# FILSYN CORPORATION AND SUBSIDIARIES
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information, Status of Operations and Authorization for Issuance of the Financial Statements

Corporate Information

FILSYN Corporation (the Parent Company) was incorporated and registered with Philippine Securities and Exchange Commission (SEC) on July 22, 1968 and is domiciled in the Republic of the Philippines whose shares are publicly listed with the Philippine Stock Exchange (PSE) but trading of which have been suspended. The Parent Company's primary purpose is to carry on the business of making, manufacturing, preparing, dyeing, processing, treating, finishing, and converting all kinds of fibers, filaments, and materials, whether polyester, nylon, acrylic, rayon, cotton, wool, silk, hemp, flex and jute, and to make, manufacture, produce, raise, prepare, process, purchase, or otherwise acquire, and to hold, own, use, sell at wholesale, import, export, dispose of or otherwise trade or deal in with, such fibers, filaments and materials, any and all kinds of yarns, threads, textiles, fabrics, cloth, and other goods and components spun, woven, knit or made in whole or in part of such fibers, filaments, or materials, or any of them, and all other articles, products, chemicals and substances related thereto or of a like or similar nature or which may enter into manufacture of any of the foregoing or which may be used in connection therewith.

On September 22, 2016, the Board of Directors (BOD) and stockholders approved to amend its Articles of Incorporation (AOI) to extend the Parent Company's corporate life for another 50 years. The SEC approved the amendment on October 28, 2016, which extended the term of the Parent Company's existence for another 50 years from July 22, 2018 up to July 21, 2068.

The following are the subsidiaries of the Parent Company and were all incorporated in the Philippines:

| Subsidiaries | Nature of Business | Percentage of Ownership |
|---|---|---|
| Island King Aquaventures Corporation (IKAC) | Leasing | 77.08% |
| SRTC Development Corporation (SRTC) | Under liquidation | 56.98% |

IKAC was registered with the Philippine SEC on September 15, 1986 primarily to engage in the business of aquaculture and undertake any and all related activities necessary, incidental and related thereto.

SRTC was registered with the Philippine SEC on April 30, 1992 primarily to acquire by purchase, lease, donation or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease and hold for investment or otherwise, real estate of all kinds, and to improve, manage or otherwise dispose of buildings, houses, apartments and other structures of whatever kind, together with their appurtenances.

The foregoing companies are collectively referred to as "the Group".

The registered office address of the Parent Company is Unit 8, 5B Floor, Pearlbank Centre, 146 Valero St., Salcedo Village, Makati City.

Status of Operations

On December 4, 1996, the BOD formally approved the cessation of the Parent Company's manufacturing operations. In 1997, the Parent Company realigned its business activities to trading of, among others, imported staple fiber, yarn, pet preform and cement following the cessation of its manufacturing operations in October 1996 due to labor problems. The trading segment, following the cessation of its operation in 2005, is now primarily focused on asset disposal programs and leasing of the segment warehouse. The articles of incorporation of the Parent Company states in its secondary purpose that the Parent Company may acquire by purchase or lease, or otherwise, land and interest inlands and buildings; to own, hold, improve, develop and manage real estate so acquired and to erect or cause to be erected buildings or other structures with their appurtenances on any lands owned, held or occupied by the Parent Company; to rebuild, enlarge, alter or improve any buildings or other structures now or hereafter erected on any lands so owned, held or occupied; to mortgage, sell, lease or otherwise dispose of any lands or interest in lands and in buildings, or in any stores, shops, suites, rooms or part of any buildings or other structures, at any time owned or held by the Parent Company.

*Going Concern*

The consolidated financial statements have been prepared on a going concern basis, which contemplates the continuity of business activities and the realization of assets and the settlement of liabilities in the normal course of business.

The Group has incurred cumulative losses of to ₱1,789.6 million and ₱1,770.1 million as at December 31, 2018 and 2017, respectively, resulting to a capital deficiency of ₱636.2 million and ₱614.5 million as at December 31, 2018 and 2017, respectively. These conditions, among others, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In 2002, the SEC has issued Order of Revocation of the Parent Company's Registration of Securities and Permit to Sell Securities to the public. In February 2005, the SEC acknowledged the Parent Company's full payment of the penalties for the reportorial violations.

On October 24, 2016, the PSE has issued a letter to the Group on the subject: *Negative Stockholders' Equity and SEC Order of Revocation* requesting for update on the following items:

- Settlement of outstanding loan obligations amounting to ₱1.2 billion through the Sta. Rosa property as dacion
- Discussions/negotiations with real estate companies for potential joint venture arrangement over the property to develop the 30 hectares (ha.) property located at Sta. Rosa, Laguna
- Discussions/negotiations regarding the sale of the property located in Gen. Malvar Alvarez, Cavite City and
- SEC Order of Revocation dated August 26, 2002

On December 12, 2016, the Group responded to the PSE that discussions are ongoing on the first three items above with the appropriate parties. Should the ongoing discussions on the abovementioned items be not fruitful, the Group will invite an investor to join them in developing the Sta. Rosa property. Management believes that the development of the land will increase its value and bring the Group's equity from negative to positive.

In September 2017, the BOD and stockholders of the Parent Company approved a business plan, which consists of the following phases:

a. Financial restructuring subject to Philippine SEC approval
b. Development of the Sta. Rosa property and
c. A new business activity for recycled Polyethylene Terephthalate (PET) to be registered with the Philippine Economic Zone Authority

In relation to the financial restructuring, in September 2018, the BOD approved the following:

a) Amendment of the Seventh Article of the Parent Company's AOI to reflect the following:
   i. Reduction of par value from ₱5.00 per share to ₱2.50 per share
   ii. Creation of Preferred Shares with the following features:
      - Pre-Emptive Right – Right to subscribe to the same proportion of shares in case of issuance of new shares
      - Preference in Distribution of Dividends – Right to receive fixed dividends (5% of total debt converted), cumulative dividends and right to receive profit-participating stocks
      - Veto Right – Right to veto the development of Sta. Rosa property such that the development project of said land must be approved by Preferred shareholders
      - Exercise of voting right – The Preferred shareholders shall not have a right to vote, except on matter specific in Section Six of the Corporation Code of the Philippines and those relative to the development of Sta. Rosa Property and
      - Convertible to Common Shares – Right to convert preferred shares to common shares using 16.78:1 conversion ratio at ₱2.50 per share
   iii. Reclassification of 33,426,498 Common Shares (Class B) to Preferred Shares
b) Conversion of debt to equity (see Note 10)

The BOD also approved in September 2018 the incorporation of wholly-owned subsidiary of the Parent Company to carry out the business activity for recycling PET under the Philippine Economic Zone Authority.

On February 18, 2018, the Commission en Banc has resolved to lift the Order of Revocation. The lifting of the Order of the Revocation directed the Parent Company to amend its Registration Statement to reflect any prior changes prior to restatement of its registration statement and permit to sell securities.

On September 20, 2018, the BOD formally authorized the filing of the Amended Registration Statement with the SEC and filed it on October 30, 2018.

As discussed in Note 10, negotiations are on-going with the Mortgage Trust Indenture (MTI) creditor to either finally settle the Group's debt or to have the MTI extended for a renewed term. On December 10, 2009, the BOD of the Parent Company has approved to offer the Group's property in Sta. Rosa, Laguna as payment in lieu of the entire obligation to Chinatrust (Philippines) Commercial Bank Corporation (Chinatrust), and in case of the latter's acceptance, to offer to manage the property in trust, in consideration of management fees and trustee fees, until such time as may be agreed by the parties.

On November 2, 2010, Chinatrust accepted the proposal of the Group to fully settle its outstanding loan obligation amounting to ₱1.31 billion under a "Dacion En Pago" arrangement. Chinatrust agreed that the Group shall not be liable for any deficiency between the amount of the outstanding loan obligation

and the value of the Sta. Rosa property. The "Dacion En Pago" did not materialize and the ownership of the loan was transferred to another creditor.

Beginning 2012, IKAC ceased its normal operations as a producer of prawns and bangus and started renting out its investment property. The articles of incorporation of IKAC states that the IKAC may purchase or lease, or otherwise, lands and interest in lands and building; to own, hold, improve, develop and manage any real estate so acquired and to erect or cause to be erected buildings or other structures with their appurtenances on any lands owned, held or occupied by the corporation; to rebuild, enlarge, alter or improve any buildings or other structures now or hereafter erected on any lands so owned, held or occupied; to mortgage, sell, lease, or otherwise dispose in any stores, shops, suites, rooms or part of any buildings, or other structures, at any time owned or held by the corporation as one of its secondary purposes.

SRTC has never started commercial operations. In April 2000, SRTC sold its primary asset, a 40 ha. property in Sta. Rosa, Laguna, to Greenfield Development Corporation. SRTC used the proceeds of the said sale to settle its bank loans, pay substantially all its other liabilities and distribute advance liquidating dividends.

On September 25, 2014, the stockholders approved the amendment of the SRTC's AOI to shorten its life until December 31, 2014. This approval has superseded the approval made in 2001. Final liquidation will take place after approval of SRTC's liquidation application by the Philippine SEC. As at April 29, 2019, SRTC is in the process of accomplishing requirements needed for the cancellation of its registration with Bureau of Internal Revenue and Philippine SEC.

Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2018 and 2017 and for each of the three years ended December 31, 2018, were authorized for issuance by the BOD through the Executive Committee on April 29, 2019.

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

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for SRTC which is based on expected value, and are presented in Philippine peso, the Group's functional and presentation currency under the Philippine Financial Reporting Standards (PFRSs). All values are rounded to the nearest peso except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

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

- Power over the investee (i.e., existing rights that give the ability to direct the relevant activities of the investee)

- Exposure, or rights, to variable returns from its involvement with the investee and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that majority of voting rights results in control.

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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries are deconsolidated from the date on which control ceases.

*NCI*

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 related assets (including goodwill), liabilities, NCI and other components of equity while resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

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 and amended PFRSs, Philippine and Auditing Standards (PAS) and Philippine Interpretations starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the consolidated financial position or performance unless, otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC)-22, *Foreign Currency Transactions and Advance Consideration*

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

  The amendments 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.

