

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2019

2. Commission identification number CS2011102137 3. BIR Tax Identification No 007-979-726

4. Exact name of issuer as specified in its charter **Cirtek Holdings Philippines Corporation**

5. Province, country or other jurisdiction of incorporation or organization: **Philippines**

6. Industry Classification Code: (SEC Use Only)

116 East Main Avenue, Phase V-SEZ Laguna Technopark, Binan Laguna 4024

7. Address of issuer's principal office Postal Code

8. Issuer's telephone number, including area code +63 2 729 6206 +63 49 541 2317

9. Former name, former address and former fiscal year, if changed since last report: **n/a**

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares	419,063,353 / n/a
Preferred B2 Shares	67,000,000/ n/a

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

Yes No

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

Philippine Stock Exchange – Common Shares

12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

Please see attached

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

Please see attached

SIGNATURES

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

Issuer.:

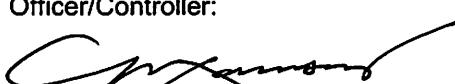
Signature and Title


Ma. Lourdes C. Laraño
Chief Compliance Officer

Date: May 21, 2019

Principal Financial/Accounting Officer/Controller:

Signature and Title


Carlos M. Gacusana Jr.
Deputy Chief Financial Officer

Date: May 21, 2019

CIRTEK HOLDINGS PHILIPPINES CORPORATION

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CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS

MARCH 31, 2019

(With Comparative Audited Figures as at December 31, 2018)

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	\$5,698,279	\$17,443,001
Trade and other receivables (Note 6)	15,795,001	14,725,878
Inventories (Note 7)	27,232,603	28,303,005
Amounts owed by related parties (Note 17)	54,262,237	57,004,906
Other current assets (Note 8)	2,490,609	2,617,509
	105,478,729	120,094,299
Noncurrent assets held for sale (Note 10)	—	—
Total Current Assets	105,478,729	120,094,299
Noncurrent Assets		
Other financial asset at amortized cost	469,588	469,588
Investment properties (Note 11)	10,605,040	10,605,040
Property, plant and equipment (Note 10)	37,781,541	38,160,729
Intangible assets (Note 12)	98,342,387	93,083,644
Deferred income tax assets - net (Note 23)	205,074	205,074
Other noncurrent assets (Note 13)	748,988	1,950,980
Total Noncurrent Assets	148,152,618	144,475,055
TOTAL ASSETS	\$ 253,631,347	\$264,569,354
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 14)	\$ 13,927,245	\$16,810,575
Short-term loans (Note 15)	47,460,000	53,710,000
Current portion of long-term debt (Note 16)	9,645,070	11,045,751
Amounts owed to related parties (Note 17)	606,740	601,193
Dividend payable	20,601	20,601
Income tax payable (Note 23)	572,792	458,785
Total Current Liabilities	72,232,448	82,646,905
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	60,690,920	62,300,920
Deposit for future stock subscriptions	189,107	189,107
Retirement benefit obligation (Note 21)	1,489,178	1,555,062
Deferred income tax liabilities - net (Note 23)	4,447,068	4,090,991
Other noncurrent liabilities	734,999	—
Total Noncurrent Liabilities	67,551,272	68,136,080
Total Liabilities	139,783,720	150,782,985
Equity		
Common stock (Note 27)	9,594,321	9,594,321
Preferred stock (Note 27)	2,615,995	2,615,995
Additional paid-in capital (Note 27)	100,469,659	100,469,659
Equity reserve	4,030,214	4,030,214
Net changes in fair value of equity investments at FVTOCI	(1,667,000)	(1,667,000)
Other comprehensive income	411,170	411,170
Retained earnings (Note 27)	25,205,948	25,144,690
	140,660,307	140,599,049
Parent Company shares held by a subsidiary (Note 27)	(26,812,680)	(26,812,680)
Total Equity	113,847,627	113,786,369
TOTAL LIABILITIES AND EQUITY	\$ 253,631,347	\$264,569,354

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

	For the Three Months Ended March 31	
	2019 (Unaudited)	2018 (Unaudited)
NET SALES	\$ 21,019,634	\$25,859,607
COST OF SALES (Note 18)	(17,266,284)	(18,056,883)
GROSS PROFIT	3,753,350	7,802,724
OPERATING EXPENSES (Note 19)	(2,900,757)	(4,328,664)
FINANCIAL INCOME (EXPENSES)		
Interest income	9,614	29,020
Interest expense (Notes 15 and 16)	(1,526,816)	(1,198,102)
	(1,517,202)	(1,169,082)
OTHER INCOME (CHARGES)- Net (Note 22)	812,907	(303,404)
INCOME BEFORE INCOME TAX	148,298	2,001,574
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)		
Current	120,835	95,712
Deferred	-	(36,707)
	120,835	59,005
NET INCOME	27,463	1,942,569
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement gains (losses) on retirement benefit, net of deferred tax	-	-
TOTAL COMPREHENSIVE INCOME	\$ 27,463	\$1,942,569
Basic/Diluted Earnings Per Share (Note 25)	\$ 0.000	\$0.002

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

For the Three Months Ended March 31, 2018 (Unaudited)

	For the Three Months Ended March 31, 2018 (Unaudited)						
	Common Stock (Note 31)	Preferred Stock (Note 31)	Additional Paid-in Capital (Note 31)	Equity Reserve	Remeasurement gains (losses) on retirement benefit (Note 25)	Fair Value of Equity Investments at FVTOCI (Note 10)	Change in Parent Company Shares Held by a Subsidiary (Note 31)
BALANCES AT December 31, 2018	\$9,594,321	\$2,615,995	\$100,469,659	\$4,030,214	\$411,170	(\$1,667,000)	\$25,144,690
Net income	—	—	—	—	—	—	27,463
Other comprehensive income	—	—	—	—	—	—	1,059,767
Total comprehensive income	—	—	—	—	—	—	1,087,230
Cash dividends declared (Note 27)	—	—	—	—	—	—	(1,025,971)
Issuance of capital stock	—	—	—	—	—	—	—
Acquisition by subsidiary of parent company's shares (Note 27)	—	—	—	—	—	—	(1,025,971)
BALANCES AT MARCH 31, 2019	\$9,594,321	\$2,615,995	\$100,469,659	\$4,030,214	\$411,170	(\$1,667,000)	\$ 25,205,949
							(\$26,812,680)
							\$ 113,847,628

For the Three Months Ended March 31, 2018 (Unaudited)

	For the Three Months Ended March 31, 2018 (Unaudited)						
	Common Stock	Preferred Stock	Additional Paid-in Capital	Equity Reserve	Other Comprehensive Income	Retained Earnings	Change in Parent Company Shares Held by a Subsidiary (Note 31)
Balances at December 31, 2017	\$9,594,321	\$2,037,113	\$100,469,659	\$4,030,214	\$196,292	\$25,319,024	(\$2,499,307)
Net income	—	—	—	—	—	1,942,569	—
Other comprehensive income	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	1,942,569	—
Issuance of additional preferred stock (Note 28)	—	578,882	—	—	—	—	578,882
Cash dividends declared (Note 28)	—	—	—	—	—	(2,986,539)	(2,986,539)
Balances at March 31, 2018	\$9,594,321	2,615,995	\$100,469,659	\$4,030,214	\$196,292	\$24,775,054	(\$2,499,307)
							\$ 139,182,228

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

	March 31, 2019 (Unaudited)	March 31, 2018 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 148,298	\$2,001,574
Adjustments for:		
Depreciation and amortization (Notes 18 and 19)	1,210,031	1,356,799
Interest expense (Notes 15 and 16)	1,526,816	1,198,102
Movement in net retirement benefit obligation (Note 21)	(65,884)	(12,180)
Net unrealized foreign exchange losses(gains)	898,185	22
Interest income	(9,614)	(29,020)
Operating income before working capital changes	3,707,832	4,515,297
Increase in:		
Trade and other receivables	(1,075,004)	(10,689,578)
Inventories	1,070,402	(4,251,595)
Other current assets	54,973	(115,849)
Increase (decrease) in trade and other payables	(3,232,001)	(4,273,496)
Net cash generated from operations	526,202	(14,815,221)
Interest received	15,495	23,445
Income taxes paid	349,249	(7,652)
Net cash flows from operating activities	890,946	(14,799,428)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment (Note 10)	(1,110,573)	(815,057)
Decrease (increase) in other noncurrent assets	(4,978,733)	(2,307,471)
Net cash flows used in investing activities	(6,089,306)	(3,122,528)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of short-term loans (Note 16)	-	12,174,316
Issuance of preferred stock	-	578,882
Cash receipt from Deposit for future stock subscription	189,107	-
Payments of:		
Cash dividends (Note 27)	(923,777)	(2,986,539)
Interest (Notes 15 and 16)	(811,306)	(1,616,735)
Long-term debt (Note 16)	(1,438,826)	(1,000,000)
Short-term loans (Note 15)	(6,250,000)	(6,000,000)
Net movements in amounts owed by and owed to related parties	2,742,668	(6,230,256)
Net cash flows from (used in) financing activities	(6,492,134)	(5,080,332)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		
NET INCREASE (DECREASE) IN CASH	(11,744,722)	(23,002,288)
CASH AT BEGINNING OF PERIOD	17,443,001	37,222,737
CASH AT END OF PERIOD	\$ 5,698,279	\$14,220,449

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

1. Corporate Information

Cirtek Holdings Philippines Corporation (CHPC or the “Parent Company”) was incorporated under the laws of the Republic of the Philippines on February 10, 2011 to invest in, purchase or acquire personal property of every kind, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities.

