

## 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 **September 30, 2018**
2. Commission identification number **54666**
3. BIR Tax Identification No. **000-163-396**
4. **SHAKEY'S PIZZA ASIA VENTURES INC.**  
Exact name of issuer as specified in its charter
5. **MANILA, PHILIPPINES**  
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code:  (SEC Use Only)
7. **15KM EAST SERVICE ROAD CORNER MARIAN ROAD 2,**  
**BARANGAY SAN MARTIN DE PORRES, PARANAQUE CITY** **1700**  
Address of issuer's principal office Postal Code
8. **(632) 839-0156**  
Issuer's telephone number, including area code
9. **N/A**  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	<b><u>COMMON SHARES</u></b>
Number of shares of common stock outstanding	<b><u>1,531,321,053</u></b>
11. Are any or all of the securities listed on a Stock Exchange?  
Yes [] No []  
  
If yes, state the name of such Stock Exchange and the class/es of securities listed therein:  
**PHILIPPINE STOCK EXCHANGE: COMMON SHARES**
12. Indicate by check mark whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)  
Yes [] No []
  - (b) has been subject to such filing requirements for the past Ninety (90) days.  
Yes [] No []

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

The unaudited interim consolidated financial statements of Shakey's Pizza Asia Ventures Inc., and its wholly owned subsidiaries Bakemasters, Inc., Shakey's International Limited, Golden Gourmet Limited, Shakey's Seacrest Incorporated, Shakey's Pizza Regional Foods Limited, and Shakey's Pizza Commerce, Inc. (collectively, the 'Company' or 'PIZZA') as of and for the period ended September 30, 2018 and the comparative period in 2017 is attached to this 17-Q report, comprising of the following:

- 1.1 Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017
- 1.2 Consolidated Statement of Income for the period ended September 30, 2018 and September 30, 2017
- 1.3 Consolidated Statement of Cash Flows for the period ended September 30, 2018 and September 30, 2017
- 1.4 Consolidated Statement of Changes in Shareholder's Equity for the period ended September 30, 2018 and September 30, 2017
- 1.5 Notes to Consolidated Financial Statements for the period ended September 30, 2018

### Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations (Based on the unaudited consolidated financial statements for the period ended September 30, 2018)

#### *Business Overview*

Shakey's Pizza Asia Ventures Inc. (SPAVI) or PIZZA, is the market leader in both chained pizza full service restaurant and chained full service restaurant with 57.7% and 26.7% market share as cited by Euromonitor. As of September 30, 2018, it operated a total of 224 stores – 222 domestic and 2 international – a mix of Company-owned and franchise stores. PIZZA has consistently recorded double digit growth in system-wide sales in the past six years.

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

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

PIZZA is able to serve the A, B and upper C income classes through its various sales channels, including dine-in, delivery and carryout. PIZZA ensures that it continues to operate well-designed,

comfortable, clean and guest-oriented stores, maintain an efficient delivery system, and expand its online sales platform to align itself with current market and consumption trends.

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

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

PIZZA's efficient and cash-generative store operations likewise extend to its network of franchisees. As of end-September 2018, Shakey's Pizza has 96 outlets that are operated by franchisees in the Philippines.

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

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

### ***Results of Operations***

The following table summarizes the reported key financial information for PIZZA for the nine months ending September 30, 2018 and 2017, respectively:

<b>In ₱ Mill</b>	<b>Nine months ending September 30, 2018</b>	<b>Nine months ending September 30, 2017</b>	<b>Change YOY</b>
Systemwide sales	6,820	6,035	13.0%
Net Revenue	5,490	4,992	10.0%
Cost of Sales	(3,966)	(3,527)	12.4%
Gross Profit	1,524	1,465	4.0%
Operating Expense	(725)	(655)	10.7%
Operating Income	799	810	-1.4%
EBITDA	1,004	946	6.2%
Net income before tax	683	676	1.0%
Net income after tax	535	504	6.2%
<b><u>Margins</u></b>			
Gross profit margin	27.8%	29.4%	-1.6 pps
EBITDA margin	18.3%	18.9%	-0.6 pps
Net income margin	9.7%	10.1%	-0.4 pps

### ***Key Highlights***

- Shakey's Pizza Asia Ventures Inc. (PSE:PIZZA) posted consolidated net income after tax of ₱535 million for the first nine months ended September 30, 2018. This represents a growth of 6% year-on-year. Earnings performance can be attributed to the Company's ongoing store network expansion, continued positive same-store sales performance and healthy profit margins.
- Systemwide sales increased by 13% to ₱6.82 billion on the back of a 5% growth in domestic same-store sales and an expanding store network.
- The Company's consolidated net revenues stood at ₱5.5 billion during the first nine months of 2018, a 10% growth compared to the ₱5.0 billion registered during the same period last year.
- Due to higher input costs and promotional activities, PIZZA saw a 160-bp year-on-year decline in its gross margin to 27.8%. This was partially cushioned by the Company's cost-saving initiatives, thereby resulting in only a 60-bp reduction in EBITDA margin to 18.3% and a 40-bp drop in net margin to 9.7%.
- As of September 30, 2018, the Company's systemwide store count reached 224 outlets –222 in the Philippines and 2 international. This consisted of 126 company-owned and 98 franchise stores. During the first nine months, PIZZA added 14 domestic and 1 international store to its systemwide store network.

### ***Systemwide Sales and Revenues***

- System-wide sales, comprised of sales generated by both Company-owned and franchise stores, amounted to ₱6.82 billion for the first nine months ending September 30, 2018, an increase of 13% versus the same period last year. This was driven by same-store sales growth of 5% and the addition of 14 domestic and 1 international store to PIZZA's systemwide store network for the first nine months of 2018.
- Consolidated net revenues, consisting of (1) revenues from store activities, (2) franchise and royalty fees, and (3) revenues from third party commissary sales grew by 10% to ₱5.5 billion from ₱5.0 billion during the same period last year.

### ***Cost of Sales and Gross Profit***

- Consolidated cost of sales during the nine months ended September 30, 2018 went up by 12% to ₱4.0 billion from ₱3.5 billion during the same period last year.
- Consolidated cost of sales is comprised of raw material and packaging costs, direct labor costs, and store-related costs including rent, utilities, and other overhead expenses.

- Consolidated gross profit amounted to ₱1.5 billion or an increase of 4% year-on-year. This translates to a 160-bp drop in gross profit margin to 27.8% from 29.4% during the same period last year.

