR-1 (Group A),  
October 18, 2018, valid until October 17, 2021  
Tax Identification No. 233-299-245  
BIR Accreditation No. 08-001998-109-2018,  
February 14, 2018, valid until February 13, 2021  
PTR No. 7332534, January 3, 2019, Makati City

May 3, 2019

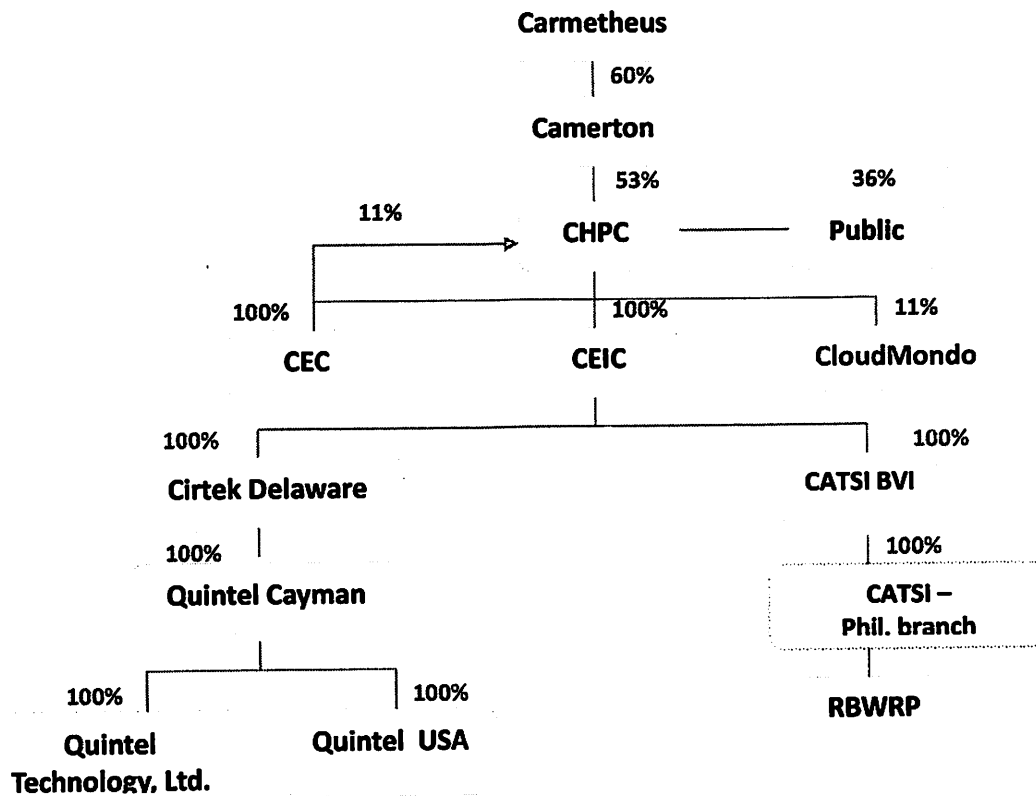


**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018**

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**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE**  
**COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-**  
**SUBSIDIARIES**  
**DECEMBER 31, 2018**



**CIRTEK HOLDINGS PHILIPPINES CORPORATION**  
**SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE**  
**STANDARDS AND INTERPRETATIONS**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
<b>Philippine Financial Reporting Standards</b>				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
<b>Philippine Accounting Standards</b>				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
<b>Philippine Interpretations</b>				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2018</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non - cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies	✓		
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance-No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases - Incentives			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2018</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Philippine Interpretation SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets - Web Site Costs			✓

**CIRTEK HOLDINGS PHILIPPINES CORPORATION**  
**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR**  
**DIVIDEND DECLARATION**  
**DECEMBER 31, 2018**

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Unappropriated retained earnings, beginning	<b>\$407,956</b>
<hr/>	
<b>Add: Net income actually earned/realized during the period</b>	
Net income during the period closed to retained earnings	11,274,805
Less: Unrealized foreign exchange gain, net of tax (except for those attributable to cash)	401
<hr/>	
<b>Net income actually earned during the period</b>	<b>11,274,404</b>
Less: Cash dividends declared	8,073,734
<b>Retained earnings available for dividend declaration</b>	<b>\$3,608,626</b>
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**SCHEDULE A**