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

- 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 adopted PFRS 9 using the modified retrospective method of adoption, 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 effects of adopting PFRS 9 as at January 1, 2018 are as follows:

  a. *Classification and measurement*
     Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through other comprehensive income (FVOCI). 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, 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.

     The classification and measurement requirements of PFRS 9 did not have a significant impact to the Group. The Group continued measuring at amortized cost all financial assets previously held at amortized cost under PAS 39.

     Financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as debt instruments at amortized cost beginning January 1, 2018.

     There are no changes in classification and measurement for the Group's financial liabilities.

  b. *Impairment*
     The adoption of PFRS 9 has fundamentally changed the Group'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 Group to recognize an allowance for ECLs for all debt instruments not held at FVTPL and contract assets.

Upon adoption of PFRS 9, there is no recognized transition adjustment thus, there was no change in the carrying amount of the Group's financial assets as at December 31, 2018 and 2017.

c. *Hedge accounting*
The Group has no existing hedge relationships as at December 31, 2018, thus will not have an impact on the consolidated financial statements.

- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 supersedes, PAS 11, Construction Contracts, 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 judgment, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also requires extensive disclosures.

The Group has adopted PFRS 15 as at January 1, 2018. Since the Group's primary operation is still suspended, adoption of this standard did not have any significant effect on its consolidated financial statements. The Group's current source of income is covered by another standard, hence, out of scope.

Standards Issued but Not Yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of these new pronouncements to have significant impact on its consolidated financial statements. The Group intends to adopt the pronouncements in the next page when these become effective.

*Effective beginning on or after January 1, 2019*
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

- 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.

*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

*Deferred effectivity*

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

## 3. Summary of Significant Accounting and Financial Reporting Policies

Presentation of Consolidated Financial Statements

The Group has elected to present all items of recognized income and expense in one single consolidated statements of comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in banks and short-term investments. Cash on hand is intended for small payments not covered by checks. Cash in banks are savings and current accounts in major banks of high-quality credit standing which earn interest at respective bank rates. Short-term investments are highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition, and that are subject to insignificant risk of changes in value.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of the entity and a financial liability or equity instrument of another entity.

*(i) Financial Assets*

*Accounting policies on the classification and measurement and impairment of financial assets applied before January 1, 2018*

*Initial Recognition and Measurement*

Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial instruments on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

Financial assets are classified, at initial recognition, as financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVPL, transaction costs that are attributable to the acquisition of the financial asset.

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

As at December 31, 2017, the Group's financial assets are in the nature of loans and receivables. The Group has no financial assets at FVPL, HTM investments, AFS financial assets or derivatives designated as hedging instruments in an effective hedge.

*Subsequent Measurement*

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

*Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization, if any, is included in financial charges in the consolidated statement comprehensive income. The losses arising from impairment of receivables, if any, are recognized provision for impairment losses in the consolidated statement of comprehensive income.

Loans and receivables are included in current assets if maturity is within 12 months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

The Group's loans and receivables include cash and cash equivalents and refundable deposits..

*Derecognition of Financial Assets*

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 rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of 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.

*Impairment of Financial Assets*
The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include: indications that the debtor, 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial Assets Carried at Amortized Cost*
For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*Accounting policies on the classification and measurement and impairment of financial assets applied on or after January 1, 2018*

*Initial Recognition and Measurement of Financial Assets*
Financial assets are measured at fair value on initial recognition, and are subsequently measured at amortized cost, FVOCI, and FVPL.

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 the financial assets. The Group initially measures a financial asset at its fair value plus, in the case of financial assets not at FVPL, transaction costs.

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

The Group's financial assets are classified as financial assets at amortized cost. As at December 31, 2018, the Group has no financial instruments classified as financial assets at FVPL, FVOCI, or derivatives designated as hedging instruments in an effective hedge.

*Subsequent Measurement*
The Group measures financial assets at amortized cost if both the following conditions are met:

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

Financial assets at amortized costs are subsequently measured using the EIR 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, the Group's financial asset at amortized cost pertains to cash and cash equivalents and refundable deposits (see Note 5 and 6).

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

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where 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 Group continues to recognize the transferred asset to the extent of its continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Impairment of Financial Assets*
The Group recognizes an allowance for ECLs for all financial instruments not held at FVPL. 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 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 and that are not credit-impaired upon origination, 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 on an individual or collective basis but are not credit-impaired, 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 refundable deposits, 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 cash, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. The Group recognizes an allowance based on 12-month ECLs. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before considering 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.

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

a) significant financial difficulty of the issuer or the borrower
b) a breach of contract
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization, or
e) the disappearance of an active market for that financial asset because of financial difficulties

*Write-off policy*
The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

*(ii) Financial Liabilities*
*Initial Recognition and Measurement*
Financial liabilities are classified, at initial recognition as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group's financial liabilities are recognized initially at fair value and, in the case of payables, net of directly attributable transactions costs.

The Group's financial liabilities are in the nature of loans and borrowings and payables. As at December 31, 2018 and 2017, the Group has no financial instruments classified as financial assets and liabilities at FVPL or as derivatives designated as hedging instruments in an effective hedge.

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

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

As at December 31, 2018 and 2017, the Company's loans and borrowings pertain to restructured loans (see Note 10).

*Payables*
This category pertains to financial liabilities that are not held for trading or not designated at FVPL or loss upon the inception of the liability. These include liabilities arising from operations (e.g., amounts owed to related parties and accrued expenses). Payables are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This accounting policy applies to the Group's accounts and other payables and loans payable to a stockholder (see Notes 9 and 17).

*Derecognition of Financial Liabilities*
A financial liability is derecognized when the obligation under the liability is discharged, 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the statement of comprehensive income.

*(iii) Offsetting of Financial Instruments*
Financial assets and liabilities are offset and the net amount are reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously, which approximates the fair value of the consideration transferred to acquire the asset. This is not generally the case with netting agreements, and the related financial assets and financial liabilities are presented at gross in the consolidated statement of financial position. 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.

Fair Value Measurement
An analysis of the fair values of financial instruments and further details as to how they are measured are provided in Note 22.

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 non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level 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; and
- 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.

Prepayments and Other Current Assets
Prepayments and other current assets pertain to creditable withholding taxes (CWTs), prepaid expenses, input value-added tax (VAT) and other current assets. These assets are classified as current when it is probable to be realized within one year from the end of the reporting date. Otherwise, these are classified as noncurrent asset.

*CWTs*
CWTs are amounts withheld from income subject to expanded withholding taxes and certain tax and nontax incentives entitled to the Group under its registration with the Board of Investments. CWTs can be utilized as payments for income taxes, provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

*Input and Output VAT*
Input VAT represents VAT passed on to the Group by its suppliers for the purchase of domestic services as required by the Philippine taxation laws and regulations.

Output VAT represents indirect taxes passed on the Group's customer resulting from sale of goods and other income, as applicable, and as required by the Philippine taxation laws and regulations.

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

Investments in Associates
Associate is an entity over which the Group has significant influence but not control, generally accompany a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

The Group's investments in associates are accounted for using the equity method.

Under the equity method, the investment in associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

The accounting policies of the associate conform to those used by the Group for like transactions and events in similar circumstances. The associates have a calendar year ending December 31.

Investment Properties
Investment properties are measured at deemed cost, including transaction cost. The carrying amount includes the cost of replacing part of existing investment properties at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at cost less accumulated impairment in value.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

The Group's investment property consists of land held to earn rentals and for capital appreciation.

Impairment of Nonfinancial Assets

*Nonfinancial Prepayments and Other Current Assets*

Prepayments and other current assets are reviewed to determine whether there is any indication that those assets have suffered impairment loss. If there is an indication of possible impairment, the recoverable amount of nonfinancial prepayments and other current assets are estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the consolidated statement of comprehensive income.

If an impairment loss subsequently reverses, the carrying amount of the nonfinancial prepayments and other current assets are increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determine had no impairment loss have been recognized for the nonfinancial prepayments and other current assets in prior years. A reversal of impairment loss is recognized immediately in the consolidated statement of comprehensive income.

*Investment Properties*

The Group assesses at each end of the reporting date whether there is an indication that an asset may be impaired. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit (CGU) is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less cost to sell. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined had no impairment loss been recognized for that asset in prior years.

*Investments in Associates*

The Group determines whether it is necessary to recognize impairment loss of the Group's investments in associates. The Group determines at each end of the reporting date whether there is any objective evidence that the investments in associates are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and their carrying amounts and recognizes the amount in the consolidated statement of comprehensive income.

Capital Stock
Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to the 'Additional paid-in capital'.

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policies and other capital adjustments. When the retained earnings account has a debit balance, it is called 'Deficit'. A deficit is not an asset but a deduction from equity.

OCI
OCI comprises items of income and expense (including items previously presented under the consolidated statement of changes in capital deficiency) that are not recognized in the consolidated statement of comprehensive income for the year in accordance with PFRS.

Revenue Recognition−*before adoption of PFRS 15*
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually deferred terms of payment and excluding taxes or duty. The Group has concluded that is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements and is also exposed to credit risk.

*Rental Income*
Revenue from rental of leased property is recognized in the Group's consolidated statement of comprehensive income on a straight-line basis over the term of the lease agreement.

*Interest Income*
Interest income from bank deposits is recognized on a time proportion basis on the principal outstanding and at the rate applicable. Revenue is recognized as the interest accrues taking into account the effective yield of the asset.

Revenue Recognition−*upon adoption of PFRS 15*
Revenue from contracts with customers is recognized when control of the services is transferred to the customer at an amount that reflects the consideration to which the Parent Company expects to be entitled in exchange for those services.

*Rental Income*
Revenue from rental of leased property is recognized in the Group's consolidated statement of comprehensive income on a straight-line basis over the term of the lease agreement.