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

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

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

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

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

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

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

Acquisition of Quintel

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

In accordance with the Agreement, CCL was merged with Quintel, with Quintel as the surviving corporation. All outstanding shares, warrants, and stock options of the previous stockholders of Quintel were converted to a right to receive the consideration from Parent Company and Cirtek Corporation for a total value of \$83.2 million. As a result of the merger, each of CCL's one hundred (100) issued and outstanding shares shall be converted into and exchanged for one (1) validly issued, fully paid and non-assessable share of the surviving company. On the other hand, each of Quintel's issued and outstanding shares before the merger shall be cancelled and extinguished. Quintel, being the surviving company, retains the 100 shares originally issued by CCL as its ending capital stock.

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

To partially finance the acquisition, the Group entered into bridge funding arrangement with several local banks (Note 16).

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

2. Basis of Presentation, Statement of Compliance, Basis of Consolidation and Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

The interim condensed consolidated financial statements of the Group have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's December 31, 2017 annual consolidated financial statements.

Basis of Consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of the following (see Notes 1 and 3):

	Country of Incorporation	Percentage of Ownership			
		March 31, 2018		December 31, 2017	
		Direct	Indirect	Direct	Indirect
CEC	Philippines	100	—	100	—
CEIC	BVI	100	—	100	—
CATS (formerly known as RBWI)	BVI	—	100	—	100
CATS - Philippine Branch	Philippines	—	100	—	100
RBW Realty and Property, Inc. (RBWRP)	Philippines	—	100	—	100
Cirtek Corporation	United States of America	—	100	—	—
Quintel Cayman	Cayman Islands	—	100	—	—
Quintel Technology, Ltd.	United Kingdom	—	100	—	—
Quintel USA	United States of America	—	100	—	—
Telecom Quintel Mauritius, Ltd.*	Republic of Mauritius	—	100	—	—

**In the process of dissolution.*

Specifically, the Group controls an investee if, and only if, the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Business Combinations and Goodwill

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

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

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

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

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

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

consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

Common control business combinations

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

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

Changes in Accounting Policies and Disclosures

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

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

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

- **PFRS 15, *Revenue from Contracts with Customers***

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

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

3. Operating Segments

Financial information on the Group's business segments as of March 31, 2019 and December 31, 2018 are presented below. The amounts disclosed were determined consistent with the measurement basis under PFRS.

For the three months ended March 31, 2019:

	CATS - CEC	Philippine Branch	Quintel	Eliminations and Consolidation Adjustments	Consolidated
Net sales:					
External customers	\$ 10,141,613	\$ 4,160,009	\$ 6,718,012	\$-	\$ 21,019,634
Inter-segment	—	—	—	—	—
<u>Total net sales</u>	<u>\$10,141,613</u>	<u>\$4,160,009</u>	<u>\$6,718,012</u>		<u>\$21,019,634</u>
Segment depreciation and amortization	\$ 912,048	\$ 241,994	\$ 55,988	\$	\$ 1,210,030
Segment interest income	9,503	48	63	—	9,614
Segment interest expense	1,510,927	—	15,889	—	1,526,816
Segment profit (loss) before income tax	(\$587,617)	\$ 638,867	\$ 97,048	\$	\$ 148,298
Segment provision for (benefit from) income tax	100,133	9,790	10,913	—	120,835
<u>Segment profit (loss) after income tax</u>	<u>(\$687,751)</u>	<u>\$ 629,078</u>	<u>\$ 86,135</u>	<u>\$—</u>	<u>\$ 27,463</u>

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

	CEC	CATS - Philippine Branch	Quintel	Eliminations and Consolidation Adjustments	Consolidated
Net sales:					
External customers	\$9,424,670	\$1,773,744	\$14,661,193	-\$ (10,414,658)	\$25,859,607
Inter-segment	-	10,414,658	-	-	-
Total net sales	\$9,424,670	\$12,188,402	\$14,661,193	(10,414,658)	\$25,859,607
Segment depreciation and amortization	\$765,261	\$227,362	\$164,176	\$200,000	\$1,356,799
Segment interest income	12,827	45	16,148	-	29,020
Segment interest expense	935,583	-	262,519	-	1,198,102
Segment profit (loss) before income tax	\$849,365	\$1,837,455	(\$1,143,142)	\$457,896	\$2,001,574
Segment provision for (benefit from) income tax	(95,712)	-	(5,293)	42,000	(59,005)
Segment profit (loss) after income tax	\$753,653	\$1,837,455	(\$1,148,435)	\$499,896	\$1,942,569

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

4. Business Combination

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

As discussed in Note 1, the Group acquired the 100% of Quintel Group effective on August 4, 2017. The amount of all-cash consideration transferred for the acquisition was \$83,152,953.

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

Assets	
<i>Current Assets</i>	
Cash	\$1,849,741
Accounts receivable – net	3,920,576
Inventories – net	10,029,461
Prepayments and other current assets	306,517
<i>Noncurrent Assets</i>	
Intangible assets (Note 12)	37,083,900
Property and equipment	499,842
Total Assets	\$53,690,037
Liabilities	
<i>Current Liabilities</i>	
Accounts payable and accrued expenses	\$ 20,612,773
Decommissioning liability	122,800
Deferred grants	520,000
Current portion of long-term debt	300,000
<i>Noncurrent Liabilities</i>	
Long-term debt - net of current portion	625,962
Deferred income tax liabilities – net	3,896,706
Total Liabilities	26,078,241
Fair value of identifiable net assets	27,611,796
Acquisition cost	83,152,953
Goodwill	\$ 55,541,157

The cost of the acquired assets and liabilities of Quintel Group is equal to fair value (and gross contractual amounts for acquired receivables), except for the following assets and liabilities not previously recognized by Quintel Group:

- Accrued expenses amounting to \$ 4,690,762;
- Intangible assets comprising of technology, trademark and customer relationships valued at \$ 37,083,900 (see Note 12); and
- Carryforward benefit of net operating loss.

As a result, net deferred income tax liability on the fair value adjustment amounting to \$3,896,706 was recognized.

As provided for under PFRS 3, the Group has initially applied provisional accounting for the purchase price allocation, subject to finalization during the measurement period not exceeding one year from the acquisition date. The Group has completed the identification of the intangible assets arising from the acquisition and has effected adjustments such as inventories and contingent liabilities, among others, that impact the amount of goodwill.

5. Cash and Cash Equivalents

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Cash on hand	\$ 246	\$245
Cash in banks	5,694,989	17,439,717
Cash equivalents	3,044	3,039
	\$ 5,698,279	\$17,443,001

Cash in banks earn interest at prevailing bank deposit rates.

Interest income earned from cash in banks amounted to \$ 9,614 and \$29,020 for the three months ended March 31, 2019 and 2018, respectively.

6. Trade and Other Receivables

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Trade receivables	\$ 15,659,136	\$14,940,815
Others	626,877	276,075
	16,286,013	15,216,890
Less allowance for expected credit loss/impairment loss on trade receivables	491,012	491,012
	\$ 15,795,001	\$14,725,878

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

Others include nontrade receivable from suppliers which are expected to be collected within one year.

7. Inventories

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
At cost:		
Raw materials	\$ 9,851,835	\$9,814,321
Work in process	4,680,900	4,901,773
Finished goods	10,927,986	11,985,157
Spare parts and others	910,964	847,330
Supplies and others	860,918	754,424
At NRV:	27,232,603	28,303,005
Finished goods	-	827,378
Supplies and others	-	96,884
Allowance for inventory obsolescence	-	(924,262)
	-	-
Total inventories at lower of cost and NRV	\$ 27,232,603	\$28,303,005

Certain inventories have been provided with allowance to reflect valuation for non-movement and obsolescence.

The allowance for inventory obsolescence of supplies and other inventories as of December 31, 2018 amounted to \$924,262, respectively.

8. Other Current Assets

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Rental deposit (Note 18)	\$ 1,117,296	\$1,142,374
Advances to suppliers	414,758	288,767
Loans to employees	335,219	612,792
Prepaid expenses	439,148	389,399
Security deposit	182,412	182,409
Others	1,776	1,768
	\$ 2,490,609	\$2,617,509

Loans to employees include loans extended to key management personnel in 2019.

The Group has investment classified as financial asset at FVTPL. In 2016, the Group disposed the significant portion of these investments. Gain on disposal recognized amounted to \$0.2 million. Advances to suppliers pertain mainly to down payments for production materials and services that are still to be delivered.