### ***Operating Expense and Other Income (Expense)***

- Consolidated operating expense, composed of selling, distribution, marketing and administrative expenses, totaled ₱725 million for the period ended September 30, 2018. This translates to a 13.2% opex-to-sales ratio, an increase of 10 bps from 13.1% during the same period last year.
- Consolidated operating income for the nine months ended September 30, 2018 amounted to ₱799 million, equivalent to an operating margin of 14.6%. This represents a year-on-year drop of 160 bps from the 16.2% operating margin during the same period last year.
- Consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization) for the nine months ended September 30, 2018 totaled P1 billion. This translates to 18.3% EBITDA margin or a 60-bp drop from last year's 18.9%.
- Other income/expense is comprised mainly of (1) service fee charged to franchisees; (2) gains or losses on transactions relating to foreign currency exchange, sale of scrap and PPE; (3) loan prepayment bank charges; and (4) rental income and interest income from investments. For the nine months ended September 30, 2018, PIZZA's consolidated net other income totaled ₱20 million, a reversal from the previous year's ₱4 million net other expense.
- Interest expense of ₱136 million was recorded for the first nine months of 2018. This amount pertains to interest on the ₱3.9 billion remaining of the acquisition loan used to acquire the wholly-owned subsidiaries.

### ***Financial Condition***

The Company's financial stability and financial position as of September 30, 2018 is as follows:

- Cash and cash equivalents stood at ₱259 million. Operating activities generated a net inflow of ₱494 million, with operating cash more than enough to cover changes in working capital. Net cash used in investing activities totaled ₱355 million while net cash used in financing activities amounted to ₱126 million.
- Current ratio improved to 1.4x as of September 30, 2018 relative to 2017's 1.1x. The cash conversion cycle turned neutral (0 days) from -17 days as of end-December 2017. As of September 30, 2018, receivable and inventory days stood at 19 and 41 respectively, while accounts payable came in at 60 days.
- Net property, plant and equipment, amounted to ₱1.7 billion as of September 30, 2018. Capital expenditures for the first nine months of the year totaled ₱341 million, composed of building materials for new stores, renovation of existing stores, and carryover new equipment for the commissary plant.

- As of September 30, 2018, the Company had ₱3.9 billion in interest-bearing debt, having previously paid off ₱1.0 billion of the ₱5.0 billion long-term loan incurred for the acquisition of its wholly-owned subsidiaries.
- Total stockholders' equity increased by ₱382 million, from ₱4.0 billion as of year-end 2017 to ₱4.4 billion as of September 30, 2018. The increase came mainly from ₱535 million in profits earned during the first nine months of 2018, less ₱153 million in declared dividends.
- Gearing ratio is measured at 0.9x as of September 30, 2018, an improvement compared to 1.0x as of year-end 2017. Net of cash, the Company's net gearing ratio and net interest-bearing debt to EBITDA stood at 0.8x and 2.5x, respectively, as of September 30, 2018.

### Key Performance Indicators ( KPIs )

	Unaudited 1 <sup>st</sup> Nine Months 2018	Unaudited 1 <sup>st</sup> Nine Months 2017
Gross Profit Margin	28%	29%
Before Tax Return on Sales	12%	14%
Return on Sales	10%	10%
Interest-Bearing Debt-to-Equity	0.9x	1.1x
Current Ratio	1.4x	1.0x

#### Notes:

1 *Gross Profit margin = Gross Profit / Net Revenue*

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

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


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

5 *Current Ratio = Total Current Assets / Total Current Liabilities*

**SIGNATURES**


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

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



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**VICENTE L. GREGORIO**  
President and Chief Executive Officer  
Date: November 8, 2018



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**MANUEL T. DEL BARRIO**  
Vice President and Chief Finance Officer  
Date: November 8, 2018

**SHAKEY'S PIZZA ASIA VENTURES INC.**  
**(Formerly International Family Food Services, Inc.)**  
**AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED**  
**STATEMENTS OF FINANCIAL POSITION**

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	P259,106,520	P244,994,340
Trade and other receivables	382,662,456	586,496,825
Inventories	597,430,753	362,206,579
Prepaid expenses and other current assets	78,635,822	61,438,393
Total Current Assets	1,317,835,550	1,255,136,137
<b>Noncurrent Assets</b>		
Property and equipment	1,693,406,115	1,538,385,394
Goodwill	1,078,606,020	1,078,606,020
Trademarks	4,987,109,602	4,987,109,602
Rental and other noncurrent assets	138,463,986	128,843,614
Deferred input value-added tax	85,323,940	95,666,175
Deferred tax assets - net	22,720,133	25,100,727
Total Noncurrent Assets	8,005,629,796	7,853,711,532
<b>TOTAL ASSETS</b>	<b>P9,323,465,346</b>	<b>P9,108,847,669</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities	P877,700,906	P1,005,167,485
Current portion of loan payable	48,411,689	48,411,689
Income tax payable	46,005,886	59,139,697
Total Current Liabilities	972,118,482	1,112,718,872
<b>Noncurrent Liabilities</b>		
Loan payable - net of current portion	3,860,401,002	3,885,420,461
Accrued pension costs	29,523,664	25,134,979
Accrued rent	74,710,468	76,181,330
Dealers' deposits and other noncurrent liabilities	30,964,722	35,150,922
Total Noncurrent Liabilities	3,995,599,857	4,021,887,692
Total Liabilities	4,967,718,339	5,134,606,563
<b>Equity</b>		
Capital stock	1,531,321,053	1,531,321,053
Additional paid-in capital	1,353,554,797	1,353,554,797
Retained earnings	1,477,030,916	1,095,525,015
Other components of equity	(6,159,759)	(6,159,759)
Total Equity	4,355,747,007	3,974,241,106
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P9,323,465,346</b>	<b>P9,108,847,669</b>

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



**SHAKEY'S PIZZA ASIA VENTURES INC.**  
**(Formerly International Family Food Services, Inc.)**  
**AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018 (Unaudited)	2017 (Unaudited)
<b>REVENUES</b>		
Net sales	P5,275,990,793	P4,805,314,924
Royalty and franchise fees	213,584,350	187,014,251
	<b>5,489,575,143</b>	4,992,329,175
<b>COSTS OF SALES</b>	<b>(3,966,065,484)</b>	(3,526,986,845)
<b>GROSS INCOME</b>	<b>1,523,509,659</b>	1,465,342,330
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>(724,726,879)</b>	(654,877,289)
<b>INTEREST EXPENSE</b>	<b>(135,854,469)</b>	(130,408,870)
<b>OTHER INCOME (EXPENSES) - Net</b>	<b>19,675,016</b>	(4,180,936)
<b>INCOME BEFORE INCOME TAX</b>	<b>682,603,328</b>	675,875,236
<b>PROVISION FOR INCOME TAX</b>		
Current	147,965,323	171,602,421
Deferred	-	663,864
	<b>147,965,323</b>	172,266,285
<b>NET INCOME</b>	<b>534,638,005</b>	503,608,951
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Disposal of Available-for-sale (AFS) investments	-	(791,811)
Unrealized gain on changes in fair value of AFS investments	-	261,976
	-	(529,835)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (net of tax) -		
Actuarial gain on defined benefit obligation	-	725,852
Tax effect	-	(217,756)
	-	508,096
<b>TOTAL OTHER COMPREHENSIVE LOSS</b>	-	(21,739)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P534,638,005</b>	P503,587,212
<b>Basic/Diluted Earnings Per Share</b>	<b>P0.35</b>	P0.33