*Interest Income*
Interest income from bank deposits is recognized on a time proportion basis on the principal outstanding and at the rate applicable. Revenue is recognized as the interest accrues taking into account the effective yield of the asset.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the reporting date in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating

to distributions to equity participants. Costs and expenses are generally recognized in the consolidated statement of comprehensive income in the period these are incurred.

*Cost of Services and Operating Expenses*
Cost of services consists of costs directly associated with the Group's operations. These are generally recognized when the cost is incurred.

Operating expenses consist of costs associated with the development and execution of day-to-day operations of the Group. These are generally recognized when the service is incurred or the related expense arises.

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

A reassessment is made after 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 or extension granted, unless that 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.

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

*Operating Lease Commitment - Group as a Lessor*
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

*Operating Lease Commitments - Group as Lessee*
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease payments under non-cancellable operating leases are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Income Taxes
*Current Income Tax*
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the country where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in consolidated statement of comprehensive income.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:
- Where the deferred 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 (tax loss); and
- In respect of taxable temporary differences associated with investments in foreign 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 tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized, except:
- Where the deferred 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
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred 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 tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized in OCI or equity is recognized in OCI or equity and not in consolidated statement of comprehensive income.

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

<u>Retirement Plan Assets</u>
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 date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries.

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. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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 government bonds to the net defined benefit liability or asset.

Net amount of service costs and net interest on the net defined benefit liability or asset is recognized and included under "Finance charges - net" in the consolidated statement of comprehensive income.

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. 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 of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

The Group has a defined benefit retirement plan which requires contributions to be made to trustee-administered funds. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. All actuarial gains and losses are recognized in the OCI under remeasurement loss on retirement plan assets.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the reporting date in which the employees render the related service. Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within 12 months after the end of the reporting date from which the employees render the related service.

Foreign Currencies
The consolidated financial statements are presented in Philippine peso, which is also the Group's functional currency.

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized loss is recognized in other comprehensive income or profit or loss, respectively).

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and, a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

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

Basic/ Diluted Loss Per Share
Basic loss per share is computed by dividing the net income (loss) for the year, attributable to the equity holders of the Parent Company, by the weighted average number of common shares issued and outstanding during the year. The weighted average number of common shares issued and outstanding during the period and for all years presented are adjusted for events, other than the conversion of potential common shares, that have changed the number of common shares outstanding, without a corresponding change in resources.

Diluted loss per share is calculated by dividing the loss attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Operating Segment Information
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's operating business are organized and managed separately according to the nature of the product sold, with each segment representing a strategic business unit that offers a different product. The major operating segments of the Group are as follows:

- The trading segment, following the cessation of its operation, is now primarily focused on asset disposal programs and leasing of the segment warehouse
- The real estate segment has never started commercial operations

Events After the End of the Reporting Period

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

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

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

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

Judgments

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

*Going Concern*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue its business in the foreseeable future (see Note 1).

*Operating Lease Commitments - Group as Lessor*

The Group has entered into commercial property leases on its investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases. Rental income amounted to ₱33,321,256, ₱27,936,628 and ₱19,642,469 in 2018, 2017 and 2016, respectively (see Note 12a).

*Classification of Investment Properties*

The Group follows the guidance of PAS 40 in classifying properties as investment properties. This classification requires significant judgment. In making this judgment, the Group evaluates its intention for holding the properties. The Group determines that currently its intention for holding the properties is to earn rentals there from and for capital appreciation rather than to use these in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business despite the fact that the properties were previously used as the location of the Group's manufacturing plant prior to the cessation of the Group's manufacturing operations. Consequently, these properties were classified as investment properties.

Estimates and Assumptions

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

The key estimates and assumptions concerning future and key sources of estimation uncertainty as at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the next page.

*Estimation of Impairment Losses on Other Noncurrent Assets*

The Group recognizes for impairment losses at a level considered adequate to provide for potential losses on other noncurrent assets. The level of this allowance is based on management's evaluation of collection experience and other factors that may affect collectability. The amount and timing of recorded expenses for any period would therefore differ depending on the judgments, estimates and assumptions made for the year.

No provision for impairment losses on other noncurrent assets were recognized in 2018, 2017 and 2016. The carrying values of other noncurrent assets amounted to ₱915,125 and ₱856,820 as at December 31, 2018 and 2017 (see Note 6).

*Estimation of Impairment Losses on Investments in Associates*

The Group assesses whether there are any indicators of impairment for investments in associates at each reporting date. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount.

No provision for impairment losses on investments in associates were recognized in 2018, 2017 and 2016. The carrying values of investments in associates amounted to ₱1, net of allowance for impairment losses of ₱2,267,500 as at December 31, 2018 and 2017, respectively (see Note 7).

*Estimation of Impairment Losses on Investment Properties*

The Group assesses impairment on investment properties 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

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

The assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence

exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows.

The carrying values of investment properties amounted to ₱918,167,147 as at December 31, 2018 and 2017, (see Note 8).

*Estimation of Allowance for Impairment Losses on Nonfinancial Prepayments and Other Current Assets*
The Group provides allowance for impairment losses on prepayments and other current assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease prepayments and other current assets. Provision for impairment losses was recognized on the Group's prepayments and other current assets amounting to ₱23,362, ₱43,581 and ₱31,487 in 2018, 2017 and 2016, respectively (Note 6).

The carrying values of other current assets amounted to ₱11,309,356 and ₱10,274,370, net of allowance for impairment losses amounting to ₱133,986 and ₱110,624 as at December 31, 2018 and 2017, respectively (see Note 6).

*Determination of Retirement Plan Assets*
The determination of the Group's assets and fair value for retirement plan assets is dependent on management's selection of certain assumptions used by actuaries in calculating such amounts. The assumptions for retirement plan assets are described in Note 18 and include among others, discount rates, expected return on plan assets, and future ratio of compensation increase. In accordance with PFRS, actual results that differ from assumptions are accumulated and amortized over future periods and therefore, generally affect the Group's recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience on changes in assumptions may materially affect the Group's retirement costs and liability.

Retirement plan assets amounted to ₱23,961,361 and ₱24,224,038 as at December 31, 2018 and 2017, respectively. Retirement benefit income amounted to ₱698,330, ₱456,920 and ₱455,340 in 2018, 2017 and 2016, respectively (see Note 18).

*Assessment of Realizability of Deferred Tax Assets*
The Group reviews the carrying amounts of deferred taxes at each end of the reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future planning strategies.

Temporary differences and net operating loss carry-over (NOLCO) in which no deferred tax assets were recognized as the management has assessed that it is not probable that sufficient taxable income will be available for which the benefit of the deferred tax assets can be utilized amounted to ₱ 158,731,749 and ₱146,202,875 as at December 31, 2018 and 2017, respectively (see Note 16).

*Determination of Amount of Contingencies*
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceeding (see Note 23).

## 5. Cash and Cash Equivalents

| | 2018 | 2017 |
|---|---|---|
| Cash on hand | **₱37,082** | ₱37,082 |
| Cash in banks | **17,330,149** | 13,182,659 |
| Short-term investments | **21,484,326** | 20,318,405 |
| | **₱38,851,557** | ₱33,538,146 |

Interest income earned from cash in banks and short-term investments amounted to ₱199,773, ₱181,275 and ₱190,072 in 2018, 2017 and 2016, respectively (see Note 14).

The Group has United States Dollar (US$)-denominated cash in bank amounting to US$6,662 and US$6,661 as at December 31, 2018 and 2017, respectively (see Note 21).

## 6. Prepayments and Other Current Assets – net and Other Noncurrent Assets

Details of prepayments and other current assets are as follows:

| | 2018 | 2017 |
|---|---|---|
| CWTs – current | **₱4,909,765** | ₱4,460,606 |
| Prepaid expenses | **3,172,467** | 2,640,667 |
| Input VAT | **1,809,689** | 1,916,673 |
| Others | **1,551,421** | 1,367,048 |
| | **11,443,342** | 10,384,994 |
| Less allowance for impairment losses | **133,986** | 110,624 |
| | **₱11,309,356** | ₱10,274,370 |

Prepaid expenses pertain to prepaid taxes and licenses and prepaid rent.

Input VAT pertains to the VAT on domestic purchases of the Group.

Others pertain to advances to officers and employees and receivables from various sources.

The Group provided additional allowance for impairment losses amounting to ₱23,362, ₱43,582 and ₱31,847 in 2018, 2017 and 2016, respectively (see Note 13).

Details of other noncurrent assets are as follows:

| | 2018 | 2017 |
|---|---|---|
| CWTs | **₱53,444,095** | ₱53,444,095 |
| Refundable deposits | **826,165** | 767,770 |
| Others | **89,050** | 89,050 |
| | **54,359,310** | 54,300,915 |
| Less allowance for impairment losses on CWTs - noncurrent | **53,444,095** | 53,444,095 |
| | **₱915,215** | ₱856,820 |

Noncurrent portion of CWTs pertains to the amount of tax credits which are not expected to be recovered within 12 months.

Others pertains to the amount of miscellaneous deposits related to rent such as office and parking spaces.

## 7. **Investments in Associates** - net

Investment in associates amounted to ₱1, net of allowance for impairment losses amounting to ₱2,267,500 as at December 31, 2018 and 2017. An allowance for impairment losses on investments in associates was provided because these associates have negative net worth and have suspended their operations. Associates of the Group are Filsyn International Corporation, Lakeview Industrial Corporation and Lefilton Trading.

## 8. **Investment Properties -** at deemed cost

a. The Group carries its land located in Pontevedra, Capiz, with a total land area of 137.87 hectares (ha), at deemed cost amounting to ₱19.51 million as at December 31, 2018 and 2017. The actual cost of the land amounted to ₱9.08 million.

   In 2014, the Group started to lease out the land to third parties. Accordingly, the Group reclassified the land from property and equipment to investment properties. In adopting the cost model, the Group applied the revalued amount of the property as deemed cost.

   The fair value of the investment property has been determined based on the valuations performed by Asian Appraisal dated March 25, 2014. Asian Appraisal is an industry specialist in valuing this type of investment property. Based on the appraisal reports, the appraised values of the Group's land amounted to ₱19.51 million. As at December 31, 2018 and 2017, there is no significant change expected in fair value of its investment property.