9. Other Financial Asset at Amortized Cost/HTM Investment

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

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Beginning of year	\$469,588	\$480,563
Acquisition	—	—
Maturity	—	—
<u>Amortization of premium</u>		(10,975)
End of year	\$469,588	\$469,588

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

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

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

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

10. Property, Plant and Equipment and Noncurrent Assets Held for Sale

Property, plant and equipment

During the three months ended March 31, 2019 and 2018, the Group acquired assets with a cost of \$6,358,812 and \$815,057, respectively.

Noncurrent assets held for sale

On December 9, 2014, the Parent Company's BOD approved the plan to sell and dispose certain assets such as land, building and other improvements, and building plant and machinery of CATS and RBWRP to any interested buyers as these are excess assets from the acquisition and are no longer needed in CATS - Philippine Branch's operations. An independent valuation was obtained to determine the fair values of property, plant and equipment. Effective December 31, 2014, property, plant and equipment with carrying value of \$11,408,611 were classified as noncurrent assets held for sale in the consolidated balance sheets and have since been measured at the lower of carrying value and fair value less costs to sell.

The Parent Company's management is committed to selling the assets which are available for immediate sale and is active in looking for interested buyers. During the one-year period from the date the assets were classified as held for sale, circumstances arose that were previously considered unlikely and, as a result, the noncurrent assets held for sale were not sold by the end of the one-year period. Management took necessary actions to respond to the change in circumstances and ensured that the noncurrent assets are being actively marketed at a price that is reasonable, given the change in circumstances.

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

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

The valuations were performed by a Philippine SEC accredited appraiser as of December 31, 2018

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

Replacement Cost New is estimated as follows:

- For improvements, the appraiser used the Comparative Unit Method. This method is derived by dividing the total known cost of similar buildings or structures by the total construction floor area of those structures, combining all the costs of a particular type and quality of

structure into one value as a cost per square meter. The resulting benchmark costs are then adjusted to reflect the difference between the benchmark building and structures to the subject property in terms of market conditions, location and/or physical characteristics.

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

- For machinery and equipment, the appraiser considered the cost to reproduce or replace in new condition the assets appraised in accordance with the prevailing market prices for materials, equipment, labor, contractor's overhead, profit and fees, and all other attendant cost associated with its acquisition, installation and construction in place, but without provision for overtime or bonuses for labor and premiums for materials. An allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history, is also considered.

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

11. Investment Properties

As at March 31, 2019, the Group's investment properties (see Note 12) amounted to \$10.6 million. In 2018, net gain on fair value measurement amounted to \$2.0 million presented under "Other income (charges)" account in profit or loss.

As at March 31, 2019, the fair values of land and building are based on valuations performed by a Philippine SEC-accredited independent appraiser. The valuation model in accordance with that recommended by the IVSC has been applied. Market Approach is a method of comparing recent sales and sales offerings of similar properties located in the surrounding area, adjusted for time, size, location and other relevant factors. Price per square meter of market comparable range from \$130 to \$240. Significant increases (decreases) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis (Level 2).

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements as at March 31, 2019.

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

12. Intangible Assets

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Goodwill	\$ 55,541,157	\$55,541,157
Customer relationships (Note 4)	23,736,500	23,736,500
Technology	5,874,600	4,210,130
Trademark (Note 4)	7,472,800	7,472,800
Product development costs	5,717,330	2,123,057
	\$ 98,342,387	\$93,083,644

Goodwill

The goodwill recognized for the acquisition of Quintel is still at its provisional value as of March 31, 2018 and December 31, 2017 as the Group is in the process of completing the identification of the intangible assets arising from the acquisition and the determination of other possible adjustments such as inventories and contingent liabilities, among others, that may impact the amount of goodwill.

Customer relationships

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

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

Technology and Trademark

The fair values of Quintel's technology and registered trademark were determined based on discounted notional royalty savings after tax plus discounted tax amortization benefit resulting from the amortization of the acquired assets (i.e., relief from royalty method). The Group estimates that technology will have an economic life of 10 years, which will result in yearly amortization of \$0.8 million. Amortization of technology in 2018 amounted to \$200,000. On the other hand, trademark is estimated to have an indefinite useful life, and will be subject to yearly impairment testing.

Product development costs

Product development costs pertain to CEC's and CATS - Philippine Branch's capitalized cost of developing certain packages or products for specific customers. The development costs met the requirements of PAS 38 for capitalization. Amortization of product development cost charged to the consolidated statements of comprehensive income amounted to \$55,988 and \$50,348 for the three months ended March 31, 2019 and 2018, as these are available for use.

13. Other Noncurrent Assets

	March 31, 2019	December 31, 2018
	(Unaudited)	(Audited)
Advances to suppliers	\$ 608,493	\$875,662
Miscellaneous deposits	133,984	166,646
Loans to employees	-	902,161
Others	6,511	6,511
	\$ 748,988	\$1,950,980

Loans to employees include loans extended to key management personnel in 2019 (see Note 20).

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

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

14. Trade and Other Payables

	March 31, 2019	December 31, 2018
	(Unaudited)	(Audited)
Trade	\$ 6,037,984	\$10,835,308
Accruals:		
Utilities	358,035	355,676
Payroll	2,085,904	630,701
Interest	606,464	755,977
Others	836,494	628,723
Contract liabilities	1,992,217	2,041,270
Provisions	1,124,293	1,272,860
Others	885,854	290,060
	\$ 13,927,245	\$16,810,575

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

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

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

15. Short-term Loans

The Group has the following loan facilities:

	March 31, 2019	December 31, 2018
	(Unaudited)	(Audited)
Rizal Commercial Banking Corporation (RCBC) (a)	\$ 25,610,000	\$25,610,000
China Banking Corporation (CBC) (b)	11,000,000	11,000,000
Security Bank Corporation (SBC) (c)	10,000,000	10,000,000
BDO Unibank, Inc. (BDO) (d)	—	5,400,000
Metropolitan Bank and Trust Company (MBTC) (e)	850,000	1,700,000
Bank of the Philippine Islands (BPI) (f)	—	—
	\$ 47,460,000	\$53,710,000

- a. Revolving loan facilities with RCBC, which have payment terms of 60 to 360 days, are unsecured and charged interest of 2.80% to 4.00% and 2.25% to 4.00% per annum in 2018 and 2017, respectively.
- b. Revolving loan facilities with CBC, which have payment terms of 180 days, are unsecured and charged interest of 5.00% per annum in 2018.

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

Interest expense incurred from these short-term loan facilities amounted to \$614,538 and \$629,893 for the three months ended March 31, 2019 and 2018, respectively.

16. Long-term Debt

As of March 31, 2019 and December 31, 2018, the details of long-term debt are as follow:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Principal	\$ 70,750,000	\$73,790,000
Less deferred financing costs	414,010	443,329
	70,335,990	73,346,671
Less current portion - net of deferred financing costs	9,645,070	11,045,751
	\$60,690,920	\$62,300,920

Parent Company

2012 Note Facility Agreement (NFA)

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

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

The NFA contained an embedded derivative arising from voluntary prepayment option where the Parent Company may redeem in whole but not in part, the relevant outstanding notes beginning on and after the third anniversary of the issue date, by paying the amount that is equivalent to 102% of

the unpaid principal amount together with any and all accrued interest up to the date of prepayment. The Parent Company assessed that the embedded derivative in the NFA is closely related to the host contract, thus was not bifurcated from the host contract based on the provisions of PFRS 9/PAS 39.

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

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

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

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

The loan was fully paid in 2017.

2014 NFA

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

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

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

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

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

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

2016 NFA

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

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

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

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

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

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

Debt service ratio is defined in the agreement as the net cash provided by operating activities plus unrestricted cash (as shown in the most recent audited consolidated financial statements) divided by the amount of debt service. Debt service, on the other hand, is defined in the agreement as the aggregate of all obligations (whether actual or contingent) of the Group to pay or repay including, without limitation: (i) all obligations of the Group for borrowed money evidenced by promissory

notes or other instruments, (ii) all financial obligations of any other person guaranteed by the Group, (iii) all financial obligations of any other person secured by a security upon or in property owned by the Group, whether or not the Group have assumed or become liable for the payment of such financial obligations, and (iv) capitalized lease obligations of the Group which are capitalized in accordance with PFRS.

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

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

2018 NFA

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

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

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

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

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

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

Debt service ratio is defined in the agreement as the result obtained by dividing (i) EBITDA and (ii) the amount of debt service. Debt service, on the other hand, is defined in the agreement as the

aggregate of all payments for: (a) interest and principal payments due under the Agreement in the next twelve (12) months; (b) the principal and interest payments due in the next twelve (12) months of all interest-bearing debt with tenor of more than twelve (12) months, and (c) netting obligations of the Issuer due in the next twelve (12) months under permitted hedging arrangements, if applicable.

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

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

CATS

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

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

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

Quintel USA

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

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

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

Interest Expense

Total interest expense (including amortization of deferred financing costs) recognized in the consolidated statements of comprehensive income amounted to \$912,278 and \$568,209 for the three months ended March 31, 2019 and 2018, respectively.