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

**SHAKEY'S PIZZA ASIA VENTURES INC.**  
**(Formerly International Family Food Services, Inc.)**  
**AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018 (Unaudited)	2017 (Unaudited)
<b>REVENUES</b>		
Net sales	P1,735,817,992	P1,559,391,868
Royalty and franchise fees	64,202,910	55,494,486
	<b>1,800,020,902</b>	1,614,886,354
<b>COSTS OF SALES</b>	<b>(1,335,380,748)</b>	(1,165,450,391)
<b>GROSS INCOME</b>	<b>464,640,154</b>	449,435,963
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>(254,489,392)</b>	(233,418,116)
<b>INTEREST EXPENSE</b>	<b>(45,093,344)</b>	(45,538,341)
<b>OTHER INCOME</b>	<b>6,343,730</b>	3,334,237
<b>INCOME BEFORE INCOME TAX</b>	<b>171,401,148</b>	173,813,743
<b>PROVISION FOR INCOME TAX</b>		
Current	32,885,939	41,482,695
Deferred	–	70,103
	<b>32,885,939</b>	41,552,798
<b>NET INCOME</b>	<b>138,515,208</b>	132,260,945
<b>OTHER COMPREHENSIVE LOSS</b>		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Unrealized loss on changes in fair value of AFS investments	–	(160,268)
<b>TOTAL OTHER COMPREHENSIVE INCOME LOSS</b>	<b>–</b>	(160,268)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P138,515,208</b>	P132,100,676
<b>Basic/Diluted Earnings Per Share</b>	<b>P0.09</b>	P0.09

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

**SHAKEY'S PIZZA ASIA VENTURES INC.**  
**(Formerly International Family Food Services, Inc.)**  
**AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>Other Components of Equity</u>					
	<u>Capital Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Unrealized Gain (Loss) on Changes in Fair Value of AFS Investments</u>	<u>Cumulative Actuarial Loss- Net of Tax</u>	<u>Total</u>
Balances at December 31, 2017 (Audited)	<b>₱1,531,321,053</b>	<b>₱1,353,554,797</b>	<b>₱1,095,525,015</b>	<b>₱–</b>	<b>(₱6,159,759)</b>	<b>₱3,974,241,106</b>
Total comprehensive income	–	–	<b>534,638,005</b>	–	–	<b>534,638,005</b>
Cash dividends	–	–	<b>(153,132,106)</b>	–	–	<b>(153,132,106)</b>
Balances at September 30, 2018 (Unaudited)	<b>₱1,531,321,053</b>	<b>₱1,353,554,797</b>	<b>₱1,477,030,916</b>	<b>₱–</b>	<b>(₱6,159,759)</b>	<b>₱4,355,747,007</b>
Balances at December 31, 2016 (Audited)	₱1,531,321,053	₱1,353,554,797	₱486,513,796	₱534,464	(₱12,846,985)	₱3,359,077,125
Total comprehensive income	–	–	503,608,952	(529,835)	508,097	503,587,214
Cash dividends	–	–	(153,132,735)	–	–	(153,132,735)
Balances at September 30, 2017 (Unaudited)	₱1,531,321,053	₱1,353,554,797	₱836,990,013	₱4,629	(₱12,338,888)	₱3,709,531,604

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

**SHAKEY'S PIZZA ASIA VENTURES INC.**  
**(Formerly International Family Food Services, Inc.)**  
**AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018 (Unaudited)	2017 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱682,603,328</b>	₱675,875,236
Adjustments for:		
Depreciation and amortization	<b>185,845,346</b>	139,479,436
Interest expense	<b>135,854,469</b>	130,408,870
Movements in:		
Accrued rent	<b>(1,470,862)</b>	–
Accrued pension costs	<b>4,388,686</b>	(1,686,687)
Loss (gain) on disposal of AFS	–	1,157,578
Accretion income	–	(649,833)
Interest income	<b>(226,946)</b>	(205,748)
Unrealized loss on change in fair value of AFS Instruments	–	(627,743)
Unrealized foreign exchange gain	<b>(1,496,564)</b>	(379,512)
Loss on disposal of property and equipment	–	53,341
Income before working capital changes	<b>1,005,497,457</b>	943,424,939
Decrease (increase) in:		
Trade and other receivables	<b>203,834,368</b>	8,340,128
Inventories	<b>(235,224,173)</b>	(50,265,309)
Prepaid expenses and other current assets	<b>(1,350,842)</b>	(49,992,067)
Deferred input value added tax	<b>12,722,828</b>	(16,819,431)
Decrease in accounts payable and other current liabilities	<b>(331,009,304)</b>	45,528,125
Net cash generated from operations	<b>654,470,333</b>	880,216,385
Income taxes paid	<b>(161,178,348)</b>	(202,415,611)
Interest received	<b>226,946</b>	205,748
Net cash provided by operating activities	<b>493,518,931</b>	678,006,521
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in:		
AFS investments	–	1,103,612,254
Rental and other deposits	<b>(9,620,372)</b>	(18,968,827)
Dealer's deposits and other noncurrent liabilities	<b>(4,186,200)</b>	5,981,702
Acquisition of property and equipment	<b>(340,866,072)</b>	(633,268,987)
Proceeds from disposals of property and equipment	–	154,966
Net cash provided by (used in) investing activities	<b>(354,672,643)</b>	457,511,108
Payments of:		
Loan	<b>(25,019,459)</b>	(1,024,593,913)
Interest	<b>(101,211,215)</b>	(95,145,944)
Dividends	–	(153,132,735)
Net cash used in financing activities	<b>(126,230,673)</b>	(1,272,872,593)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>1,496,565</b>	379,512
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>14,112,180</b>	(136,975,451)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>244,994,340</b>	328,531,651
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱259,106,520</b>	₱191,556,199

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

**SHAKEY'S PIZZA ASIA VENTURES INC.**  
**(Formerly International Family Food Services, Inc.)**  
**AND SUBSIDIARIES**

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**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

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**1. General Information**

Corporate Information

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

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

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

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

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

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

On October 14, 2016, SEC approved the amendment of the Parent Company's Articles of Incorporation changing the name of the Parent Company from IFFSI to Shakey's Pizza Asia Ventures Inc. and its principal address from AFP-RSBS Industrial Park, C-5 Junction, Km. 12, East Service Road, Taguig City, Metro Manila to 15Km East Service Road corner Marian Road 2, Barangay San Martin de Porres, Parañaque City 1700.