   The hierarchy in which the fair value measurement in its entirety is recognized is at Level 2. The property is utilized at its highest and best use. The method used to determine the value of such property is the Market Approach for Land.

Deemed cost and fair value is as follows:

| | |
|---|---|
| *Site I* | |
| Fishponds (41.3784 ha. with a fair value of ₱160,000 per ha.) | ₱6,621,000 |
| Coconut land (22.26 ha. with a fair value of ₱70,000 per ha.) | 1,558,000 |
| Mangrove (8 ha. With a fair value of ₱70,000 per ha.) | 560,000 |
| *Site II* | |
| Fishponds (8.6716 ha. with a fair value of ₱180,000 per ha.) | 1,561,000 |
| *Site III* | |
| Fishponds (57.563 ha. with a fair value of ₱160,000 per ha.) | 9,210,000 |
| | ₱19,510,000 |

As at December 31, 2018 and 2017, the balance of deficit includes the remaining balance of the deemed cost adjustment amounting to ₱7,299,287 net of tax which arose when the Group transitioned to PFRS in 2005.

b. The Group also owns a parcel of land located in Sta. Rosa, Laguna with a total land area of 300,018 square meters (sq. m.). This investment property is mortgaged in connection with the MTI discussed in Note 10.

In addition, the Group owns a parcel of land located in Gen. Mariano Alvarez, Cavite with a total land area of 162,716 sq. m.

These parcels of land were previously used as the location of the Group's manufacturing plant. However, due to the Group's cessation of its manufacturing operations as discussed in Note 1, the Group currently holds the land as investment properties.

In adopting the cost model, the Group applied the revalued amount of these properties as deemed cost upon adoption of PFRS in 2005. The original acquisition cost of the said properties amounted to ₱14.87 million. As at December 31, 2018 and 2017, the balance of deficit includes the remaining balance of the deemed cost adjustment amounting to ₱681,714,467 which arose when the Group transitioned to PFRS in 2005.

The fair values of the investment properties have been determined based on the valuations performed by Asian Appraisal dated March 8, 2019. Asian Appraisal is an industry specialist in valuing these types of investment properties.

The investment properties are categorized under the Level 2 of the fair value hierarchy and the valuation method used was Market Data Approach. In this approach, the value of the land is based on sales and listings of comparable property registered within the vicinity. This approach requires establishing a comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

Details of the deemed cost as of December 31, 2018 and fair value of parcels of lands as of March 8, 2019 are as follows:

| Location | Deemed Cost | Fair Value | Observable Input | Total Land Area | Estimated Fair Value per sq. m. |
|---|---|---|---|---|---|
| Sta. Rosa | ₱750,045,000 | ₱1,710,103,000 | Price per square meter | 300,018 sq. m. | ₱5,700 per sq. m. |
| Gen. Mariano Alvarez | 148,612,147 | 406,790,000 | Price per square meter | 162,716 sq. m. | ₱2,500 per sq. m. |
| | ₱898,657,147 | ₱2,116,893,000 | | | |

The Group has assessed that the highest and best use for its land in Sta. Rosa, Laguna is for light industrial development since it would be too large for a commercial development and a residential subdivision development will not yield a maximum return. The Group assessed that the highest and best use of the idle investment property in Gen. Mariano Alvarez is to develop the land into a self-contained residential subdivision project offering mainly and in combination of vacant residential house and lots and house and lot package complemented with some commercial and institutional usage. For strategic purposes, the property is not being used in this manner.

Consolidated rental income earned on the investment properties amounted to ₱33,321,256, ₱27,936,628 and ₱19,642,469 in 2018, 2017 and 2016, respectively (see Note 12a). Direct operating expenses, which are composed of real property taxes and repairs and maintenance, amounted to ₱5,234,685, ₱4,096,246 and ₱3,965,137 in 2018, 2017 and 2016, respectively.

Real property taxes paid on the properties amounted to ₱4,751,531, ₱4,032,922.00 and ₱3,889,244 in 2018, 2017 and 2016, respectively.

## 9. Accounts and Other Payables

| | **2018** | 2017 |
|---|---|---|
| Accounts payable | **₱3,675,014** | ₱2,761,149 |
| Accrued expenses | **1,266,220** | 3,019,787 |
| Accrued interest (see Notes 10, 14 and 17) | **424,299,520** | 406,567,547 |
| Nontrade payables | **23,955,059** | 24,595,057 |
| Government payables | **3,807,845** | 4,328,975 |
| Refundable customers' deposits | **2,018,906** | 954,175 |
| Others | **1,225,038** | 1,225,549 |
| | **₱460,247,602** | ₱443,452,239 |

Accounts payable represent obligations of the Group which are generally non-interest bearing and are settled on 30 to 90 days' terms.

Accrued interest pertains to interest payable of the Group from its outstanding loans and are payable on demand.

Accrued expenses pertain to acrruals made for expenses incurred but billings are not yet received. Accrued expenses are normally settled within 12 months from the end of the financial reporting period.

Nontrade payables pertain to payables of the Group from various sources.

Government payables include obligations to the government for income tax due and various taxes.

Refundable customers' deposits pertain to rental deposits from the lessees to the Group which will be refunded upon expiration of the lease term.

Other payables pertain to expenses which are normally settled within 12 months.

In 2016, the BOD approved to write off certain long outstanding accounts and other payables amounting to ₱10,157,657 resulting to recognition of a gain on reversal of account and other payables under 'Other income - net' in the consolidated statements of comprehensive income (see Note 15).

## 10. **Restructured Loans**

As at December 31, 2018 and 2017, debts secured by first and second MTI amounted to ₱155,684,615 and ₱774,448,067, respectively, totaling to ₱930,132,682.

The Group's debts which are secured by a first MTI dated October 29, 1982 bear fixed interest rate of 12.03% per annum and covering substantially all of the Group's investment properties situated in Sta. Rosa, Laguna (see Note 9). These are payable in accordance with the terms of the second MTI as discussed in the succeeding paragraphs. In recognition of the financial condition of the Group, the creditors agreed to stop the accruing of interest on the second MTI. The first MTI, however, shall continue to earn interest.

On December 14, 1998, the Group entered into an Agreement with its bank creditors and a supplier (collectively known as "creditors") wherein the Group agreed to execute a second MTI to secure the payment of its overdue and outstanding drafts and acceptances payable, liabilities under trust receipts and loans (reclassified to debts secured by second MTI) to avoid impending litigations and in consideration of the creditors agreeing to cease accruing interest on those debts after April 30, 1998. The second MTI covers some of the properties included in the first MTI and certain investment properties.

The Agreement provides that the creditors have the option to sell the Group's land in Sta. Rosa, Laguna in a private sale (without the need of prior consent of the Group but with the prior consent of the first mortgagees) within three years from the date of the Agreement at a price not less than the amount indicated in the Agreement. The Agreement further provides that during its effectivity, the first mortgagees shall continue to enjoy their right to foreclose the said properties. The proceeds of the private sale or foreclosure shall first be applied to the payment of debts secured by the first MTI and thereafter to the payment of debts secured by the second MTI. The Group shall be liable for any deficiency in the event that the debts are not fully paid after the private sale or foreclosure of the properties. Should the private sale not take place within the stipulated three-year period, the creditors and the Group shall appoint an independent appraiser to determine the price at which the land may be sold.

The Agreement also provides that the Group assigns in favor of the creditors its shares of stock of SRTC as an additional security for the payment of the debts secured by the second MTI.

The first and second MTI provide, among other things, that the Group shall:

a. at all times maintain the sound value of the collateral at a level at least equal to the aggregate of the specified collateral values for the various loan accounts

b. not make any alterations upon, sell, assign, transfer, encumber or otherwise dispose of any collateral without the prior consent in writing of the trustee acting upon the written direction of the majority creditors and
c. at all times keep the collateral in good condition

The Agreements covering the debts secured by the first and second MTI contain, among others, some or all of the following restrictions: payment of cash dividends, incurrence of any major expenditures, incurrence of additional indebtedness or obligations, acquisition by the Group of its own capital stock and merger or consolidation with any corporation.

The Agreement was extended for an additional period of two years until January 2004. In August 2004, Chinatrust took over the trusteeship on the first and second MTI from Hong Kong Shanghai Bank Corporation which is one of the creditor banks. Also, in 2004, Chinatrust has assumed the participation of the other creditors of the first and second MTI and became the sole holder of the mortgage participation contracts.

On December 10, 2009, the BOD of the Group approved to offer the Group's property in Sta. Rosa, Laguna as payment in lieu of the entire obligation to Chinatrust, and in case of the latter's acceptance, to offer to manage the property in trust, in consideration of management fees and trustee fees, until such time as may be agreed by the parties.

On November 2, 2010, Chinatrust accepted the proposal of the Group to fully settle its outstanding loan obligation amounting to ₱1.31 billion through the Sta. Rosa property as dation in payment. Chinatrust agreed that the Group shall not be liable for any deficiency between the amount of the outstanding loan obligation and the value of the Sta. Rosa property. The "dacion en pago" did not materialize and the ownership of the loan was transferred to Chuang Yuan Limited, a company incorporated in Taiwan.

As at December 31, 2017, the creditor on the first and second MTI is Chuang Yuan Limited.

On August 27, 2018, Chuang Yuan Limited transferred the loan to Malaysia Garment Manufacturers (Pte) Ltd. (Malaysia Garments), a company incorporated in Singapore and a related party (see Note 17).

In September 2018, the BOD approved a financial restructuring plan that includes the conversion of restructured loans and related accrued interest to equity in the form of additional paid in capital (Note 1).

## 11. **Capital Stock**

The Parent Company's capital stock is shown below:

| | **2018** | 2017 |
|---|---|---|
| Common stock - ₱5 par value | | |
| Class A: | | |
| Authorized - 144,000,000 shares | | |
| Issued - 123,747,707 shares | **₱618,738,535** | ₱618,738,535 |
| Class B: | | |
| Authorized - 96,000,000 shares | | |
| Issued - 82,498,474 shares | **412,492,370** | 412,492,370 |
| | **₱1,031,230,905** | ₱1,031,230,905 |

All shares of common stock have the same rights and privileges, except that Class A common stock can be issued only to Filipino citizens or entities. The total number of issued Class B shares should not exceed 2/3 of the total number of issued Class A shares.