17. Related Party Disclosures

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

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

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

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

a. Amounts owed to related parties

		Transactions		Balances as of			Terms	Conditions		
		Three Months Ended		March 31, 2019 (Unaudited)	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)				
		2019	2018							
<i>Other related parties</i>										
CLC	Rental	\$2,907	\$2,955	\$473,514	\$470,607	Due on demand; noninterest-bearing	Unsecured			
Cayon	Rental	2,640	2,685	2,685	94,658	Due on demand; noninterest-bearing	Unsecured			
Stockholders	Payment made on behalf of the Group		–	35,928	35,928	Due on demand; noninterest-bearing	Unsecured			
				\$606,740	\$601,193					

b. Amounts owed by related parties

		Transactions		Balances as of			Terms	Conditions		
		Three Months Ended		March 31, 2019 (Unaudited)	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)				
		2019	2018							
<i>Parent</i>										
Cameron	Collections on behalf of the Group	(\$2,742,674)	\$20	\$52,217,392	\$54,960,066	Due on demand; non-interest bearing	Unsecured; no impairment			
	Reimbursements of expenses		–	18,809	18,809	Due on demand; non-interest bearing	Unsecured; no impairment			

(Forward)							
<i>Other related entities</i>							
CHI	Advances for working capital	\$-	\$-	\$1,809,256	\$1,809,256	Due on demand; non-interest bearing	Unsecured; no impairment
Cayon	Reimbursement of expenses	5	13	216,780	216,775	Due on demand; non-interest bearing	Unsecured; no impairment
						\$ 54,262,237 \$57,004,906	

c. Others

		Transactions		Balances as of			Terms	Conditions		
		Three Months Ended		March 31, 2019 (Unaudited)	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)				
		March 31, 2019	2018							
<i>Other related parties</i>										
CLC	Rental deposit	\$-	\$-	\$1,142,374	\$1,142,374	Due on demand; non-interest bearing	Unsecured; no impairment			
Camerton	Deposit for future stock subscription	-	-	189,107	189,107	Due on demand; non-interest bearing	Unsecured; no impairment			
	Dividend payable	-	-	20,601	20,601	Due on demand; non-interest bearing	Unsecured; no impairment			

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

Transactions with individual stockholders, Camerton

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

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

Transactions with CHI, Charmview Enterprises Ltd (CEL)

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

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

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

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

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

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

Transactions with CLC and Cayon

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

On January 1, 2005, CEC terminated the lease agreement with CLC but has continued to occupy the said land for no consideration with CLC's consent. With the termination of the lease agreement, the Group has classified the rental deposit amounting to ₡60.1 million (\$1.2 million and \$1.1 million as of December 31, 2017 and 2016, respectively) as current asset as the deposit has become due and demandable anytime from CLC (see Note 9).

On January 1, 2011, CEC entered into an agreement with CLC to lease the land where CEC's Building 1 is located. The agreement calls for a ₡640,704 rent per annum for a period of 10 years and renewable thereafter by mutual agreement of the parties subject to such new terms and conditions as they may then be mutually agreed-upon. Total rent expense charged to operations amounted to \$2,907, and \$2,955 in March 31, 2019 and March 31, 2018, respectively.

CEC also entered into an agreement with Cayon starting January 1, 2011 to lease the land where CEC's Building 2 is located. The agreement calls for an annual rental of ₡582,144 for a period of 10 years and renewable there after by mutual agreement of the parties subject to such new terms and conditions as they may then be mutually agreed upon. Total rent expense charged to operations amounted to \$2,640 and \$2,685 in March 31, 2019 and March 31, 2018, respectively.

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

	Three Months Ended March 31	
	(Unaudited)	
	2019	2018
Salaries and wages	\$ 497,815	\$385,056
Other employee benefits	174,966	98,983
	\$672,781	\$484,039

18. Cost of Sales

	Three Months Ended March 31 (Unaudited)	
	2019	2018
Raw materials, spare parts, supplies and other inventories used	\$ 12,398,646	\$11,641,383
Salaries, wages and employees' benefits	2,335,620	3,341,827
Depreciation and amortization	1,122,628	1,256,526
Utilities	883,745	1,072,712
Inward freight and duties and others	458,396	712,417
Others	67,249	32,018
	\$ 17,266,284	\$18,056,883

19. Operating Expenses

	Three Months Ended March 31 (Unaudited)	
	2019	2018
Salaries, wages and employees' benefits	\$ 1,564,186	\$1,535,084
Utilities	547,603	691,833
Transportation and travel	159,899	657,348
Professional fees	54,569	614,535
Commissions	13,497	162,266
Taxes and licenses	45,710	126,624
Research costs	57,310	181,636
Depreciation	87,402	100,273
Entertainment, amusement and recreation	199,841	87,926
Insurance premiums	41,269	34,909
Office supplies	90,412	23,816
Others	39,059	112,414
	\$ 2,900,757	\$4,328,664

“Others” mainly consist of receivables directly written off and other charges.

20. Salaries and Wages and Employees' Benefits

	Three Months Ended March 31 (Unaudited)	
	2019	2018
Salaries and wages	\$ 3,431,900	\$4,310,902
Other employees' benefits	214,615	467,220
Retirement costs	253,291	98,789
	\$ 3,899,806	\$4,876,911

Other employees' benefits consist of allowances and mandatory contributions.

21. Retirement Benefit Obligation

Defined Benefit Plans

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

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

CEC has an agreement with an insurance company to fund the retirement benefits of its employees. CEC believes that the insurance coverage qualifies as plan assets because the proceeds of the policy can be used only to pay or fund the retirement benefits. As of March 31, 2018 and December 31, 2017, the asset mix is a combination of 34% long-term investments, composed of government securities and corporate bonds, 62% investments in quoted equity securities and 4% short-term investments, composed of short-term placements and others.

Defined Contribution Plans

Quintel USA has a retirement savings plan under Section 401(k) of the United States Internal Revenue Code. Employees are eligible to participate in the plan after completing three months of service. Quintel USA makes a matching contribution of 100% of each employee's contributions up to 4% of such employee's compensation. From the date of acquisition to December 31, 2017, Quintel USA made approximately \$94,544 in matching contributions.

Quintel Technology, Ltd. has a defined contribution plan covering substantially all UK employees. From the date of acquisition to December 31, 2017, Quintel Technology, Ltd. made approximately \$6,915 in contributions.

22. Other Income (Charges)- Net

Three Months Ended March 31

(Unaudited)

	2019	2018
Foreign exchange gains (losses)- net	\$ 623,491	(\$900,466)
Sale of scrap	17,986	63,365
Gain on condonation	-	195,000
Others - net	171,430	338,697
	<u>\$ 812,907</u>	<u>(\$303,404)</u>

23. Income Taxes

CEC

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

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

CATS - Philippine Branch

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

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

The provision for current income tax for the nine months ended March 31 2018 and 2017 pertains to the special rate of 5% on taxable gross income of CEC and CATS - Philippine Branch.

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

Changes in Legislation

United States of America (U.S.)

The Group is subject to income taxes in the U.S. owing to Quintel USA.

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

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, Quintel has made reasonable estimates of the effects and recorded provisional amounts in the consolidated financial statements for the year ended December 31, 2017. As Quintel collects and prepares necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS or other standard-setting bodies, Quintel may make adjustments to the provisional amounts. Those adjustments may materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the enactment of the Tax Act will be completed in 2018.

Philippines

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

24. Earnings Per Share (EPS)

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

	Three Months Ended March 31 (Unaudited)	
	2019	2018
Net income attributable to common shareholders of Parent Company*	\$ 27,463	\$887,630
Weighted average number of common shares outstanding	419,063,353	419,063,353
Basic and diluted EPS	\$0.000	\$0.002

**Net of dividends declared on preferred A, preferred B-1 and preferred B-2 shares for the months ended March 31, 2019 and 2018 totaling to \$0 and \$1,054,939, respectively, and undeclared dividends on cumulative preferred B-1 and B-2 shares amounting to \$872,837 for the three months ended March 31, 2018 [(nil for the three months ended March 31, 2017)]*

As of March 31, 2019 and 2018, the Parent Company has no potential dilutive common shares.

The weighted average number of common shares outstanding used in the calculation of EPS is based on the outstanding shares of the Parent Company. The additional shares from stock dividends during the period, including the unissued stock dividends and stock dividends declared after the reporting period but before the approval of the financial statements, were reflected in the calculation of the EPS as if these shares have been issued in all earlier periods presented.

25. Financial Risk Management Objectives and Policies

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

Risk Management Structure

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

The main risks arising from the financial instruments of the Group are credit risk, liquidity risk

and foreign currency risk. The Group's management reviews and approves policies for managing each of these risks and they are summarized below.