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

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

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

On August 18, 2017, SPAVI applied the assigned liability as additional investment to SSI amounting to ₱75.0 million with the excess recognized as additional paid-in capital. Simultaneously, the BOD approved GGL's application for deregistration in the Hong Kong registry.

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

On April 13, 2018, GGL has ceased to carry on business and has been deregistered.

Shakey's Pizza Asia Ventures Inc. and its subsidiaries are collectively referred to as "the Group".

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

The unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Parent Company's Board of Directors (BOD) on November 5, 2018.

## **2. Basis of Preparation and Consolidation and Statement of Compliance**

### Basis of Preparation

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

### Statement of Compliance

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

### Basis of Consolidation

The unaudited interim condensed consolidated financial statements comprise the unaudited interim condensed financial statements of the Parent Company and its wholly-owned subsidiaries and are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

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

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

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

Upon consolidation, all intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup transactions are eliminated in full.

Changes in the controlling ownership (i.e., acquisition of non-controlling interest or partial disposal of interest over a subsidiary) that do not result in a loss of control are accounted for as an equity transaction.

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

	Principal Activities	Percentage of Ownership (%)
Bakemasters, Inc. (BMI) <sup>a</sup>	Manufacturer of pizza dough and pastries	100%
Shakey's International Limited (SIL) <sup>a</sup>	Trademark	100%
Golden Gourmet Limited (GGL) <sup>a e</sup>	Trademark	100%
Shakey's Seacrest Incorporated (SSI) <sup>b</sup>	Trademark	100%
Shakey's Pizza Regional Foods Limited (SPRFL) <sup>c</sup>	Trademark	100%
Shakey's Pizza Commerce Inc. (SPCI) <sup>d</sup>	Trading of goods	100%

<sup>a</sup> Acquired on October 5, 2016 from SAFHI

<sup>b</sup> Incorporated on June 29, 2016

<sup>c</sup> Incorporated on November 25, 2016

<sup>d</sup> Incorporated on November 25, 2017

<sup>e</sup> Deregistered on April 13, 2018

### 3. Changes in Accounting Policies and Disclosures

The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

#### 4. Business Combinations

##### *Bakemasters, Inc.*

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

	Carrying Values	Fair Values Recognized
<b>Current Assets:</b>		
Cash	P13,620,583	P13,620,583
Receivables	78,036,652	78,036,652
Inventory	18,402,386	18,402,386
Other current assets	1,427,246	1,427,246
<b>Total Current Assets</b>	<b>111,486,867</b>	<b>111,486,867</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment	110,245,137	147,430,365
Other noncurrent assets	6,212,336	6,212,336
Deferred income tax assets	578,892	578,892
<b>Total Noncurrent Assets</b>	<b>117,036,365</b>	<b>154,221,593</b>
<b>Current Liabilities</b>		
Accounts payable	55,604,216	55,604,216
Current portion of loan payable	1,000,000	1,000,000
Income and withholding taxes payable	2,375,612	2,375,612
<b>Total Current Liabilities</b>	<b>58,979,828</b>	<b>58,979,828</b>
<b>Noncurrent Liabilities</b>		
Accrued pension cost	4,143,634	4,143,634
Deferred tax liability on the excess of fair value over the cost of the net identifiable assets acquired	–	11,155,568
<b>Total Noncurrent Liabilities</b>	<b>4,143,634</b>	<b>15,299,202</b>
<b>Identifiable Net Assets Acquired</b>	<b>P165,399,770</b>	<b>P191,429,430</b>
Identifiable Net Assets Acquired		P191,429,430
Goodwill from the acquisition		1,078,606,020
<b>Purchase consideration transferred</b>		<b>P1,270,035,450</b>
<b>Cash flows from an investing activity:</b>		
Cash payment		P1,270,035,450
Net cash acquired from subsidiary		(13,620,583)
<b>Net cash outflow</b>		<b>P1,256,414,867</b>



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

*Shakey's International Limited and Golden Gourmet Limited*

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

Management has assessed that SIL and GGL do not qualify as businesses based on relevant accounting standards and therefore were accounted for as an acquisition of assets, i.e. trademarks, amounting to ₱4,760.5 million. The transaction did not give rise to goodwill. The consideration has been allocated to the identifiable assets and liabilities on the basis of their fair values as follows at date of acquisition:

	Carrying Values	Fair Values Recognized
Current Assets -		
Cash	₱6,277,921	₱6,277,921
Trade and other receivables	348,670	348,670
<b>Total Current Assets</b>	<b>6,626,591</b>	<b>6,626,591</b>
Current Liabilities		
Accounts payable	₱491,657	₱491,657
Due to a stockholder	232,744,536	232,744,536
<b>Total Current Liabilities</b>	<b>233,236,193</b>	<b>233,236,193</b>
<b>Identifiable Net Liabilities Acquired</b>	<b>(₱226,609,602)</b>	<b>(₱226,609,602)</b>
Identifiable Net Liabilities Acquired		(₱226,609,602)
Trademark from the acquisition		4,987,109,602
<b>Purchase consideration transferred</b>		<b>₱4,760,500,000</b>
Cash flows from an investing activity:		
Cash payment		₱4,760,500,000
Net cash acquired from subsidiary		(6,277,921)
<b>Net cash outflow</b>		<b>₱4,754,222,079</b>

## 5. Segment Information

Segment information is prepared on the following bases:

Seasonality of Operations

The Group's operations are not generally affected by any seasonality or cyclicity.

Business Segments

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

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

### Inter-segment Transactions

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

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

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

EBITDA and EBITDA margin are non-PFRS measures.

The following table shows the reconciliation of the consolidated EBITDA to consolidated net income for the nine months ended September 30, 2018 and 2017:

	<b>2018</b>	2017
Consolidated EBITDA	<b>₱1,004,076,197</b>	₱945,557,793
Depreciation and amortization	<b>185,845,346</b>	139,479,436
Provision for income tax	<b>147,965,323</b>	172,266,285
Interest expense	<b>135,854,469</b>	130,408,870
Interest income	<b>(226,946)</b>	(205,748)
Consolidated net income	<b>₱534,638,005</b>	₱503,608,951

## 6. Cash and Cash Equivalents

	<b>September 30, 2018</b>	December 31, 2017
Cash on hand	<b>₱62,963,287</b>	₱59,599,583
Cash in banks	<b>141,266,978</b>	185,387,896
Short-term deposits	<b>54,876,254</b>	6,861
	<b>₱259,106,520</b>	₱244,994,340

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to six months depending on the immediate cash requirements of the Group, and earn interest ranging from 0.13% to 0.25% for the nine months ended September 30, 2018 and 2017.