As at December 31, 2018 and 2017, the Parent Company has a total of 515 stockholders with 446 stockholders holding 100 or more shares.

The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

| Date of SEC Approval | Authorized Shares | Number of Shares Issued | Issue/ Offer Price |
|---|---|---|---|
| July 22, 1968 | 100,000,000 | 94,964,130 | ₱7.80 |
| September 22, 1989 | 100,000,000 | 94,964,130 | 5.00 |
| July 18, 1991 | 160,000,000 | 154,964,130 | 5.00 |
| 1991 - 2002 | 240,000,000 | 206,246,181 | 5.00 |

## 12. Lease Agreements

a. Group as Lessor
On February 7, 2007, the Group has existing lease agreements with various third parties (lessees) covering the Group's investment property located in Sta. Rosa, Laguna. The term of the lease are generally renewable every six months to one year or at the option of both parties under the terms and stipulations mutually agreed upon, unless sooner terminated due to breach of agreement. Consolidated rental income earned amounted to ₱33,321,256, ₱27,936,628 and ₱19,642,469 in 2018, 2017 and 2016, respectively (see Note 8).

b. Group as Lessee
On December 16, 2009, the Group and Aquarich, Incorporated (lessor) entered principally into a lease contract wherein the Group will lease the lessor's commercial space located at The Pearlbank Centre, Salcedo Village, Makati City. The lease period is from December 16, 2009 to December 31, 2015. An annual rent escalation of 10% on the 3rd year and 7% on the 4th and 5th year shall be applied to the monthly rentals of the lessee for the leased premises. At the end of the lease period, the lease agreement may be renewed only upon the consent and approval of the lessor and provided that the lessee has no outstanding obligations with the lessor. This was subsequently renewed for a period of five years commencing on January 1, 2015 to December 31, 2019 with no rent escalation for the first three years, 5% escalation on the 4th year, and another 5% escalation on the 5th year.

The minimum lease payments for the next five years is as follows:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Within one (1) year | **₱1,185,953** | ₱1,132,046 | ₱1,078,139 |
| After one (1) year but not more than five (5) years | – | 1,185,953 | 2,317,998 |
| | **₱1,185,953** | ₱2,317,999 | ₱3,396,137 |

The Group also entered into lease agreements with various lessors for the rental of parking lots and office equipment.

Total rental expense amounted to ₱1,394,142, ₱1,115,239 and ₱1,767,639 in 2018, 2017 and 2016, respectively (see Note 13).

## 13. **Costs and Operating Expenses**

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Taxes and licenses (Note 8) | **₱4,961,153** | ₱4,570,170 | ₱6,928,434 |
| Security services | **4,298,134** | 4,087,360 | 4,026,957 |
| Professional fees | **3,791,673** | 3,186,832 | 2,487,697 |
| Contractual labor | **2,544,405** | 2,837,054 | 1,911,218 |
| Rental (Note 12) | **1,394,142** | 1,115,239 | 1,767,639 |
| Salaries and wages | **1,327,978** | 1,658,908 | 1,501,886 |
| Employee benefits | **1,212,111** | 801,223 | 709,270 |
| Entertainment, amusement and recreation | **881,604** | 1,227,873 | 1,447,981 |
| Repairs and maintenance | **718,579** | 347,248 | 394,731 |
| Transportation and travel | **328,811** | 172,097 | 55,280 |
| Utilities | **173,453** | 169,529 | 316,003 |
| Office supplies | **57,374** | 39,356 | 24,350 |
| Provision for impairment losses (Note 6) | **23,362** | 43,582 | 31,847 |
| Subscriptions, dues and donations | **7,294** | 542,952 | 723,162 |
| Insurance | **–** | 4,758 | 3,875 |
| Others | **2,182,206** | 985,781 | 946,332 |
| | **₱23,902,279** | ₱21,789,962 | ₱23,276,662 |

Other cost and operating expenses is composed of other fees and numerous transactions with minimal amounts.

## 14. **Financial Charges** - net

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Financial charges: | | | |
| Interest expense (Note 10) | **(₱18,731,973)** | (₱18,731,973) | (₱18,731,973) |
| Financial income: | | | |
| Interest income (Note 5) | **199,773** | 181,275 | 190,072 |
| | **(₱18,532,200)** | (₱18,550,698) | (₱18,541,901) |

15. **Other Income (Expense)** - net

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Foreign exchange losses - net | **(₱7,932,348)** | (₱623,564) | (₱7,962,029) |
| Retirement benefit income (Note 18) | **698,330** | 456,920 | 455,340 |
| Reversal of accounts and other payables (Note 9) | **–** | – | 10,157,657 |
| Other income | **125,950** | 1,294,187 | 1,654,700 |
| | **(₱7,108,068)** | ₱1,127,543 | ₱4,305,668 |

16. **Income Taxes**

a. The provision for income tax consists of:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Current | **₱3,036,535** | ₱1,130,027 | ₱563,173 |
| Deferred | **209,499** | 137,076 | 136,602 |
| | **₱3,246,034** | ₱1,267,103 | ₱699,775 |

b. The Group is subject to regular corporate income tax (RCIT) or minimum corporate income tax (MCIT), whichever is higher. The provision for current income tax in 2018 and in 2017 represents RCIT, and in 2016 represents MCIT.

c. The reconciliation of income tax computed at the statutory income tax rate to the provision for income tax as shown in the consolidated statements of comprehensive income follows:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Income tax at statutory income tax rate | **(₱4,866,388)** | (₱3,382,947) | (₱5,361,128) |
| Add (deduct) tax effects of: | | | |
| Nondeductible interest expense | **5,619,592** | 5,619,592 | 5,619,592 |
| Movement in unrecognized deferred tax assets | **2,241,527** | (1,284,786) | 18,307 |
| Nondeductible expenses | **167,271** | 287,534 | 377,696 |
| Expired NOLCO and MCIT | **143,964** | 82,093 | 102,330 |
| Interest income subjected to final tax | **(59,932)** | (54,383) | (57,022) |
| | **₱3,246,034** | ₱1,267,103 | ₱699,775 |

d. The Group has temporary differences and NOLCO for which no deferred tax assets were recognized since management believes that it is not probable that sufficient future taxable profit will be available against which the benefits of the deferred tax assets can be utilized. The components of the Group's temporary differences are as follows:

| | **2018** | 2017 |
|---|---|---|
| *Profit or loss* | | |
| Unrealized foreign exchange losses | **₱96,636,613** | ₱88,704,265 |
| Allowance for impairment losses on: | | |
| Prepayments and other current assets - net | **53,578,081** | 53,554,719 |
| Investments in associates – net | **2,267,500** | 2,267,500 |
| Other noncurrent assets | **92,904** | 92,904 |
| Accrued rent | **563,955** | 563,955 |
| NOLCO | **535,580** | 1,019,532 |
| | **153,674,633** | 146,202,875 |
| *Other comprehensive income* | | |
| Retirement plan assets | **5,057,117** | – |
| | **5,057,117** | – |
| Total | **₱158,731,750** | ₱146,202,875 |

e. The Group has deferred tax liabilities pertaining to the following:

| | **2018** | 2017 |
|---|---|---|
| Investment properties | **₱70,739,299** | ₱70,739,299 |
| Retirement plan assets | **8,705,543** | 7,267,211 |
| | **₱79,444,842** | ₱78,006,510 |

f. As at December 31, 2017, the Group has NOLCO that can be claimed as deduction from future taxable income as follows:

| Year | Valid Until | NOLCO |
|---|---|---|
| 2018 | 2021 | ₱39,000 |
| 2017 | 2020 | 39,000 |
| 2016 | 2019 | 457,580 |
| | | ₱535,580 |

g. The following are the movements in NOLCO and MCIT:

| NOLCO | **2018** | 2017 |
|---|---|---|
| Beginning balances | **₱1,019,532** | ₱4,210,779 |
| Additions | **39,000** | 39,000 |
| Expirations | **(479,879)** | (392,366) |
| Applications | **(43,073)** | (2,837,881) |
| Ending balances | **₱535,580** | ₱1,019,532 |

| Excess MCIT | **2018** | 2017 |
|---|---|---|
| Beginning balances | **₱–** | ₱563,173 |
| Application | – | (563,173) |
| Ending balances | **₱–** | ₱– |

## 17. Related Party Disclosures

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group, close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Transactions with related parties comprise of the following:

| | Amount/ Volume | Outstanding balance | Terms | Conditions |
|---|---|---|---|---|
| *Stockholder* | | | | |
| Trans-Pacific Oriental Holding Group, Inc. (Trans-Pacific) | | | | |
| Loans payable to a stockholder | | | | |
| **2018** | **₱–** | **₱157,740,000** | Payable in cash and on demand; non-interest bearing since 2001 | Unsecured and unguaranteed |
| 2017 | ₱– | ₱149,790,000 | | |
| *Stockholder* | | | | |
| Malaysia Garment | | | | |
| Restructured loans | | | | |
| **2018** | **₱–** | **₱930,132,682** | Payable in cash and on demand; non-interest bearing | Secured by first and second MTIs |

The Group has availed of working capital US$-denominated loan payable amounting to US$3 million from Trans-Pacific, a major stockholder, with fixed interest rate. In 2001, there was a modification in the agreement of the parties, the modified terms include non-accrual on interest beginning that year. There were no availments nor payments made for this loan in 2018 and 2017.

The Group has an outstanding loan with Malaysia Garment secured by first and second MTI amounting to ₱155,684,615 and ₱774,448,067, respectively, totaling to ₱930,132,682 (see Note 10).

Accrued interest on the above loans amounted to ₱424,299,510 and ₱406,567,547 as at December 31, 2018 and 2017, respectively (see Note 9).