Credit risk

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

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

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

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

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

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

- Gross domestic products
- Inflation rates

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

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

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

	March 31, 2019 (Unaudited)						ECLs	Net of ECLs		
	Current	Past Due but not Impaired				> 90 days				
		< 30 days	30-60 days	60-90 days	\$-					
Cash and cash equivalent*	\$ 5,698,033	\$-	\$-	\$-	\$-	\$-	\$-	\$ 5,698,033		
Trade and other receivables	13,116,560	2,579,581	443,572	138,429	7,871	(491,012)	15,795,001			
Amounts owed by related parties	54,262,237	-	-	-	-	-	-	54,262,237		
Other current assets:										
Financial assets at FVTPL	476							476		
Rental deposit	1,117,296	-	-	-	-	-	-	1,117,296		
Security deposit	182,412	-	-	-	-	-	-	182,412		
Loans to employees	335,219	-	-	-	-	-	-	335,219		
HTM investments	469,588	-	-	-	-	-	-	469,588		
Other noncurrent assets:										
Loans to employees	-	-	-	-	-	-	-	-		
Miscellaneous deposits	133,984	-	-	-	-	-	-	133,984		
	\$75,315,805	\$2,579,581	\$443,572	\$138,429	\$7,871	(\$491,012)	\$77,994,246			

*Excluding cash on hand amounting to \$246.

	December 31, 2018 (Audited)						Impaired Financial			
	Neither Past Due nor Impaired	Past Due but not Impaired				Assets				
		< 30 days	30-60 days	60-90 days	> 90 days					
Cash and cash equivalents*	\$17,442,756	\$-	\$-	\$-	\$-	\$-	\$17,442,756			
Trade and other receivables	7,918,628	2,047,259	443,572	138,429	4,669,001	(491,012)	14,725,877			
Amounts owed by related parties	57,004,906	-	-	-	-	-	-	57,004,906		
Other current assets:										
Financial assets at FVPL	475							475		
Rental deposit	1,142,374	-	-	-	-	-	-	1,142,374		
Loans to employees	612,792	-	-	-	-	-	-	612,792		
Security deposit	182,409	-	-	-	-	-	-	182,409		
HTM investments	469,588	-	-	-	-	-	-	469,588		
Other noncurrent assets:										
Loans to employees	902,161	-	-	-	-	-	-	902,161		
Miscellaneous deposits	166,646	-	-	-	-	-	-	166,646		
	\$85,842,735	\$2,047,259	\$443,572	\$138,429	\$4,669,001	(\$491,012)	\$92,649,984			

*Excluding cash on hand amounting to \$243.

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

March 31, 2019 (Unaudited)

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalent*	\$ 5,698,033	\$-	\$-	\$ 5,698,033
Trade and other receivables	13,116,560	-	-	13,116,560
Amounts owed by related parties	-	54,262,237	-	54,262,237
Other current assets:				
Rental deposit	1,117,296	-	-	1,117,296
Loans to employees	335,219	-	-	335,219
Security deposit	182,412	-	-	182,412
Other financial assets at amortized cost	469,588	-	-	469,588
Other noncurrent assets:				
Loans to employees	-	-	-	-
Miscellaneous deposits	122,246	-	-	122,246
	\$21,041,354	\$54,262,237	\$-	\$75,303,591

**Excluding cash on hand amounting to \$246.*

December 31, 2018 (Audited)

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

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

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

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

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

Liquidity risk

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

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

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

March 31, 2019
(Unaudited)

	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
Financial Assets					
Cash and cash equivalent	\$ 5,698,279	\$-	\$-	\$-	\$ 5,698,279
Trade and other receivables	15,795,001				15,795,001
Amounts owed by related parties	54,262,237				54,262,237
	\$75,755,517	\$-	\$-	\$-	\$75,755,517
Financial Liabilities					
Trade and other payables					
Trade payables	\$13,927,245	\$-	\$-	\$-	\$13,927,245
Accrued expenses*	-	3,886,897	-	-	3,886,897
Short-term loans	-	47,460,000	-	-	47,460,000
Amounts owed to related parties	606,740				606,740
Dividend payable	20,601				20,601
Long-term debts**	9,645,070	13,416,991	47,273,929		70,335,990
	\$14,554,586	\$60,991,967	\$13,416,991	\$47,273,929	\$136,237,473

*Excluding statutory liabilities

**Includes future interest payments

December 31, 2018
(Audited)

	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
Financial Assets					
Cash and cash equivalents	\$17,443,001	\$-	\$-	\$-	\$17,443,001
Trade and other receivables	7,918,628	6,807,349	-	-	14,725,877
Amounts owed by related parties	57,004,906	-	-	-	57,004,906
	\$82,366,535	\$6,807,249	\$-	\$-	\$89,173,784
Financial Liabilities					
Trade and other payables					
Trade payables	\$10,154,008	\$-	\$-	\$-	\$10,154,008
Accrued expenses	-	1,740,376	-	-	1,740,376
Short-term loans*	-	54,783,580	-	-	54,783,580
Amounts owed to related parties	930,745	-	-	-	930,745
Dividend payable	20,601				20,601
Long-term debts*	-	15,132,560	13,416,991	63,359,019	91,908,570
	\$11,105,354	\$71,656,516	\$13,416,991	\$63,359,019	\$159,537,880

*Includes future interest payments

Foreign currency risk

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

Capital Management

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

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

The Company considers the following as capital:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Common stock	\$ 9,594,321	\$ 9,594,321
Preferred stock	2,615,995	2,615,995
Additional paid-in capital	100,469,659	100,469,659
Equity reserve	4,030,214	4,030,214
Other comprehensive income (loss)	(1,225,830)	(1,225,830)
Retained earnings	25,205,948	25,144,690
Parent company shares held by a subsidiary	(26,812,680)	(26,812,680)
	\$ 113,847,627	\$ 113,816,369

As of March 31, 2019 and December 31, 2018, the Group is subject to quantitative loan covenants and financial ratios on its long-term debts.

As of March 31, 2019 and December 31, 2018, the Group was able to meet its capital requirements and management objectives.

26. Fair Value

As of March 31, 2019 and December 31, 2018, the carrying values of the Group's financial assets and liabilities, excluding AFS financial asset carried at cost because its fair value cannot be reliably measured, are equal to or approximate their respective fair value.

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

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

Financial assets at FVTPL-UITF

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

Investment properties

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

HTM investments/Other financial statements at amortized cost

The fair value of HTM investments that are actively traded in organized financial markets is

determined by reference to quoted market bid prices, at the close of business on the reporting date or last trading day as applicable (Level 1).

Miscellaneous deposits and loans to employees

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

Long-term debt

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

Fair Value Hierarchy

	March 31, 2019 (Unaudited)			
	Total	Level 1	Level 2	Level 3
<i>Financial assets measured at fair value</i>				
Financial assets at FVPL	\$476	\$—	\$476	\$476
Investment properties	10,605,040	—	10,605,040	—
<i>Financial assets and liabilities measured at amortized cost but for which fair values are disclosed</i>				
HTM investments	469,588	469,588	—	—
Long-term debt	70,335,990	—	—	70,335,990

	December 31, 2018 (Audited)			
	Total	Level 1	Level 2	Level 3
<i>Financial asset measured at fair value</i>				
Financial asset at FVPL	\$475	\$—	\$475	\$—
Investment properties	10,605,040	—	10,605,040	—
<i>Financial asset and liability measured at amortized cost but for which fair values are disclosed</i>				
HTM investments	469,588	469,588	—	—
Long-term debt	74,119,113	—	—	74,119,113

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

27. Equity

a. Common Shares

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
<i>Number of shares</i>		
Authorized - common shares (₱1.00 par value)	520,000,000	520,000,000
<i>Issued</i>		
Beginning and end of year	419,063,353	419,063,353
<i>Amount</i>		
Issued - 419,063,353 shares	\$9,594,321	\$9,594,321

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of March 31, 2019 and December 31, 2018, the Parent Company has a total number of 26 and 25 stockholders, respectively.

Parent Company Shares Held by a Subsidiary

On December 23, 2016, CEC acquired a total of 102,018,659 common shares of the Parent Company for ₡2.3 billion (\$49.7 million). The shares purchased were recorded at cost and deducted from equity in the consolidated balance sheet.

In 2017, CEC sold 96,972,537 common shares for ₡47.0 million. The difference between the proceeds from the sale of shares held by CEC and the cost of these shares amounting to \$0.1 million was offset against "Equity reserve" account.

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

b. Preferred Shares

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
<i>Number of shares</i>		
Authorized		
Preferred shares A (₱0.10 par value)	700,000,000	700,000,000
Preferred shares B-1 (₱1.00 par value)	70,000,000	70,000,000
Preferred shares B-2 (₱1.00 par value)	200,000,000	200,000,000
Issued and Subscribed		
Preferred A shares	700,000,000	700,000,000
Preferred B-1 shares	70,000,000	70,000,000
Preferred B-2 shares	67,000,000	67,000,000
<i>Amount</i>		
Preferred A shares - (net of subscriptions receivable amounting to \$525,062 as of March 31, 2018 and December 31, 2018)	\$946,863	\$946,863
Preferred B-1 shares - (net of subscriptions March 31, 2018)	342,399	342,399
Preferred B-2 shares	1,326,733	1,326,733

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

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

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

On the same date, the additional 300,000,000 preferred A shares and 70,000,000 preferred B-1 shares shall be issued to and subscribed by Camerton at their par value of ₱0.10 per share and ₱1.00 per share, respectively. The Parent Company recognized preferred stock and additional paid-in capital amounting to \$0.1 million and \$0.3 million, respectively, net of subscriptions receivable. Preferred B-1 shares are not listed in the PSE.