Interest income on cash and cash equivalents amounted to ₱0.2 million and ₱0.2 million for the nine months ended September 30, 2018 and 2017, respectively.

## 7. Trade and Other Receivables

	September 30, 2018	December 31, 2017
Trade:		
Stores	<b>₱157,697,470</b>	₱290,025,924
Related parties	<b>1,107,331</b>	401,622
Third parties	<b>35,283,328</b>	32,010,246
Advances to Suppliers	<b>121,544,155</b>	130,860,509
Receivable from franchisees	<b>11,568,882</b>	63,181,608
Receivables from employees	<b>7,000,708</b>	23,147,936
Royalty receivable	<b>40,884,862</b>	27,302,977
Others:		
Stores	<b>13,086,360</b>	26,074,727
Third parties	<b>966,696</b>	1,032,382
	<b>389,139,793</b>	594,037,931
Less allowance for doubtful accounts	<b>(6,477,337)</b>	(7,541,106)
	<b>₱382,662,456</b>	₱586,496,825

Below are the terms and conditions of the financial assets:

- Trade receivables are noninterest-bearing and are normally collectible within 10 days.
- Advances to suppliers represent payments to suppliers and contractors for items purchased or goods yet to be delivered or rendered.
- Royalty receivable is being collected from dealers on the 20th day of the following month.
- Receivables from employees, which represent mainly salary loan, are interest-free and are being collected through salary deduction for a period ranging from 6 months to 1 year.
- Receivable from franchisees pertains to short-term advances provided by the Group for the advertising and promotional activities of Shakey's.
- Other receivables consist mainly of receivables from various parties for transactions other than sale of goods such as management fees, freight and gas expenses, are noninterest-bearing and generally have 30 to 45 days' term.

The movements of allowance for doubtful accounts are as follows:

	2018			2017		
	Trade and Others	Receivables from Employees	Total	Trade and Others	Receivables from Employees	Total
Balance at beginning of year	<b>₱4,973,440</b>	<b>₱2,567,666</b>	<b>₱7,541,106</b>	₱5,094,700	₱1,371,151	₱6,465,851
Provision for allowance for doubtful accounts	<b>4,421</b>	-	<b>4,421</b>	-	1,196,515	1,196,515
Accounts written-off	-	<b>(1,068,189)</b>	<b>(1,068,189)</b>	(121,260)	-	(121,260)
Balance at year-end	<b>₱4,977,861</b>	<b>₱1,499,477</b>	<b>₱6,477,337</b>	₱4,973,440	₱2,567,666	₱7,541,106

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**8. Inventories**

	<b>September 30, 2018</b>	December 31, 2017
At net realizable value:		
Finished goods	<b>₱7,734,708</b>	₱4,194,378
Merchandise	<b>564,102,653</b>	336,899,146
Raw materials:		
Food	<b>17,447,799</b>	15,665,613
Packaging	<b>8,145,592</b>	5,447,442
	<b>₱597,430,753</b>	₱362,206,579

The cost of the inventories carried at NRV follows:

	<b>2018</b>	2017
Finished goods	<b>₱7,734,708</b>	₱4,194,378
Merchandise	<b>568,359,254</b>	341,155,747
Raw materials:		
Food	<b>17,488,639</b>	15,706,454
Packaging	<b>8,179,943</b>	5,481,793
	<b>₱601,762,545</b>	₱366,538,372

Allowance for inventory obsolescence amounted to ₱4.3 million as at September 30, 2018 and December 31, 2017.

Provision for inventory obsolescence amounting nil and ₱0.4 million was recognized for the nine months ended September 30, 2018 and 2017, respectively.

## 9. Property and Equipment

	Building	Leasehold Improvements	Furniture, Fixtures and Equipment	Machinery and Equipment	Transportation Equipment	Cost of Shops and Maintenance Tools	Glasswares and Utensils	Construction-In- Progress	Total
<b>Cost</b>									
At December 31, 2016	₱-	₱949,227,014	₱1,006,699,587	₱99,906,221	₱54,203,111	₱594,178	₱56,679,499	₱39,276,782	₱2,206,586,392
Additions	109,378,908	197,231,175	360,575,565	73,437,758	5,052,743	4,464	22,483,579	-	768,164,192
Disposals	-	(68,934,734)	(20,198,781)	(474,767)	(1,023,832)	(3,196)	(4,535,732)	-	(95,171,042)
Reclassification	-	39,276,782	-	-	-	-	-	(39,276,782)	-
At December 31, 2017	109,378,908	1,116,800,237	1,347,076,371	172,869,212	58,232,022	595,446	74,627,346	-	2,879,579,542
Additions	29,959,039	24,173,293	403,313,266	13,500,649	2,666,754	13,783	73,399,910	-	547,026,694
Reclassification	-	(556,481)	(149,818,886)	-	-	-	(55,785,255)	-	(206,160,622)
<b>Balance at September 30, 2018</b>	<b>₱139,337,947</b>	<b>₱1,140,417,049</b>	<b>₱1,600,570,751</b>	<b>₱186,369,861</b>	<b>₱60,898,776</b>	<b>₱609,229</b>	<b>₱92,242,001</b>	<b>₱-</b>	<b>₱3,220,445,614</b>
<b>Accumulated Depreciation and Amortization</b>									
At December 31, 2016	-	504,964,022	602,436,382	5,054,369	41,322,569	570,397	53,232,734	-	1,207,580,473
Depreciation and amortization	1,611,806	71,181,118	100,639,770	21,444,966	5,441,073	20,982	8,590,925	-	208,930,640
Disposals	-	(58,726,414)	(13,249,016)	(474,767)	(913,357)	-	(1,953,411)	-	(75,316,965)
At December 31, 2017	1,611,806	517,418,726	689,827,136	26,024,568	45,850,285	591,379	59,870,248	-	1,341,194,148
Depreciation and amortization	4,358,301	52,138,067	100,895,026	18,082,042	3,884,211	7,302	6,480,402	-	185,845,351
<b>Balance at September 30, 2018</b>	<b>₱5,970,107</b>	<b>₱569,556,793</b>	<b>₱790,722,162</b>	<b>₱44,106,610</b>	<b>₱49,734,496</b>	<b>₱598,681</b>	<b>₱66,350,650</b>	<b>₱-</b>	<b>₱1,527,039,499</b>
<b>Net Book Value</b>									
<b>Balance at Sept. 30, 2018</b>	<b>₱133,367,840</b>	<b>₱570,860,255</b>	<b>₱809,848,589</b>	<b>₱142,263,251</b>	<b>₱11,164,280</b>	<b>₱10,548</b>	<b>₱25,891,351</b>	<b>₱-</b>	<b>₱1,693,406,115</b>
Balance at December 31, 2017	₱107,767,102	₱599,381,511	₱657,249,235	₱146,844,644	₱12,381,737	₱4,067	₱14,757,098	₱-	₱1,538,385,394

The Group has fully depreciated property and equipment still used in the operations with cost of ₱782.5 million and ₱700.9 million as at September 30, 2018 and December 31, 2017, respectively. There are no idle assets as at September 30, 2018 and December 31, 2017.