<u>Compensation of Key Management Personnel of the Group</u>
The Group considers as key management personnel all employees holding managerial positions up to president. Compensation of key management personnel amounted to ₱835,842, ₱553,212, and ₱553,212 in 2018, 2017 and 2016, respectively.

Retirement Fund
The Group entered into a Trust Agreement with BPI Asset Management for the latter to serve as a trustee for the Group's retirement fund. The carrying amount equals the fair value of the retirement fund amounting to ₱27,325,259 and ₱27,470,988 as at December 31, 2018 and 2017, respectively (see Note 18). There were no any other transactions between the Group and the retirement fund.

## 18. Retirement Plan Assets

The Group has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. Benefits are dependent on the years of service and the respective employee's compensation. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. There was no planned termination, curtailment or settlement for the years ended December 31, 2018 and 2017.

Under the existing regulatory framework, Republic Act 7641, otherwise known as the "Retirement Pay Law", requires a provision for retirement pay to qualified private sector employees in the absence of any retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law.

The latest independent actuarial valuation report as at December 31, 2018 is determined using the projected unit credit method in accordance with Revised PAS 19, *Retirement Benefits*. The plan is administered by independent trustee with assets held separately from those of the Group.

The following tables summarize the funded status and amounts recognized in the consolidated statements of financial position, and the components of the retirement benefit income recognized in the consolidated statements of comprehensive income for the retirement plan:

Movements in the retirement plan assets are as follows:

| | **2018** | 2017 |
|---|---|---|
| Present value of obligation (PVO) | **₱3,363,898** | ₱3,246,950 |
| Fair value of plan assets (FVPA) | **(27,325,259)** | (27,470,988) |
| | **(₱23,961,361)** | (₱24,224,038) |

Movements in the retirement benefit income are as follows:

| | **2018** | 2017 |
|---|---|---|
| Beginning balances | **(₱24,224,038)** | (₱24,334,656) |
| Retirement benefit income | **(698,330)** | (456,920) |
| Actuarial losses on plan assets | **961,007** | 567,538 |
| Ending balances | **(₱23,961,361)** | (₱24,224,038) |

Movements in the retirement plan assets are as follows:

| | **2018** | 2017 |
|---|---|---|
| Current service cost | **₱86,529** | ₱119,812 |
| Net interest income on benefit obligation and plan assets | **(784,859)** | (576,732) |
| | **(₱698,330)** | (₱456,920) |

Retirement benefit income is presented in under 'Financial charges' in the consolidated statements of comprehensive income.

Changes in PVO are as follows:

| | **2018** | 2017 |
|---|---:|---:|
| Beginning balances | **₱3,246,950** | ₱4,543,859 |
| Current service cost | **86,529** | 119,812 |
| Interest cost on benefit obligation | **50,513** | 52,183 |
| Actuarial losses (gains) on obligation: | | |
| Experience adjustments | **(20,094)** | 313,125 |
| Changes in financial assumptions | **–** | (18,049) |
| Benefits paid | **–** | (1,763,980) |
| Ending balances | **₱3,363,898** | ₱3,246,950 |

Changes in FVPA are as follows:

| | **2018** | 2017 |
|---|---:|---:|
| Beginning balances | **₱27,470,988** | ₱28,878,515 |
| Interest income on plan assets | **835,372** | 628,915 |
| Actual return on plan assets | **(981,101)** | (272,462) |
| Benefits paid | **–** | (1,763,980) |
| Ending balances (Note 18) | **₱27,325,259** | ₱27,470,988 |

The main categories of plan assets as a percentage of the fair value of total plan assets follow:

| | | **2018** | | 2017 |
|---|---:|---:|---:|---:|
| Cash | **₱1,472,489** | **5.39%** | ₱277,098 | 1.01% |
| Investments | **25,735,527** | **94.18%** | 27,060,501 | 98.51% |
| Accrued income receivable | **158,892** | **0.58%** | 176,392 | 0.64% |
| Other payables | **(41,650)** | **(0.15%)** | (43,003) | (0.16%) |
| | **₱27,325,258** | **100%** | ₱27,470,988 | 100% |

The principal assumptions used in determining retirement obligations for the Group's plan is shown below:

| | **2018** | 2017 |
|---|---:|---:|
| Discount rate | **3.23%** | 3.24% |
| Salary increase rate | **1.00%** | 1.00% |

The overall expected rate of return of plan asset is based on the market prices prevailing on that date, applicable to the period over which the liability is settled.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the retirement plan asset as of the end of the reporting date, assuming if all other assumptions were held constant:

| | Increase (decrease) | **2018** | 2017 |
|---|---:|---:|---:|
| Discount rates | +100 basis points | **₱3,342,575** | ₱3,226,493 |
| | -100 basis points | **3,385,573** | 3,267,745 |

| | | | |
|---|---|---|---|
| Salary increase rates | +100 basis points | **₱3,397,204** | ₱3,279,098 |
| | -100 basis points | **3,330,592** | 3,214,802 |

As at December 31, 2018 and 2017, the Group's plan assets is in a funded status. Consequently, the Group does not expect to make any contribution to its retirement plan in 2018.

The undiscounted benefit payments are ₱3,496,158 and ₱3,375,796 in 2018 and 2017, respectively.

## 19. Material Partly-Owned Subsidiaries

Financial information of subsidiaries that have material NCIs are provided below:

Proportion of equity interest held by NCIs:

| | Principal Place of Business | **2018** |
|---|---|---|
| IKAC | Philippines | **77.08%** |
| SRTC | Philippines | **56.98%** |

Equity attributable to material NCI:

| | **2018** | 2017 |
|---|---|---|
| IKAC | **(₱16,603,793)** | (₱16,629,480) |
| SRTC | **243,257** | 260,036 |
| Total | **(₱16,360,536)** | (₱16,369,444) |

Net income (loss) attributable to material NCI:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| IKAC | **₱25,686** | ₱14,287 | (₱18,632) |
| SRTC | **(16,778)** | (16,778) | (196,504) |
| | **₱8,908** | (₱2,491) | (₱215,136) |

There are no OCI items that are attributable to material NCI.

The summarized financial information of these subsidiaries are provided below. This information is based on amounts before inter-Group eliminations.

Summarized statements of financial position, statements of comprehensive income and cash flow information for all the years ended December 31 of IKAC are as follows:

| | **2018** | 2017 |
|---|---|---|
| Current assets | **₱1,341,218** | ₱1,222,342 |
| Noncurrent assets | **19,510,000** | 19,510,000 |
| Current liabilities | **(90,165,332)** | (90,158,526) |
| Noncurrent liabilities | **(3,128,266)** | (3,128,266) |
| Total capital deficiency | **(₱72,442,380)** | (₱72,554,450) |
| | | |
| Attributable to equity holders of parent | **(₱55,838,586)** | (₱55,924,970) |
| NCI | **(16,603,793)** | (16,629,480) |

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Revenues | **₱919,000** | ₱994,000 | ₱743,000 |
| Cost of services | **(235,525)** | (336,378) | (268,278) |
| Operating expenses | **(538,165)** | (568,314) | (549,642) |
| Interest income | **4,439** | 3,395 | 3,128 |
| Income (loss) before income tax | **149,749** | 92,703 | (71,792) |
| Provision for income tax | **(37,679)** | (30,372) | (9,494) |
| Net income (loss) | **112,070** | 62,331 | (81,286) |
| OCI | **–** | – | – |
| Total comprehensive income (loss) | **112,070** | 62,331 | (81,286) |
| Attributable to NCI | **(₱25,686)** | (₱14,287) | (₱18,631) |

| | | | |
|---|---|---|---|
| Net increase (decrease) in cash from operating activities | **₱118,876** | ₱155,097 | (₱84,346) |

Summarized statements of financial position, statements of comprehensive income and cash flow information for all the years ended December 31 of SRTC are as follows:

| | 2018 | 2017 |
|---|---|---|
| Current assets | **₱724,540** | ₱763,540 |
| Current liabilities | **(159,087)** | (159,087) |
| Total equity | **₱565,453** | ₱604,453 |
| | | |
| Attributable to equity holders of parent | **₱322,195** | ₱344,417 |
| NCI | **243,258** | 260,036 |

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Operating expenses | **(₱39,000)** | (₱39,000) | (₱457,580) |
| Interest income | **–** | – | 807 |
| Loss before income tax | **(39,000)** | (39,000) | (456,773) |
| Provision for income tax | **–** | – | – |
| Net loss | **(39,000)** | (39,000) | (456,773) |
| Other comprehensive income | **–** | – | – |
| Total comprehensive loss | **(₱39,000)** | (₱39,000) | (₱456,773) |
| Attributable to NCI | **₱16,778** | ₱16,778 | (₱196,504) |

| | 2018 | 2017 | 2018 |
|---|---|---|---|
| Net decrease in cash from operating activities | **(₱39,000)** | (₱39,000) | (₱456,773) |

## 20. Operating Segment Information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group derives revenue from its leasing activities:

- Following the cessation of its operation, the Parent Company is now primarily focused on asset disposal programs and leasing of the segment warehouse
- Others pertain to activities for subsidiary which is dormant

The Parent Company's Executive Committee, the chief operating decision maker of the Group, monitors the operating results of its business units.