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

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

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

- a. Non-voting;
- b. Preferred, cumulative cash dividends of up to 6.125% of the issue price per year, at the discretion of the Parent Company's BOD, with no participation in further cash dividends which may be declared and paid to the common shares, provided that, other than the basis being their respective issue prices, the cash dividend rate for preferred B-1 shares and preferred B-2 shares shall be paid before any cash dividends are paid to holders of common shares and preferred A shares;
- c. The same stock dividends which may be declared and paid to the common shares;
- d. As and if approved by the Parent Company BOD, redeemable in whole and not in part, at the sole option of the Parent Company at a price and at such time that the Parent Company BOD shall determine;

- e. In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Parent Company, the holders of preferred B-1 shares and preferred B-2 shares that are outstanding at that time shall enjoy preference in the payment in full or, if the remaining assets of the Parent Company are insufficient, on a pro-rata basis as among all holders of outstanding preferred B-1 shares and preferred B-2 shares, of the issue price of their shares plus any previously declared and unpaid dividends before any asset of the Parent Company is paid or distributed to the holders of other classes of shares.

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

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

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

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

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

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

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

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

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

As of March 31, 2019 and December 31, 2018, the Parent Company has unrecognized dividends on cumulative preferred B-1 and B-2 shares totaling to \$0.1 million and \$0.3 million, respectively.

c. Retained Earnings

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

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

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

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

Accumulated earnings of the subsidiaries are not yet available for dividend distribution to the Parent Company's stockholders, unless received as cash dividends from the subsidiaries. On February 2, 2018, the Parent Company's BOD approved the declaration of cash dividends of \$0.004609 per share for each of 419,063,353 fully paid and issued common shares and \$0.000012 per share for each of the 700,000,000 outstanding preferred A shares, amounting to an aggregate sum of \$1,940,000, for payment and distribution on February 21, 2018 to shareholders of record of February 19, 2018. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

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

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

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

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

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

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

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

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the parent company shares held by a subsidiary, unrealized foreign exchange gains except those attributable to cash and cash equivalents, net fair value gain on investment properties, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of March 31, 2019 and December 31, 2018.

28. Commitments

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

Outsourcing Manufacturing Agreement (OMA)

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

Master Service Agreement (MSA)

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

29. Event After the Reporting Period

The Parent Company has not entered into any significant / reportable transaction/s after the reporting period.

Results of Operations

The Company's Consolidated Net Sales, Gross Profit, Net Income, EBITDA and EPS are provided in the following table:

<i>In US\$ Thousand except EPS</i>	For the Three Months Ended March 31	
	2019 (Unaudited)	2018 (Unaudited)
NET SALES	\$21,020	\$25,860
COST OF SALES	(17,266)	(18,057)
GROSS PROFIT	3,753	7,803
NET INCOME	27	1,943
Basic/Diluted EPS	0.000	\$0.002
EBITDA	\$2,876	\$4,528

For the three-month period ending March 31, 2019 compared to the three-month period ending March 31, 2018

Revenue

The Company achieved a consolidated revenues of US\$ 21.02 million for the three months ending March 31, 2019, a decrease of 19 % from US\$25.9 million for the same period in 2018. The decrease accounted for was mainly due to low revenue contribution of Quintel, a US-based product and R&D company acquired in August 2017.

Revenue contribution from Quintel for the three month period ending March 31, 2019 amounted to US\$6.7million, a 56% decrease compared to the same period in 2018.

Revenues from the RF/MW/mmW and antenna manufacturing business before consolidation for the three months ending March 31, 2019 amounted to US\$4.2million, a 66% decrease compared to the US\$12.2 million for same period in 2018. After elimination of intercompany sales during consolidation, revenues to external customers amounted to US\$21.02million

Revenues from the semiconductor business amounted to US\$10.1 million compared to US\$9.4 million for the same period in 2018, a 7% increase.

Cost of Sales and Gross Margin

The Company's cost of sales (COS) is composed of: raw materials, spare parts, supplies; direct salaries, wages and employees' benefits; depreciation and amortization; utility expenses directly attributable to production, freight and duties; and others. The Company's cost of sales decreased by 4% to US\$ 17.3

million for the three months ending March 31, 2019 from US\$18.1 million for the same period in 2018. The decrease was mainly due to an increase in raw materials expenses as a result of lower sales, lower salaries and wages, depreciation, utilities and in inward freight and duties.

- Raw materials, spare parts, supplies and other inventories used grew by 7% to US\$12.4 million for the three months ending March 31, 2019 from US\$11.6 million for the same period in 2018.
- Salaries, wages and employees' benefits decreased by 30% to US\$2.3 million for the three months ending March 31, 2019, from US\$3.3 million for the same period in 2018.
- Depreciation and amortization decreased by 11% to US\$1.1 million for the three months ending March 31, 2019, from US\$1.3 million for the same period in 2018.
- Freight and duties decreased by 36% to US\$458 thousand for the three months ending March 31, 2019 from US\$712 thousand for the same period in 2018.
- Utility expenses amounted to US\$884 thousand for the three months ending March 31, 2019, from US\$1.1 million for the same period in 2018, an decrease of 18%

The Company's gross margin was 18% for the three months ending March 31, 2019, 12% lower than the gross margin recorded for the same period in 2018.

Operating Expenses

The Company's operating expenses for the three months ending March 31, 2019 amounted to US\$2.9 million, 33% lower compared to the US\$4.3 million recorded during the same period in 2018.

Income Before Income Tax

For the three months ending March 31, 2019, the Company recorded a net income before income tax of US\$148 thousand, a decrease of 93% compared with US\$2 million recorded for the same period in 2018.

Provision for / Benefit from Income Tax

Provision for income tax for the three months ending March 31, 2019 amounted to US\$121 thousand compared with a provision for income tax of US\$59 thousand for the same period in 2018.

Net Income After Tax

The Company's net income after tax for the three months ending March 31, 2019 amounted to US\$27 thousand, a decrease of 99% compared with US\$1.9 million for the same period in 2018.

Total Comprehensive Income

The Company's total comprehensive income for the three months ending March 31, 2019 amounted to US\$27 thousand, compared to US\$1.9 million for the same period in 2018, a 99% decrease.

Financial Condition

For the three-month period ending March 31, 2019 compared to the period ending December 31, 2018

Assets

The Company's cash and cash equivalent for the three months ending March 31, 2019 amounted to US\$5.7million, compared with US\$17.4million for the period ending December 31, 2018, a decrease of US\$11.7million or 67%.

Trade and other receivables for the three months ending March 31, 2019 amounted to US\$15.8million, compared with US\$14.7million for the period ending December 31, 2018, an 7% increase.

Inventory levels for the three months ending March 31, 2019 amounted to US\$27.2 million, 4% lower compared with US\$28.3million for the period ending December 31, 2018.

Amounts owed by related parties for the three months ending March 31, 2019 amounted to US\$54.3million compared to US\$57 million for the period ending December 31, 2018, an 5% decrease.

Non-current assets held for sale pertain to the Company's Carmelray property which is being actively marketed for sale.

Non-current assets, comprised of Available-for-sale (AFS) financial asset, HTM investments, property, plant and equipment (PPE), intangible assets, deferred income taxes and other noncurrent assets for the three months ending March 31, 2019 amounted to US\$148 million compared with US\$144.48 million for the period ending December 31, 2018, an increase of 3%.

Liabilities

The Company's current liabilities is comprised of trade and other payables, short-term loans, long-term debt – current portion, amounts owed to related parties, and income tax payable. For the three months ending March 31, 2019, current liabilities were at US\$72.4million, compared with US\$82.6 million the period ending December 31, 2018, a decrease of 13%.

For the three months ending March 31, 2019, the Company's non-current liabilities, comprised of long-term debt – net of current portion, retirement benefit obligation, and deferred income tax liability amounted to US\$ 67.6 million compared with US\$68 million for the period ending December 31, 2018, a 1% decrease.

Equity

The Company's shareholders' equity for the three months ending March 31, 2019 amounted to US\$113.8 million compared with US\$113.8 million for the period ending December 31, 2018.

Liquidity and Capital Resources

For the three months ending March 31, 2019, the Company's principal sources of liquidity was cash from sales of its products, bank credit facilities, proceeds from its corporate notes issuances, and proceeds from

its follow-on offering. The Company expects to meet its working capital, capital expenditure, dividend payment and investment requirements for the next 12 months primarily from the proceeds of the Company's follow-on offering, proceeds of the Company's corporate notes issuances, short-term credit facilities and cash flows from operations. It may also from time to time seek other sources of funding, which may include debt or equity financings, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

For the next 12 months, the Company plans to increase its production further by increasing volume deliveries to existing customers, entering into new production agreements, and expanding its customer base through new product introduction and aggressive sales and marketing activities.