## 10. Accounts Payable and Other Current Liabilities

	September 30, 2018	December 31, 2017
Trade:		
Suppliers	<b>₱235,913,264</b>	₱459,009,799
Related parties	<b>10,533,977</b>	1,917,368
Nontrade	<b>123,062,195</b>	261,561,598
Accrued expenses:		
Utilities	<b>17,319,833</b>	40,005,047
Interest	<b>38,509,754</b>	5,482,076
Suppliers	<b>58,093,214</b>	20,562,494
Customers loyalty	<b>9,148,370</b>	6,509,435
Salaries and wages	<b>49,916,297</b>	28,261,873
Payable to National Advertising Fund (NAF)	<b>22,743,050</b>	29,188,897
Others	<b>312,460,952</b>	152,668,898
	<b>₱877,700,906</b>	₱1,005,167,485

Below are the terms and conditions of the financial liabilities:

- Trade payables are non-interest bearing and are normally settled within the following year.
- Nontrade payables consist mainly of reimbursable expenses to officers and employees and payable to contractors and employment agencies which are normally settled in 30 to 90 days' term.
- Accrued expenses, which consist mainly of accrual of rent expense of stores, utilities, employee benefits and incentives, freight, commissions and storage costs are normally settled in 30 to 90 days' term.
- Payable to NAF pertains to remittances from dealers equivalent to 4.4% of gross sales of the previous month. This is to be used exclusively in implementing the national advertising and promotions programs of the Shakey's System in the country. Payable to NAF is remitted to the fund within 20 days of the following month of collection.
- Other payables are normally settled in 15 to 45 days' term.

Other payables consist of the following:

	September 30, 2018	December 31, 2017
Dividends Payable	<b>₱153,132,105</b>	₱-
Output VAT	<b>55,165,625</b>	77,445,224
Customers' deposits	<b>40,149,700</b>	4,389,079
Salaries payable	<b>27,005,166</b>	25,598,542
Withholding tax payable	<b>14,970,086</b>	22,809,817
Fun certificates payable	<b>8,039,098</b>	6,382,806
SSS, Philhealth and Pag-ibig payable	<b>5,827,761</b>	5,676,466
Due to cooperative	<b>5,526,546</b>	8,580,016
Others	<b>2,644,866</b>	1,786,948
	<b>₱312,460,952</b>	₱152,668,898

## 11. Related Party Transactions

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

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the nine months ended September 30, 2018 and 2017, the Group has not recorded any impairment of receivables on amounts owed by the related parties. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance		Terms	Conditions
				Receivable	Payable		
<b>The Pacific Meat Company Inc. (PMCI) (i)</b>							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	<b>2018</b> 2017	<b>18,398,608</b> 13,260	– –	<b>5,062,515</b> 1,310,479	30-day; non-interest bearing	Unsecured; not impaired
<b>DBE Project Inc. (DBE) (ii)</b>							
Trade sales and service income	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	<b>2018</b> 2017	<b>1,038,460</b> 2,122,630	<b>1,107,331</b> 401,622	– –	30-day; non-interest bearing	Unsecured; not impaired
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	<b>2018</b> 2017	<b>491,680</b> –	– –	<b>5,243,481</b> –	30-day; non-interest bearing	Unsecured; not impaired
<b>Century Pacific Food Inc. (CPFI) (i)</b>							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	<b>2018</b> 2017	<b>1,480,989</b> 1,577,224	– –	<b>227,981</b> 606,889	30-day; non-interest bearing	Unsecured; not impaired
				<b>2018</b>	<b>₱1,107,331</b>	<b>₱10,533,977</b>	
				2017	₱401,622	₱1,917,368	

(i) Pertains to entities that are within the same Group (CPGI). Considered related parties starting April 1, 2016.

(ii) Considered related parties as at September 30, 2018 and December 31, 2017. The entities were also acquired by CPGI on April 1, 2016.

## 12. Loan Payable

	<b>September 30, 2018</b>	December 31, 2017
Long-term facility loan	<b>₱3,908,221,947</b>	₱3,933,241,406
Loan mortgage payable	<b>590,744</b>	590,744
	<b>3,908,812,691</b>	3,933,832,150
Less current portion of long-term loan	<b>48,411,689</b>	48,411,689
	<b>₱3,860,401,002</b>	₱3,885,420,461

### Long-term facility loan

On June 8, 2016, the Group entered into an Omnibus Loan and Security Agreement (OLSA) with BDO Unibank, Inc. (the Lender) and SAFHI. The lender provided a term loan facility in the principal amount of ₱5,000.0 million for the purpose of refinancing the bridge loan of SAFHI. SAFHI shall in turn pledge its 100% ownership shares of all of its subsidiaries.

The breakdown of the loan is as follows:

	<b>September 30, 2018</b>	December 31, 2017
Principal	<b>₱3,925,000,000</b>	₱3,950,000,000
Less unamortized debt issue costs	<b>16,778,053</b>	16,758,594
	<b>3,908,221,947</b>	3,933,241,406
Less current portion of long-term loan	<b>48,291,305</b>	48,291,305
Noncurrent portion	<b>₱3,859,930,642</b>	₱3,884,950,101

The loan is payable within 10 years to commence on the 12<sup>th</sup> month following the availment date. Payments shall be made in 18 consecutive semi-annual installments of ₱25.0 million and a final payment of ₱4,550.0 million.

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

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

Interest expense amounting to ₱135.9 million and ₱130.4 million was recognized for the nine months ended September 30, 2018 and 2017, respectively.

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

So long as any portion of the loan is outstanding and until payment in full of all amounts payable by the Group under the loan documents are made, the Group covenants and agrees that, unless the



Lender shall otherwise consent in writing, it shall among others comply with the following affirmative covenants:

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

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

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

As of September 30, 2018, and December 31, 2017, the Group is in compliance with the aforementioned affirmative covenants.