The following tables present certain information regarding the Group's operating business segments (amounts in thousands):

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Leasing | Others | Total | Eliminations | **Consolidated** |
| **Revenue** | **₱33,321** | **₱–** | **₱33,321** | **₱–** | **₱33,321** |
| **Costs and operating expenses** | **(23,864)** | **(39)** | **(23,903)** | **–** | **(23,902)** |
| **Financial income (charges)- net** | **(18,532)** | **–** | **(18,532)** | **–** | **(18,532)** |
| **Other income - net** | **(7,108)** | **–** | **(7,108)** | **–** | **(7,108)** |
| **Loss before income tax** | **(16,183)** | **(39)** | **(16,222)** | **–** | **(16,222)** |
| **Provision for income tax** | **(3,246)** | **–** | **(3,246)** | **–** | **(3,246)** |
| **Net loss** | **(19,429)** | **(₱39)** | **(19,468)** | **₱–** | **(₱19,468)** |
| **Other comprehensive loss - net of tax** | **(₱961)** | **₱–** | **(₱961)** | **₱–** | **(₱961)** |
| **Total comprehensive loss** | **(₱20,390)** | **(₱39)** | **(₱20,429)** | **₱–** | **(₱20,429)** |
| **OTHER INFORMATION** | | | | | |
| **Segment assets** | **₱992,480** | **₱725** | **₱993,205** | **₱–** | **₱993,205** |
| **Segment liabilities** | **1,698,906** | **159** | **1,699,065** | **(69,695)** | **1,629,370** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Leasing | Others | Total | Eliminations | Consolidated |
| Revenue | ₱27,937 | ₱– | ₱27,937 | ₱– | ₱27,937 |
| Costs and operating expenses | (21,751) | (39) | (21,790) | – | (21,790) |
| Financial income (charges)- net | (18,551) | – | (18,551) | – | (18,551) |
| Other income - net | 1,127 | – | 1,127 | – | 1,127 |
| Loss before income tax | (11,238) | (39) | (11,277) | – | (11,277) |
| Provision for income tax | (1,267) | – | (1,267) | – | (1,267) |
| Net loss | (₱12,505) | (₱39) | (₱12,544) | ₱– | (₱12,544) |
| Other comprehensive loss - net of tax | (₱397) | ₱– | (₱397) | ₱– | (₱397) |
| Total comprehensive loss | (₱12,902) | (₱39) | (₱12,941) | ₱– | (₱12,941) |
| OTHER INFORMATION | | | | | |
| Segment assets | ₱986,295 | ₱764 | ₱987,061 | ₱– | ₱987,061 |
| Segment liabilities | 1,671,104 | 159 | 1,671,264 | (69,695) | 1,601,568 |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Leasing | Others | Total | Eliminations | Consolidated |
| Revenue | ₱19,642 | ₱– | ₱19,642 | ₱– | ₱19,642 |
| Costs and operating expenses | (22,818) | (456) | (23,274) | – | (23,274) |
| Financial income (charges)- net | (18,087) | (1) | (18,088) | – | (18,088) |
| Other income - net | 3,850 | – | 3,850 | – | 3,850 |
| Loss before income tax | (17,413) | (457) | (17,870) | – | (17,870) |
| Provision for income tax | (699) | – | (699) | – | (699) |
| Net loss | (₱18,112) | (₱457) | (₱18,569) | ₱– | (₱18,569) |
| Other comprehensive loss - net of tax | ₱258 | ₱– | ₱258 | ₱– | ₱258 |
| Total comprehensive loss | (₱18,370) | (₱457) | (₱18,311) | ₱– | (₱18,311) |
| OTHER INFORMATION | | | | | |
| Segment assets | ₱980,534 | ₱803 | ₱981,337 | ₱– | ₱981,337 |
| Segment liabilities | 1,652,439 | 159 | 1,652,598 | (69,695) | 1,582,903 |

Majority of the revenue of the Group, through the Parent Company and IKAC, are from various tenants renting on its investment properties covered by lease agreements (see Note 12).

## 21. Financial Risk Management Objectives and Policies and Capital Management

Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash and cash equivalents, restructured loans and loans payable to a stockholder. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group has various other financial instruments such as other noncurrent assets and accounts and other payables, excluding government payables, which arise directly from its operations.

The main risks arising from the financial instruments of the Group are credit risk, liquidity risk and market risk. The BOD reviews and agrees policies for managing these risks.

*Credit Risk*

Credit risk arises from the possibility that the Group may incur financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk principally from its cash in banks and cash equivalents and refundable deposits. In addition, the balances of cash in banks and cash equivalents and refundable deposits are monitored on an ongoing basis so that the Group's exposure to impairment losses is not significant. There is no significant concentration of credit risk in the Group.

The Group has three types of financial assets that are subject to the expected credit loss model which is cash and cash equivalents and refundable deposits.

Generally, receivables and amounts by related parties are written off if it can no longer be recovered and are not subject to enforcement activity. As of December 31, 2018, the maximum exposure to credit risk is the carrying value of each class of financial assets.

While cash and cash equivalents are also subject to the impairment requirements of PFRS 9, the identified impairment loss were immaterial.

The table below shows the maximum exposure to credit risk for the Group's financial assets, without taking into account any collateral and other credit enhancements as at December 31, 2018 and 2017.

| | **2018** | 2017 |
|---|---|---|
| Cash in banks and cash equivalents: | | |
| Cash in banks | **₱17,330,149** | ₱13,182,659 |
| Cash equivalents | **21,484,326** | 20,318,405 |
| Refundable deposits | **826,165** | 767,770 |
| Total credit risk exposure | **₱39,640,640** | ₱34,268,834 |

The credit quality of financial assets is managed by the Group using internal credit ratings and is classified into three: High grade, which has history of no default; Standard grade, which pertains to accounts with history of one or two defaults; and Substandard grade, which pertains to accounts with history of at least three payment defaults.

Accordingly, the Group has assessed the credit quality of cash in banks and cash equivalents are classified as high grade and deposited in reputable banks. Cash in banks can be withdrawn anytime and cash equivalents has a maturity of three months or less than the date of acquisition with insignificant risk of changes in value. These assets are neither past due nor impaired.

*Liquidity Risk*
Liquidity risk arises when there is a shortage of funds and the Group, as a consequence, would not meet its maturing obligations.

The Group seeks to manage its liquid funds through cash planning on a monthly basis. The Group uses historical figures and experiences and forecasts from its collection and disbursement.

The amounts disclosed in the table below are the contractual undiscounted cash flows as at December 31, 2018 and 2017 which are all due and demandable:

| | **2018** | 2017 |
|---|---|---|
| Accounts and other payables, excluding government liabilities | **₱456,439,757** | ₱438,403,764 |
| Restructured loans | **930,132,682** | 930,132,682 |
| Loans payable to a stockholder | **157,740,000** | 149,790,000 |
| Dividends payable | **156,087** | 156,087 |
| | **₱1,544,468,526** | ₱1,518,482,533 |

Market Risk
Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates.

*Foreign Currency Risk*
Foreign currency risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial and cash flows.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for an institution engaged in the type of business in which the Group is engaged.

The Group's foreign currency-denominated financial asset and liability as at December 31, 2018 and 2017 are as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **United States Dollar** | **Peso Equivalent** | United States Dollar | Peso Equivalent |
| Financial asset: | | | | |
| Cash in bank | **US$6,662** | **₱350,288** | US$6,661 | ₱332,584 |
| Financial liability: | | | | |
| Loan payable to a stockholder | **(3,000,000)** | **(157,740,000)** | (3,000,000) | (149,790,000) |
| | **(US$2,993,338)** | **(₱(157,389,712)** | (US$2,993,339) | (₱149,457,416) |

As at December 31, 2018 and 2017, the exchange rates of the Philippine peso to the US$ are ₱52.58 and ₱49.93 to US$1.00 respectively.

The sensitivity to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Parent Company's income before tax as at December 31, 2018 and 2017 is as follows:

| | Change in foreign exchange rate | Effect in loss before income tax |
|---|---|---|
| **2018** | **+0.71** | **(₱2,125,270)** |
| | **-0.66** | **1,975,603** |
| 2017 | +0.42 | (₱1,257,202) |
| | -0.63 | 1,885,804 |

Capital Management
The primary objective of the Group's capital management is to ensure its ability to continue as a going concern.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may obtain additional advances from stockholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended December 31, 2018 and 2017. The Group has no to externally imposed capital requirement.

The Group considers its common shares as capital. As at December 31, 2018 and 2017, the Group's capital is composed of common shares amounting to ₱1,031,230,905.

As at April 29, 2019, the BOD agreed to maintain the Group's operations at status quo; i.e., continue with the asset disposal programs and lease out the Group's warehouse in Sta. Rosa, Laguna and to look for a potential partner for a joint venture agreement.

## 22. Fair Value Measurement

The following methods and assumptions were used to estimate the amount of fair value of each class of financial instruments for which it is practicable to estimate such value:

*Cash and Cash Equivalents and Accounts and Other Payables*
The carrying values of these financial instruments approximate their fair values due to the short-term nature of these accounts.

*Other Noncurrent Assets*
The carrying values of other noncurrent assets approximate their fair values based on the market value of similar lease agreements.

*Dividends Payable*
The carrying values of the dividends payable approximate its fair value as the carrying value reflects the actual amount that will be paid to the stockholder upon distribution.

*Restructured Loans*
The carrying values of the fixed rate interest-bearing restructured loans approximate its fair value as the loans are already due and demandable.
*Loan Payable to a Stockholder*
The carrying values of the loans payable to a stockholder approximate its fair value as the loan is already due and demandable.

23. **Contingent Liabilities**

The Parent Company and IKAC are contingently liable for lawsuits or claims filed by third parties which are either pending decision by the courts or under negotiation, the outcomes of which are not presently determinable. In the opinion of Group management and their legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the consolidated financial position or results of operations.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

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

The Board of Directors and Stockholders
FILSYN Corporation
Unit 8, 5B The Pearlbank Centre, 146 Valero St.,
Salcedo Village, Makati City

We have audited in accordance with Philippines Standards on Auditing, the consolidated financial statements of FILSYN Corporation and its subsidiaries as at December 31, 2018 and 2017 and for each of the three years ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated April 29, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with 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.