The following table sets out the Company's cash flows for the three months ending March 31, 2019 and the same period in 2018.

<i>In US\$ Thousands</i>	For the three months ending March 31	
	2019	2018
Net cash flows provided by/ (used for) operating activities	891	(14,799)
Net cash flows provided by/ (used for) investing activities	(6,089)	(3,122)
Net cash flows provided by/ (used for) financing activities	(6,492)	(5,080)
Net increase (decrease) in cash equivalents	(11,745)	(23,002)

Net Cash Flows from Operating Activities

Net cash outflow from used by operating activities was US\$ 0.89 million for the three months ending March 31, 2019, compared with US\$14.8 million for the same period in 2018.

For the three months ending March 31, 2019, net income before tax was US\$ 148 thousand. After adjustments for depreciation, interest income/expense, operating net unrealized foreign exchange gains, income before change in working capital was US\$4.4 million. Changes in working capital, interest received and income taxes resulted in a net cash flow from operating activities of US\$ 1.6million. This was mainly due to increase in accounts receivables, increase in inventories, and decrease in accounts payables.

Investing Activities

Net cash outflow from investing activities amounted to US\$6.1 million for the three months ending March 31, 2019. Investing activities mainly involved increase in PPA and increase in non-current assets.

Financing Activities

Net cash flow used in from financing activities for the three months ending March 31, 2019 amounted to US\$6.5 million. Major financing activities involved proceeds from availment of short-term loans, payment of cash dividends, payment interest, payment of short-term and long-term loans, and net movement in amounts owed by and owed to related parties. For the same period in 2018 net cash flow financing activities amounted to US\$6.5 million.

Material Changes to the Company's Unaudited Income Statement as of March 31, 2019 compared to the Unaudited Income Statement as of March 31, 2018 (increase/decrease of 5% or more)

- 19% decrease in net sales
Sales decrease for the antenna manufacturing business segment: Quintel
- 52% decrease in Gross Profit
Decrease in net sales
- 93% decrease in Income Before income Tax
Lower sales and lower operating profit margins
- 99% decrease in Net Income After Tax
Lower sales and lower operating profit margins

Material Changes to the Company's Unaudited Balance Sheet as of March 31, 2019 compared to the Unaudited Balance Sheet as of March 31, 2018 (increase/decrease of 5% or more)

- 67% decrease in Cash and Cash Equivalent
Increase in working capital requirements for Quintel, repayment of loans and payment of dividends for preferred shares
- 7% increase in Trade and Other Receivables – Net
New customers for CEC and CATSI
- 5% decrease in Amounts Owed by Related Parties
Payment of advances from Camerton
- 17% decrease in Trade and Other Payables
Payment of trade partners / suppliers
- 12% Decrease in Short-term Loans
Repayment of matured short term loans
- 13% decrease in Current Portion of Long-term Debt
Repayment of current portion of long term loans
- 25% Increase in Income Tax Payable
Increase in taxable income of CEC and CATSI mainly from sale of scrap

KEY PERFORMANCE INDICATORS

The Company's top five (5) key performance indicators are listed below:

<i>Amounts in thousand US\$, except ratios, and where indicated</i>	2017	2018	2019 Three months
EBITDA	10,697	20,452	2,876
EBITDA Margin	12%	19%	14%
Sales Growth	19%	20%	(19%)
Current Ratio (x)	1.45x	1.45x	1.46
Earnings per share (US\$)	0.009	0.011	0.000

Note:

*Earnings per Share was calculated using CHPC's average outstanding common shares for the years 2019 and 2018

**Earnings per share was calculated less dividends for preferred shares which has a fixed amount per quarter

- *EBITDA and EBITDA Margin*

Earnings before interest, tax, depreciation and amortization (EBITDA) provides an indication of the rate of earnings growth achieved.

The EBITDA margin shows earnings before interest, tax, depreciation and amortization as a percentage of revenue. It is a measure of how efficiently revenue is converted into EBITDA.

EBITDA and EBITDA Margin are not measures of performance under PFRS, and investors should not consider EBITDA and EBITDA Margin in isolation or as alternatives to net income as an indicator of our Company's operating performance or to cash flow from operating, investing and financing activities as a measure of liquidity, or any other measures of performance under PFRS. Because there are various EBITDA and EBITDA Margin calculation methods, the Company's presentation of these measures may not be comparable to similarly titled measures used by other companies.

The following table sets out the Company's EBITDA after consolidation entries.

<i>In US\$ 000</i>	For the years ended December 31		For Three Months Ended March 31
	2017	2018	2019
Net income	4,296	8,334	27
Add back:			
Interest expense/income-net	3,320	4,805	1,517
Provision for / Benefit from income tax	-889	1,452	121
Depreciation and amortization	3,970	5,861	1,211
EBITDA	10,697	20,452	2,876

The table sets forth a reconciliation of the Company's consolidated EBITDA to consolidated net income.

<i>In US\$ 000</i>	For the years ended December 31		For Three Months Ended March 31
	2017	2018	2019
EBITDA	10,697	20,452	2,876
Deduct:			
Interest expense/income-net	3,320	-4,805	-1,517
Provision for / Benefit from income tax	-889	-1,452	-121
Depreciation and amortization	3,970	-5,861	-1,211
Net Income	4,296	8,334	27

- *Sales growth*

Sales growth is a key indicator of the Company's ability to grow the business

- *Current ratio*

Current ratio measures a company's short-term liquidity, i.e. its ability to pay its debts that are due within the next 12 months. It is expressed as the ratio between current assets and current liabilities.

- *Earnings per share*

Earnings per share show the Company's attributable profit earned per common share. At constant outstanding number of shares, as the Company's earnings increase, the earnings per share correspondingly increase.

FINANCIAL RISK DISCLOSURE

The Company is not aware of any known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

The Company is not aware of any event that will trigger direct or contingent financial obligation that is material to the Company, including default or acceleration of any obligation.

The Company does not have any off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

The Company has allocated up to US\$4.5 Million for capital expenditure for full year 2018, from the proceeds of the Company's Follow-on Offering and cash flows from operations. It may also from time to time seek other sources of funding, which may include debt or equity financings, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

The Company is not aware of any trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

The Company does not have any significant elements of income or loss that did not arise from its continuing operations.

The Company does not have any seasonal aspects that had a material effect on the financial conditions or results of operations.

CIRTEK HOLDINGS PHILIPPINES CORPORATION

FINANCIAL SOUNDNESS INDICATORS

MARCH 31, 2019 AND DECEMBER 31, 2018

Ratios	Formula	March 31, 2019	December 31, 2018
(i) Current Ratio	Current Assets/Current Liabilities	1.46	1.45
(ii) Debt/Equity Ratio	Bank Debts ¹ / Total Equity	0.84	1.12
(iii) Net Debt/Equity Ratio	Bank Debts ¹ -Cash & Equivalents/Total Equity	0.98	0.96
(iii) Asset to Equity Ratio	Total Assets/Total Equity	2.23	2.33
(iv) Interest Cover Ratio	EBITDA ² /Interest Expense	1.88	4.22
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	0.18	0.21
Net Profit Margin	Net Income/Revenues	0.00	0.08
EBITDA Margin	EBITDA/Revenues	0.14	0.19
Return on Assets	Net Income/Total Assets ³	0.00	0.03
Return on Equity	Net Income/Total Equity ³	0.00	0.07

¹ Sum of short-term loans and long-term debts

² EBITDA is calculated as income before income tax plus depreciation and amortization and financial income (expense).

³ Based on balances as at March 31, 2019 and December 31, 2018

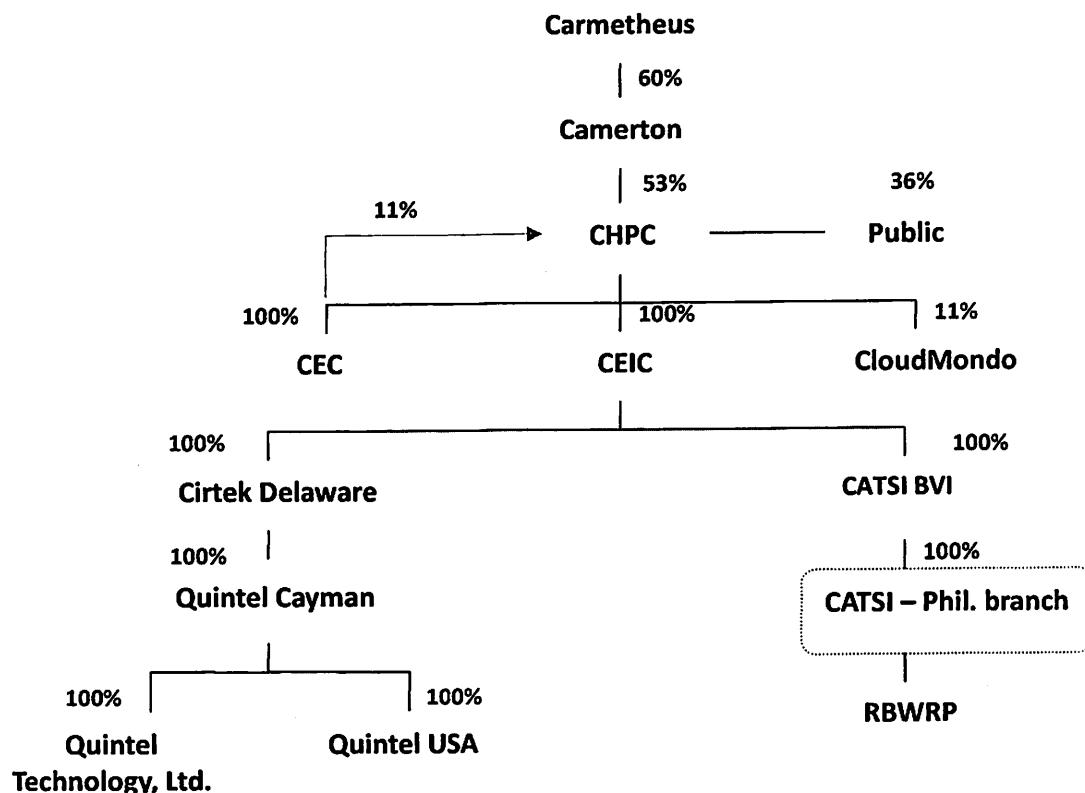
CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
INDEX TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
AS OF AND FOR THE FIRST QUARTER ENDED MARCH 31, 2019