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**

**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS**

**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018**

	Name of Issuing entity and association of each issue	Amount shown in the balance sheet	Valued based on market quotation at the end of reporting period	Income received or accrued
Cash in banks and cash equivalents	N/A	\$17,442,756	\$17,442,756	\$30,581
Trade and other receivables	N/A	14,725,877	14,725,877	—
Amounts owed by related parties	N/A	57,004,906	57,004,906	—
Other current assets:				
Financial asset at FVTPL	N/A	475	475	—
Rental deposit	N/A	1,142,374	1,142,374	—
Security deposit	N/A	612,792	612,792	—
Loan to employees	N/A	182,409	182,409	—
Equity investment at FVTOCI	N/A	—	—	—
Other financial asset at amortized	N/A	469,588	469,588	11,625
Other noncurrent assets:				
Loans to employees	N/A	902,161	902,161	—
Miscellaneous deposits	N/A	166,646	166,646	—
		<b>\$92,649,984</b>	<b>\$92,649,984</b>	<b>\$42,206</b>

SCHEDULE B

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM**  
**DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND**  
**PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018**

**Amounts Receivable from Officers, Employees and Related Parties under Trade and Other Receivables**

Name and designation of debtor	Balance at beginning of period	Additions	Payments	Assignment of liabilities to related parties	Current	Not Current	Balance at the end of the period
<b>Stockholders</b>							
Jerry Liu	\$29,227,358	\$-	(\$8,326,878)	(\$20,900,480)	\$-	\$-	\$-
Bryan Liu	19,061,872	14,997,714	(34,059,586)	(34,059,586)	-	-	-
	<b>\$48,289,230</b>	<b>\$14,997,714</b>	<b>(\$42,386,464)</b>	<b>(\$54,960,066)</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>

**Amounts owed by Related Parties**

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Not Current	Balance at the end of the period
<b>Parent Company</b>	\$					
Camerton Inc.	\$71,118	\$54,978,875	(\$71,118)	\$54,978,875	\$-	\$54,978,875
<b>Related parties under common control</b>						
Cirtek Holdings, Inc.	1,809,256	-	-	1,809,256	-	1,809,256
Cayon Holdings, Inc.	214,227	2,548	-	216,775	-	216,775
<b>TOTAL</b>	<b>\$2,094,601</b>	<b>\$54,981,423</b>	<b>(\$71,118)</b>	<b>\$57,004,906</b>	<b>\$-</b>	<b>\$57,004,906</b>

SCHEDULE C

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM**  
**RELATED PARTIES WHICH ARE ELIMINATED DURING THE**  
**CONSOLIDATION OF FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018**

Receivables from related parties which are eliminated during the consolidation  
(under Trade and Other Receivables)

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Noncurrent	Balance at end of period
Quintel USA*	21,329,466	3,553,958	-	-	24,883,424	-	24,883,424

Amounts owed by related parties which are eliminated during the consolidation

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Not current	Balance at end of period
<b>Cirtek Holdings Philippines Corporation from:</b>							
CEC	\$81,335,790	\$-	\$-	\$-	\$81,335,790	\$-	\$81,335,790
CEIC	9,000,000	-	-	-	8,325,739	-	8,325,739
Subtotal	90,335,790	-	(674,261)	-	89,661,529	-	89,661,529
<b>Cirtek Electronics Corporation from:</b>							
CHPC	49,735,574	-	(11,492,538)	-	38,243,036	-	38,243,036
CATS	26,319,609	5,267,844	-	-	31,587,453	-	31,587,453
Subtotal	76,055,183	5,267,844	(11,492,538)	-	69,830,489	-	69,830,489
<b>Cirtek Electronics International Corporation from:</b>							
CHPC	2,339,865	-	-	-	2,339,865	-	2,339,865
CEC	22,789,503	-	(1722,611)	-	21,066,892	-	21,066,892
Cirtek Corporation	83,152,953	-	(674,261)	-	82,478,692	-	82,478,692
Subtotal	108,282,321	-	(2,396,872)	-	105,885,449	-	105,885,449
<b>Cirtek Advanced Technologies and Solutions, Inc from:</b>							
CEIC	4,628	-	-	-	4,628	-	4,628
RBWRP	34,424	1,760	-	-	36,184	-	36,184
Camerton Inc.	-	18,809	-	-	18,809	-	18,809
Subtotal	21,368,518	3,574,527	-	-	24,943,045	-	24,943,045
<b>RBW Realty and Property, Inc from:</b>							
CATS	18,389	-	-	-	18,389	-	18,389
<b>TOTAL</b>	<b>\$296,060,201</b>	<b>\$8,842,371</b>	<b>(\$9,095,666)</b>	<b>\$-</b>	<b>\$287,338,901</b>	<b>\$-</b>	<b>\$287,338,901</b>