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## 14. Equity

### Capital Stock

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

	September 30, 2018		December 31, 2017	
	Number of shares	Amount	Number of shares	Amount
Authorized capital stock - P1 par value				
Beginning	2,000,000,000	₱2,000,000,000	1,000,000,000	₱1,000,000,000
Increase in capital stock	–	–	1,000,000,000	1,000,000,000
	<b>2,000,000,000</b>	<b>₱2,000,000,000</b>	<b>2,000,000,000</b>	<b>₱2,000,000,000</b>
Issued and outstanding capital stock - P1 par value				
Beginning	1,531,321,053	₱1,531,321,053	768,614,050	₱768,614,050
Issuance	–	–	762,707,003	762,707,003
	<b>1,531,321,053</b>	<b>₱1,531,321,053</b>	<b>1,531,321,053</b>	<b>₱1,531,321,053</b>

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

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

The issued and outstanding shares as at September 30, 2018 and December 31, 2017 are held by 28 equity holders.

#### Retained Earnings

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

Date of Declaration	Dividend		Record Date
	Rate (per share)	Amount	
February 29, 2016	₱0.06	46,116,843	March 29, 2016
February 29, 2016	1.22	940,800,000	March 30, 2016
October 4, 2016	0.15	115,000,000	September 30, 2016
May 8, 2017	0.10	153,132,105	June 6, 2017
August 16, 2018	0.10	153,132,105	September 14, 2018

Outstanding dividends payable amounted to ₱153.1 million and nil as at September 30, 2018 and December 31, 2017, respectively.

Undistributed earnings of the subsidiaries included in the Group's retained earnings amounting to ₱534.0 million as at September 30, 2018 and ₱427.8 million as at December 31, 2017 are not currently available for dividend distribution.

#### APIC

Amount received in excess of the par values of the shares issued amounting to ₱1,353.6 million was recognized as "APIC" in the 2018 and 2017 consolidated statement of changes in equity. Directly attributable transaction costs incurred on the initial public offering of 104.0 million primary shares amounting to ₱83.0 million were charged to APIC in 2016.

## 15. Earnings per Share (EPS)

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

There are no dilutive financial instruments as of September 30, 2018 and December 31, 2017, hence, diluted EPS is the same as the basic EPS.

The Group's EPS were computed as follows:

	<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
(a) Net income	<b>₱534,638,005</b>	₱503,608,951
(b) Weighted average number of shares outstanding	<b>1,531,321,053</b>	1,531,321,053
Basic/ diluted EPS (a/b)	<b>₱0.35</b>	₱0.33

## 16. Financial Risks Management Objectives and Policies

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

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

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

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

	<b>September 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Cash and cash equivalents*	<b>₱196,143,233</b>	₱185,394,757
Trade and other receivables:		
Trade receivables	<b>189,591,183</b>	317,945,267
Royalty receivable	<b>40,884,862</b>	27,302,977
Receivable from franchisees	<b>11,568,882</b>	63,181,608
Receivables from employees	<b>5,501,232</b>	20,580,270

Other receivables	<b>13,572,141</b>	26,626,194
Rental deposits	<b>155,519,746</b>	120,272,609
<b>Total credit risk exposure</b>	<b>₱612,781,280</b>	<b>₱761,303,682</b>

\*Excluding cash on hand.

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

September 30, 2018						
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1–180 Days	181–360 Days	Subtotal		
Cash and cash equivalents*	<b>₱196,143,233</b>	₱–	₱–	₱–	₱–	<b>₱196,143,233</b>
Trade and other receivables:						
Trade receivables	118,242,182	34,562,998	36,786,003	71,349,001	4,496,946	194,088,129
Royalty receivable	40,884,862	–	–	–	–	40,884,862
Receivable from franchisees	11,568,882	–	–	–	–	11,568,882
Receivables from employees	473,174	2,791,907	2,236,151	5,028,058	1,499,476	7,000,708
Other receivables	3,435,509	2,289,077	7,847,556	10,136,632	480,915	14,053,056
Rental deposits	155,519,746	–	–	–	2,095,290	157,615,036
	<b>₱526,267,589</b>	<b>₱39,643,981</b>	<b>₱46,869,710</b>	<b>₱86,513,691</b>	<b>₱8,572,627</b>	<b>₱621,353,907</b>

\*Excluding cash on hand.

December 31, 2017						
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1–180 Days	181–360 Days	Subtotal		
Cash and cash equivalents*	₱185,394,757	₱–	₱–	₱–	₱–	₱185,394,757
Trade and other receivables:						
Trade receivables	237,277,705	47,153,444	33,514,118	80,667,562	4,492,525	322,437,792
Receivable from franchisees	63,181,608	–	–	–	–	63,181,608
Receivables from employees	1,406,219	9,883,372	9,290,679	19,174,051	2,567,666	23,147,936
Royalty receivable	27,302,977	–	–	–	–	27,302,977
Other receivables	15,155,485	4,878,328	6,592,381	11,470,709	480,915	27,107,109
Rental deposits	120,272,609	–	–	–	2,095,290	122,367,899
	<b>₱649,991,360</b>	<b>₱61,915,144</b>	<b>₱49,397,178</b>	<b>₱111,312,322</b>	<b>₱9,636,396</b>	<b>₱770,940,078</b>

\*Excluding cash on hand.

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

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

	September 30, 2018			
	High grade	Medium grade	Standard grade	Total
Cash and cash equivalents*	<b>₱196,143,233</b>	<b>₱–</b>	<b>₱–</b>	<b>₱196,143,233</b>
Trade and other receivables:				
Trade receivables	<b>77,140,628</b>	<b>20,440,154</b>	<b>20,661,400</b>	<b>118,242,182</b>
Receivable from franchisees	–	–	<b>11,568,882</b>	<b>11,568,882</b>
Receivables from employees	–	–	<b>473,174</b>	<b>473,174</b>
Royalty receivable	<b>40,884,862</b>	–	–	<b>40,884,862</b>
Other receivables	<b>1,011,259</b>	<b>2,424,251</b>	–	<b>3,435,509</b>
Rental deposits	–	–	<b>155,519,746</b>	<b>155,519,746</b>
	<b>₱315,179,982</b>	<b>₱22,864,405</b>	<b>₱188,223,203</b>	<b>₱526,267,589</b>

\*Excluding cash on hand.

	December 31, 2017			
	High grade	Medium grade	Standard grade	Total
Cash and cash equivalents*	<b>₱185,394,757</b>	<b>₱–</b>	<b>₱–</b>	<b>₱185,394,757</b>
Trade and other receivables:				
Trade receivables	<b>168,213,739</b>	<b>21,699,501</b>	<b>47,364,465</b>	<b>237,277,705</b>
Receivable from franchisees	–	–	<b>63,181,608</b>	<b>63,181,608</b>
Receivables from employees	–	–	<b>1,406,219</b>	<b>1,406,219</b>
Royalty receivable	<b>27,302,977</b>	–	–	<b>27,302,977</b>
Other receivables	<b>3,005,743</b>	<b>12,149,742</b>	–	<b>15,155,485</b>
Rental deposits	–	–	<b>120,272,609</b>	<b>120,272,609</b>
	<b>₱383,917,216</b>	<b>₱33,849,243</b>	<b>₱232,224,901</b>	<b>₱649,991,360</b>

\*Excluding cash on hand.