Schedule	Contents
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I	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-subsidiaries
II	Schedule of All Effective Standards and Interpretations Under Philippine Financial Reporting Standards
III	Reconciliation of Retained Earnings Available for Dividend Declaration
IV	Financial Soundness Indicators
<i>Supplementary Schedules</i>	
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)
C	Amounts Receivable from Related Parties and Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-Term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES

MARCH 31, 2019



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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS19The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies	✓		
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance-No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases- Incentives			✓
Philippine Interpretation SIC-25	Income Taxes- Changes in the Tax Status of an Entity or its Shareholders			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets- Web Site Costs			✓

CIRTEK HOLDINGS PHILIPPINES CORPORATION
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
MARCH 31, 2019

Unappropriated retained earnings, beginning	\$3,608,626
Add net income actually earned during the period	27,463
Less cash dividends declared	1,025,971
Retained earnings available for dividend declaration	\$2,610,118

CIRTEK HOLDINGS PHILIPPINES CORPORATION
FINANCIAL SOUNDNESS INDICATORS
MARCH 31, 2019 AND DECEMBER 31, 2018

Ratios	Formula	March 31, 2019	December 31, 2018
(i) Current Ratio	Current Assets/Current Liabilities	1.46	1.45
(ii) Debt/Equity Ratio	Bank Debts ¹ / Total Equity	0.84	1.12
(iii) Net Debt/Equity Ratio	Bank Debts ¹ -Cash & Equivalents/Total Equity	0.98	0.96
(iii) Asset to Equity Ratio	Total Assets/Total Equity	2.23	2.33
(iv) Interest Cover Ratio	EBITDA ² /Interest Expense	1.88	4.22
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	0.18	0.21
Net Profit Margin	Net Income/Revenues	0.00	0.08
EBITDA Margin	EBITDA/Revenues	0.14	0.19
Return on Assets	Net Income/Total Assets ³	0.00	0.03
Return on Equity	Net Income/Total Equity ³	0.00	0.07

¹ Sum of short-term loans and long-term debts

² EBITDA is calculated as income before income tax plus depreciation and amortization and financial income (expense).

³ Based on balances as at March 31, 2019 and December 31, 2018

SCHEDULE A

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS
AS OF AND FOR THE FIRST QUARTER ENDED MARCH 31, 2019

	Name of Issuing entity and association of each issue	Amount shown in the balance sheet	Valuedbased on market quotations at end of reporting period	Income received or accrued
Cash in bank and cash equivalent	N/A	\$ 5,698,279	\$ 5,698,279	\$
Trade and other receivables	N/A	15,795,001	15,795,001	—
Amounts owed by related parties	N/A	54,262,237	54,262,237	—
Other current assets				
Financial asset at FVTPL				
Rental deposit	N/A	1,117,296		—
Security deposit	N/A	182,412	608,493	
Loan to employees	N/A	335,219		—
Equity investment at FVTOCI	N/A	—	—	—
Other financial asset at amortized	N/A	469,588	469,588	—
Other noncurrent assets:				
Loans to employees		—	—	
Miscellaneous deposits	N/A	122,246	122,246	—
		\$77,982,278	\$77,982,278	\$-

SCHEDULE B

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM
DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND
PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
AS OF AND FOR THE FIRST QUARTER ENDED MARCH 31, 2019

Amounts owed by Related Parties						
Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Not Current	Balance at the end of the period
Parent Company						
Camerton	\$54,978,875	\$-	\$2,742,669	\$52,236,206	\$-	\$52,236,206
Related parties under common control						
Cirtek Holdings, Inc.	1,809,256		—	1,809,256	—	1,809,256
Cayon Holdings, Inc.	216,775		—	—	—	216,775
TOTAL	\$57,004,906	\$-	\$2,742,669	\$106,281,668	\$-	\$ 54,262,237

SCHEDULE C

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM
RELATED PARTIES WHICH ARE ELIMINATED DURING THE
CONSOLIDATION OF FINANCIAL STATEMENTS
AS OF AND FOR THE FIRST QUARTER ENDED MARCH 31, 2019

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

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Noncurrent	Balance at end of period
Quintel USA	\$24,883,424	\$	\$	\$-	\$24,883,424	\$-	24,883,424

Amounts owed by related parties which are eliminated during the consolidation

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Not current	Balance at end of period
Cirtek Holdings Philippines Corporation from:							
CEC	\$81,335,790	\$-	\$-	\$-	\$81,335,790	\$-	\$81,335,790
CEIC	8,325,739	—	—	—	8,325,739	—	8,325,739
Total	89,661,529	—	—	—	89,661,529	—	89,661,529
Cirtek Electronics Corporation from:							
CHPC	38,243,036	—	(3,169,960)	—	35,073,076	—	35,073,076
CATS	31,587,453	—	(2,238,587)	—	29,348,866	—	29,348,866
Total	69,830,489	—	(5,408,547)	—	64,421,942	—	64,421,942
Cirtek Electronics International Corporation from:							
CHPC	2,339,865	—	—	—	2,339,865	—	2,339,865
CEC	164,776	5,294	—	—	170,070	—	170,070
Cirtek Corporation	21,066,892	399,112	—	—	21,466,004	—	21,466,004
Total	82,478,692	—	—	—	82,478,692	—	82,478,692
Cirtek Advanced Technologies and Solutions, Inc from:							
CEIC	106,050,225	404,406	—	—	106,454,631	—	106,454,631
RBWRP	36,184	649	—	—	36,833	—	36,833
Camerton Inc.	18,809	—	—	—	18,809	—	18,809
Total	54,993	649	—	—	55,642	—	55,642
RBW Realty and Property, Inc from:							
CATS	18,389	—	—	—	18,389	—	18,389
Total	18,389	—	—	—	18,389	—	18,389
TOTAL	\$265,615,625	\$405,055	(\$5,408,547)	\$—	\$ 260,612,133	\$—	\$260,612,133

SCHEDULE D

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER
ASSETS
AS OF MARCH 31, 2019

Intangible Assets - Other Assets

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
Goodwill	\$55,541,157	\$—	\$—	\$—	\$—	\$55,541,157
Product development costs	2,123,057	—	(1,653,966)	—	—	469,091
Customer relationships	23,736,500	—	—	—	—	23,736,500
Technology	4,210,130	1,664,470	—	—	—	5,874,600
Trademark	7,472,800	—	—	—	—	7,472,800
Total	\$93,083,644	\$1,664,470	(\$1,653,966)	\$—	\$—	\$93,094,148

SCHEDULE E

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT
AS OF MARCH 31, 2019

Title of issue and type of obligation	Long-term Debt		
	Amount authorized by indenture	Amount shown under caption “current portion of long-term” in related balance sheet	Amount shown under caption “long-term debt” in related balance sheet
Notes payable	\$70,335,990	\$9,645,070	\$60,690,920

SCHEDULE F

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED
PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)
AS OF MARCH 31, 2019

Indebtedness to related parties (Long-term loans from related companies)		
Name of related party	Balance at beginning of period	Balance at end of period
	Not Applicable	

SCHEDULE G

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF
OTHER ISSUERS
AS OF MARCH 31, 2019

Guarantees of Securities of Other Issuers				
Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
Not Applicable				

SCHEDULE H

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK
AS OF MARCH 31, 2019

Capital Stock

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by directors, officers and employees	Others
Common Stock	520,000,000	419,063,353	—	320,907,217	9	—
Preferred A Shares	700,000,000	700,000,000	—	700,000,000	—	—
Preferred B-1 Shares	70,000,000	70,000,000	—	70,000,000	—	—
Preferred B-2 Shares	200,000,000	67,000,000	—	—	—	—