SCHEDULE D

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS**  
**AS OF DECEMBER 31, 2018**

Intangible Assets - Other Assets						
Description	Beginning Balance	Additions at cost	Charged to cost and Expenses	Charged to other Accounts	Other changes additions (deductions)	Ending Balance
Goodwill	\$55,541,157	\$-	\$-	\$-	\$-	\$55,541,157
Customer relationship	23,736,500	-	-	-	-	23,736,500
Trademark	7,472,800	-	-	-	-	7,472,800
Technology	5,385,050	-	(1,174,920)	-	-	4,210,130
Product development costs	720,829	1,617,281	(215,053)	-	-	2,123,057
<b>Total</b>	<b>\$92,856,336</b>	<b>\$1,617,281</b>	<b>(\$1,389,973)</b>	<b>\$-</b>	<b>\$-</b>	<b>\$93,083,644</b>



**SCHEDULE E**

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT**  
**AS OF DECEMBER 31, 2018**

<b>Long-term Debt</b>			
<b>Title of issue and type of obligation</b>	<b>Amount authorized by indenture</b>	<b>Amount shown under caption “current portion of long-term” in related balance sheet</b>	<b>Amount shown under caption “long-term debt” in related balance sheet</b>
Notes payable	\$73,346,671	\$11,045,751	\$62,300,920

**SCHEDULE F**

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES**  
**(LONG-TERM LOANS FROM RELATED COMPANIES)**  
**AS OF DECEMBER 31, 2018**

<b>Indebtedness to related parties (Long-term loans from related companies)</b>		
<b>Name of related party</b>	<b>Balance at beginning of period</b>	<b>Balance at end of period</b>
<b>Not Applicable</b>		

**SCHEDULE G**

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF**  
**OTHER ISSUERS**  
**AS OF DECEMBER 31, 2018**

<b>Guarantees of Securities of Other Issuers</b>				
<b>Name of issuing entity of securities guaranteed by the company for which this statement is filed</b>	<b>Title of issue of each class of securities guaranteed</b>	<b>Total amount guaranteed and outstanding</b>	<b>Amount owned by person for which statement is file</b>	<b>Nature of guarantee</b>
<b>Not Applicable</b>				

**SCHEDULE H**

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**

**SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK**

**AS OF DECEMBER 31, 2018**

<b>Capital Stock</b>						
<b>Title of Issue</b>	<b>Number of shares authorized</b>	<b>Number of shares issued and outstanding as shown under related balance sheet caption</b>	<b>Number of shares reserved for options warrants, conversion and other rights</b>	<b>Number of shares held by related parties</b>	<b>Number of shares held by directors, officers and employees</b>	<b>Others</b>
Common Stock	520,000,000	419,063,353	–	320,907,217	9	–
Preferred A Shares	700,000,000	700,000,000	–	700,000,000	–	–
Preferred B-1 Shares	70,000,000	70,000,000	–	70,000,000	–	–
Preferred B-2 Shares	200,000,000	67,000,000	–	–	–	–

**CIRTEK HOLDINGS PHILIPPINES CORPORATION**  
**FINANCIAL SOUNDNESS INDICATORS**  
**DECEMBER 31, 2018**

<b>Ratios</b>	<b>Formula</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
(i) Current Ratio	Current Assets/Current Liabilities	<b>1.45</b>	1.45
(ii) Debt/Equity Ratio	Bank Debts <sup>1</sup> / Total Equity	<b>1.12</b>	0.73
(iii) Net Debt/Equity Ratio	Bank Debts <sup>1</sup> -Cash & Equivalents/Total Equity	<b>0.96</b>	0.46
(iii) Asset to Equity Ratio	Total Assets/Total Equity	<b>2.33</b>	2.06
(iv) Interest Cover Ratio	EBITDA <sup>2</sup> /Interest Expense	<b>4.22</b>	3.21
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	<b>0.21</b>	0.21
Net Profit Margin	Net Income/Revenues	<b>0.08</b>	0.06
EBITDA Margin	EBITDA/Revenues	<b>0.19</b>	0.12
Return on Assets	Net Income/Total Assets <sup>3</sup>	<b>0.03</b>	0.02
Return on Equity	Net Income/Total Equity <sup>3</sup>	<b>0.07</b>	0.04

<sup>1</sup> Sum of short-term loans and long-term debts

<sup>2</sup> EBITDA is calculated as income before income tax plus depreciation and amortization and financial income (expense).

<sup>3</sup> Based on balances as at December 31, 2018 and 2017