Eleanore A. Layug
Partner
CPA Certificate No. 0100794
SEC Accreditation No. 1250-AR-2 (Group A),
February 28, 2019, valid until February 27, 2022
Tax Identification No. 163-069-453
BIR Accreditation No. 08-001998-97-2018,
February 2, 2018, valid until February 1, 2021
PTR No. 7332561, January 3, 2019, Makati City

April 29, 2019

# FILSYN CORPORATION AND SUBSIDIARIES
# INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
## DECEMBER 31, 2018

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Consolidated Statements of Cash Flows

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Schedule II: Financial Ratios

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Schedule IV: Tabular Schedule of the Effective Standards and Interpretations Under the PFRS

Supplementary Schedules under Annex 68-E
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- Schedule B: Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties).
- Schedule C: Amounts Receivable from Related Parties which are eliminated during Consolidation of Financial Statements
- Schedule D: Intangible Assets - Other Assets
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**SCHEDULE I**
**RECONCILIATION OF RETAINED EARNINGS**
**AVAILABLE FOR DIVIDEND DECLARATION**
**As of December 31, 2018**

**FILSYN Corporation**
**Unit 8, 5B The Pearlbank Centre, 146 Valero St., Salcedo Village, Makati City**

**Unappropriated Retained Ear**

NOT APPLICABLE

**Adjustments:**

**Unappropriated Retained Earnings, as adjusted, beginning**

**Add: Net income actually earned/realized during the period**

Net loss during the period closed to Retained Earnings

Less: Non-actual/unrealized income net of tax
Equity in net income of associate/joint venture
Unrealized foreign exchange gain-net (except those attributable to Cash and Cash Equivalents)
Unrealized actuarial gain
Fair value adjustment (M2M gains)
Fair value adjustment of Investment Property resulting to gain
Adjustment due to deviation from PFRS/GAAP-gain
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS

Subtotal

Add: Non-actual losses
Depreciation on revaluation increment (after tax)
Adjustment due to deviation from PFRS/GAAP-loss
Loss on fair value adjustment of investment property

Subtotal

**Net loss actually earned during the period**

Add (Less):
Dividend declarations during the period
Appropriations of retained earnings
Reversals of appropriations
Effects of prior period adjustments
Effects of PAS 19 adoption
Treasury shares

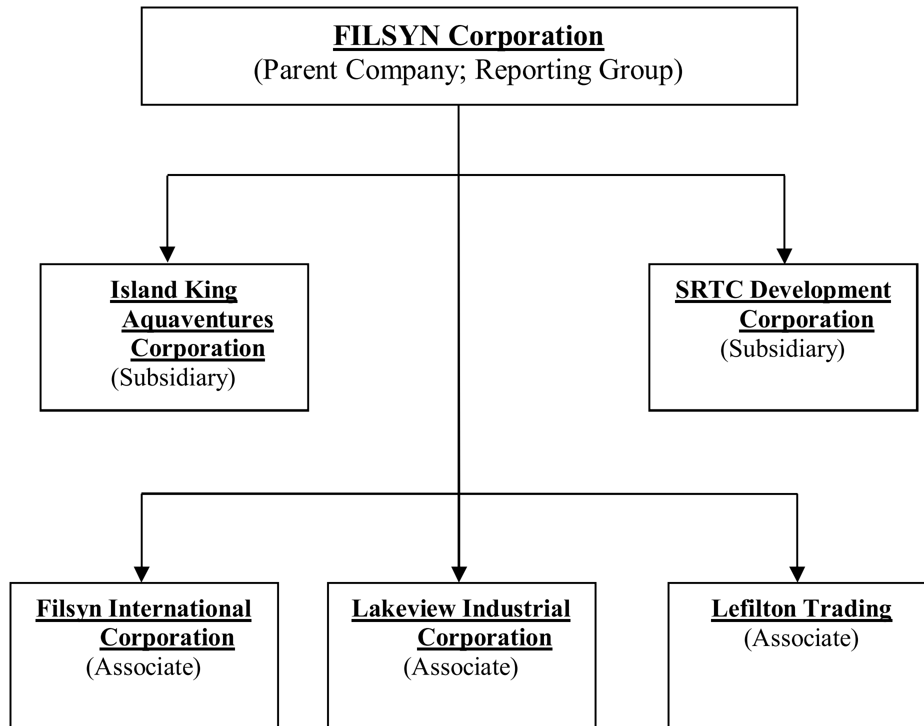
**Subtotal**

**TOTAL RETAINED EARNINGS, END**
**AVAILABLE FOR DIVIDEND**

# SCHEDULE II
# FILSYN CORPORATION AND SUBSIDIARIES
# FINANCIAL RATIOS
# PURSUANT TO SRC RULE 68, AS AMENDED
# DECEMBER 31, 2018

| | 2018 | 2017 |
|---|---|---|
| **Profitability Ratios:** | | |
| Return on assets | (1.97%) | (1.27%) |
| Return on equity | 3.06% | 2.04% |
| Operating profit margin | (28.27%) | (22.00%) |
| Net profit margin | (58.42%) | (44.90%) |
| | | |
| **Liquidity and Solvency Ratios:** | | |
| Current ratio | 0.03: 1 | 0.03: 1 |
| Quick ratio | 0.03: 1 | 0.02: 1 |
| Solvency ratio | 0.03: 1 | 0.02: 1 |
| | | |
| **Financial Leverage Ratios:** | | |
| Asset to equity ratio | (1.56): 1 | (1.61): 1 |
| Debt to equity ratio | 2.56 : 1 | 2.61 1 |
| Interest rate coverage ratio | (0.12): 1 | (0.39): 1 |

**SCHEDULE III**
**FILSYN CORPORATION AND SUBSIDIARIES**
**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2018**



**FILSYN CORPORATION AND SUBSIDIARIES**
**SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PFRS**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2018**

**List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as at December 31, 2018:**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | ✓ | | |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | | | ✓ |
| **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 with Customers | | | ✓ |
| **PFRS for SMEs** | | | | ✓ |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **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 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19 (Revised)** | 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 (Revised)** | Borrowing Costs | | | ✓ |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27 (Amended)** | Separate Financial Statements | | | ✓ |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | ✓ | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 32** | Financial Instruments: Disclosure and 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 | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| **PAS 40** | Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | *Determining Whether an Arrangement Contains a Lease* | ✓ | | |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* | | | ✓ |
| **IFRIC 7** | *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| **IFRIC 10** | *Interim Financial Reporting and Impairment* | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **SIC 7** | Introduction of the Euro | | | ✓ |
| **SIC 10** | Government Assistance – No Specific Relation to Operating Activities | | | ✓ |
| **SIC 15** | Operating Leases – Incentives | | | ✓ |
| **SIC 25** | Income Taxes – Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC 27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| **SIC 29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC 31** | Revenue – Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC 32** | Intangible Assets – Web Site Costs | | | ✓ |

**SCHEDULE A**

**FILSYN CORPORATION AND SUBSIDIARIES**
**FINANCIAL ASSETS**
**AS AT DECEMBER 31, 2018**

| Name of issuing entity and association of each issue | Number of shares or principal amounts of bonds and notes | Amount shown in the balance sheet | Income received and accrued |
|---|---|---|---|

NOT APPLICABLE

**SCHEDULE B**

**FILSYN CORPORATION AND SUBSIDIARIES**
**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
**DECEMBER 31, 2018**

| Name and Designation of Debtor | Balance at Beginning period | Additions | Amounts Collected / Settlements | Amounts Written off | Current | Not Current | Balance at end period |
|---|---|---|---|---|---|---|---|

NOT APPLICABLE

**SCHEDULE C**

**FILSYN CORPORATION AND SUBSIDIARIES**
**AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**DECEMBER 31, 2018**

| Name and Designation of Debtor | Balance at Beginning period | Additions | Amounts Collected/ Settlements | Amounts Written off | Current | Not Current | Balance at end period |
|---|---|---|---|---|---|---|---|
| IKAC | ₱85,902,615 | ₱– | ₱– | ₱– | ₱85,902,615 | ₱– | ₱85,902,615 |

**SCHEDULE D**

**FILSYN CORPORATION AND SUBSIDIARIES**
**INTANGIBLE ASSETS - OTHER ASSETS**
**DECEMBER 31, 2018**

| Description | Beginning balance | Additions at cost | Charged to cost and expenses | Charged to other accounts | Other changes additions (deductions) | Ending balance |
|---|---|---|---|---|---|---|

NOT APPLICABLE

**SCHEDULE E**

**FILSYN CORPORATION AND SUBSIDIARIES**
**LONG-TERM DEBT (RESTRUCTURED LOANS)**
**DECEMBER 31, 2018**

| Title of Issue and type of obligation | Amount authorized by indenture | Amount shown under the caption "Current Portion of long-term borrowings" in related balance sheet | Amount shown under the caption "Long-term borrowings- net of current portion" in related balance sheet |
|---|---|---|---|
| *Restructured Loans* | | | |
| China Trust (Phils.) Commercial Bank Corporation | ₱930,132,682 | ₱930,132,682 | ₱– |

**SCHEDULE F**

**FILSYN CORPORATION AND SUBSIDIARIES**
**INDEBTEDNESS TO RELATED PARTIES**
**(LONG-TERM LOANS FROM RELATED COMPANIES)**
**DECEMBER 31, 2018**

| Name of Related Party | Balance at beginning of period | Balance at end of period |
|---|---|---|
| Trans-Pacific Oriental Holding Group, Inc. | ₱149,790,000 | ₱157,740,000 |

**SCHEDULE G**

**FILSYN CORPORATION AND SUBSIDIARIES**
**GUARANTEES OF SECURITIES OF OTHER ISSUERS**
**DECEMBER 31, 2018**

| Name of issuing entity of securities guaranteed by the Group for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owed by person for which statement is filed | Nature of guarantee |
|---|---|---|---|---|

NOT APPLICABLE

**SCHEDULE H**

**FILSYN CORPORATION AND SUBSIDIARIES**
**CAPITAL STOCK**
**DECEMBER 31, 2018**

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding Shown under related Balance Sheet Caption | Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights | Number of Shares Held By | | |
|---|---|---|---|---|---|---|
| | | | | Affiliates | Directors, Officers and Employees | Others |
| COMMON STOCK | | | | | | |
| Class A | 144,000,000 | 123,747,707 | – | 63,578,181 | 124,652 | 60,044,874 |
| Class B | 96,000,000 | 82,498,474 | – | 45,065,670 | 100,002 | 37,332,802 |
| | 240,000,000 | 206,246,181 | – | 108,643,851 | 224,654 | 97,377,676 |