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

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

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

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

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

	September 30, 2018					Total
	Due and Demandable	< 90 Days	91–180 Days	181–365 Days	Over 365 Days	
Cash and cash equivalents	<b>₱259,106,520</b>	<b>₱–</b>	<b>₱–</b>	<b>₱–</b>	<b>₱–</b>	<b>₱259,106,520</b>
Trade and other receivables						
Trade	<b>118,242,182</b>	<b>34,562,998</b>	<b>36,786,003</b>	–	<b>4,496,946</b>	<b>194,088,129</b>
Receivable from franchisees	<b>11,568,882</b>	–	–	–	–	<b>11,568,882</b>
Receivables from employees	<b>473,174</b>	<b>2,791,907</b>	<b>2,236,151</b>	–	<b>1,499,476</b>	<b>7,000,708</b>
Royalty receivables	–	<b>40,884,862</b>	–	–	–	<b>40,884,862</b>
Other receivables	<b>3,435,509</b>	<b>2,289,077</b>	<b>7,847,556</b>	–	<b>480,915</b>	<b>14,053,056</b>
Rental deposits	<b>155,519,746</b>	–	–	–	<b>2,095,290</b>	<b>157,615,036</b>
	<b>548,346,014</b>	<b>80,528,844</b>	<b>46,869,710</b>	–	<b>8,572,627</b>	<b>684,317,194</b>

Accounts payable and other current liabilities:						
Trade payables	–	228,788,616	17,658,624	–	–	246,447,240
Nontrade payables	–	123,062,195	–	–	–	123,062,195
Accrued expenses	–	172,987,468	–	–	–	172,987,468
Other payables*	–	196,347,781	–	–	–	196,347,781
Payable to NAF	–	22,743,050	–	–	–	22,743,050
Dealers' deposit and other noncurrent payables	–	–	–	–	30,964,722	30,964,722
Loan payable**	–	116,088,554	–	115,508,373	5,497,576,937	5,729,173,864
	–	860,017,665	17,658,624	115,508,373	5,528,541,659	6,521,726,321
Liquidity gap	<b>₱548,346,014</b>	<b>(₱779,488,821)</b>	<b>₱29,211,086</b>	<b>(₱115,508,373)</b>	<b>(₱5,519,969,032)</b>	<b>(₱5,837,409,127)</b>

\*excluding statutory payables

\*\*Including future interest payments

December 31, 2017						
	Due and Demandable	< 90 Days	91–180 Days	181–365 Days	Over 365 Days	Total
Cash and cash equivalents	₱244,994,340	₱–	₱–	₱–	₱–	₱244,994,340
Trade and other receivables						
Trade	237,277,705	47,153,445	33,514,118	–	4,492,525	322,437,793
Receivable from franchisees	63,181,608	–	–	–	–	63,181,608
Receivables from employees	1,406,219	9,883,372	9,290,679	–	2,567,666	23,147,936
Royalty receivables	–	27,302,977	–	–	–	27,302,977
Other receivables	15,155,485	3,916,498	6,592,381	–	480,915	26,145,279
Rental deposits	120,272,609	–	–	–	2,095,290	122,367,899
	682,287,966	88,256,292	49,397,178	–	9,636,396	829,577,832
Accounts payable and other current liabilities:						
Trade payables	–	460,754,987	172,180	–	–	460,927,167
Nontrade payables	–	261,561,598	–	–	–	261,561,598
Accrued expenses	–	100,820,925	–	–	–	100,820,925
Other payables*	–	46,737,391	–	–	–	46,737,391
Payable to NAF	–	29,188,897	–	–	–	29,188,897
Dealers' deposit and other noncurrent payables	–	–	–	–	35,150,922	35,150,922
Loan payable**	–	44,480,943	70,089,982	113,768,750	5,596,089,274	5,824,428,949
	–	943,544,741	70,262,162	113,768,750	5,631,240,196	6,758,815,849
Liquidity gap	₱682,287,966	(₱855,288,449)	(₱20,864,984)	(₱113,768,750)	(₱5,621,603,800)	(₱5,929,238,017)

\*excluding statutory payables.

\*\*Including future interest payments.

### Capital Management

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

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

	September 30, 2018	December 31, 2017
Total liabilities	<b>₱4,967,718,339</b>	₱5,134,606,563
Total equity	<b>4,355,747,007</b>	3,974,241,106
	<b>1.14:1</b>	1.29:1

## 17. Fair Value Information

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

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

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

<b>As at September 30, 2018</b>				
		Fair Value		
	Date of Valuation	Carrying Value	Level 1 Quoted	Level 2 Significant Observable Input
<b>Asset for which fair value are disclosed:</b>				
Rental deposits	September 30, 2018	P163,155,310	P-	P124,671,010
<b>Liabilities for which fair value are disclosed:</b>				
Loan payable	September 30, 2018	P3,908,812,691	P-	P4,069,838,495
Dealers' deposits	September 30, 2018	17,639,377	-	14,349,643
		<b>P3,926,452,069</b>	<b>P-</b>	<b>P4,084,188,138</b>
<b>As at December 31, 2017</b>				
		Fair Value		
	Date of Valuation	Carrying Value	Level 1 Quoted	Level 2 Significant Observable Input
<b>Asset for which fair value are disclosed:</b>				
Rental deposits	December 31, 2017	P122,367,899	P-	P93,504,340
<b>Liabilities for which fair value are disclosed:</b>				
Loan payable	December 31, 2017	P3,933,832,150	P-	P4,095,888,645
Dealers' deposits	December 31, 2017	11,541,207	-	9,388,778
		<b>P3,945,373,357</b>	<b>P-</b>	<b>P4,105,277,423</b>

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

*Rental Deposits.* The fair values were obtained by discounting the instruments' expected cash flows using interest rates of 5.71% as at September 30, 2018 and December 31, 2017.

*Loans Payable.* The fair value of loan payable which was discounted using prevailing market rate of 5.70% as at September 30, 2018 and December 31, 2017 approximates the carrying value since these bear interest at current market rates. Fair value category is Level 2, significant observable inputs.

*Dealers' Deposits.* The fair values were obtained by discounting the instruments' expected cash flows using interest rates of 4.88% as at September 30, 2018 and December 31, 2017.

As at September 30, 2018 and December 31, 2017, there were no transfers between Level 1 and 2 fair value measurements.