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 **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) 867-76-02**
   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	**COMMON SHARES**
Number of shares of common stock outstanding	**1,531,321,053**

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 June 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 March 31, 2019 and December 31, 2018
1.2 Consolidated Statement of Income for the period ended March 31, 2019 and March 31, 2018
1.3 Consolidated Statement of Cash Flows for the period ended March 31, 2019 and March 31, 2018
1.4 Consolidated Statement of Changes in Shareholder's Equity for the period ended March 31, 2019 and March 31, 2018
1.5 Notes to Consolidated Financial Statements for the period ended March 31, 2019

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations (Based on the unaudited consolidated financial statements for the period ended March 31, 2019)

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 64.2% and 22.3% market share as cited by Euromonitor. As of March 31, 2019, it operated a total of 229 stores nationwide, a mix of company-owned and franchised stores. PIZZA has consistently recorded double-digit growth in system-wide sales.

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. As of today, PIZZA operates 3 stores outside of the Philippines.

PIZZA is able to serve the A, B and upper C income classes through its various sales channels. PIZZA's dine-in segment caters mostly to families and friends who want an affordable upgrade from the usual fast-food dining. At the same time, PIZZA appeals to the A and B classes through its delivery segment. With the shift of consumer trend towards convenience, PIZZA ensures that it continues to operate well-designed, comfortable, clean and guest-oriented stores, 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 higher sales margins.

PIZZA operates a simple business model that is cash generative and requires low upfront costs due to the simplicity of its product. This enables high financial liquidity and an average payback period of 3-4 years. PIZZA also has a well-established franchised model with industry leading return on investment of 3-4 years.

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.

In April 2019, PIZZA announced the acquisition of Peri-Peri Charcoal Chicken, an emerging fast-casual and full-service brand which has demonstrated consistent profitability, brand strength and robust growth in both system wide sales and store count over the last few years.

Results of Operations

The following table summarizes the reported key financial information for PIZZA for the three months ending March 31, 2019 and 2018, respectively:

In ₱ Mill	**Three months ending March 31, 2019**	**Three months ending March 31, 2018**	**Change YOY**
Systemwide sales	2,337	2,214	5.5%
Net Revenue	1,839	1,768	4.0%
Cost of Sales	(1,328)	(1,259)	5.5%
Gross Profit	511	509	0.4%
Operating Expense	(236)	(230)	2.5%
Operating Income	275	278	-1.4%
EBITDA	352	344	2.4%
Net income before tax	239	241	-0.8%
Net income after tax	188	184	2.5%
Margins			
Gross profit margin	27.8%	28.8%	-1.0 pps

EBITDA margin	19.2%	19.5%	-0.3 pps
Net income margin	10.2%	10.4%	-0.2 pps

Key Highlights

- Shakey's Pizza Asia Ventures, Inc. (PSE:PIZZA), posted consolidated net income after tax of ₱188 million for the first three months ended March 31, 2019. This represents a growth of 3% year-on-year. Earnings performance can be attributed to the Company's ongoing store network expansion and maintained net profit margin.

- Systemwide sales, a measure of both company-owned and franchised store sales, reached ₱2.3 billion, an increase of 6% driven primarily by new store openings over the last several quarters.

- The Company's consolidated net revenues stood at ₱1.84 billion during the first three months of 2019, a 4% growth compared to the ₱1.77 billion registered during the same period last year.

- Driven by higher input costs and reduced operating leverage from slower sales growth, PIZZA saw a 100-bp year-on-year decline in its gross margin to 27.8%. This was partially cushioned by improvements in the Company's operating efficiency, thereby resulting in only a 30-bp drop in EBITDA margin to 19.2% and a 20-bp drop in net margin to 10.2%.

- As of March 31, 2019, the Company's nationwide store count reached 229 outlets, consisting of 124 company-owned and 105 franchised stores. Internationally, the Company ended the period with 3 stores operating in the Middle East. This represents a net addition of one store in the Philippines and one store abroad during the first three months of 2019.

Systemwide Sales and Revenues

- System-wide sales, comprised of sales generated by both company-owned and franchised stores, amounted to ₱2.3 billion for the first three months ending March 31, 2019, an increase of 6% versus the same period last year. This was driven by the addition of one store in the Philippines and another store abroad to PIZZA's system-wide store network for the first three months of 2019.

- 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 4% to ₱1.84 billion from ₱1.77 billion during the same period last year.

Cost of Sales and Gross Profit

- Consolidated cost of sales during the three months ended March 31, 2019, went up by 5% to ₱1.33 billion from ₱1.26 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 for the three months ended March 31, 2019, amounted to ₱511 million or flat year-on-year. This translates to a 100-bp drop in gross profit margin to 27.8% from 28.8% during the same period last year.

Operating Expense and Other Income (Expense)

- Consolidated operating expense, composed of selling, distribution, marketing and administrative expenses, totaled ₱236 million for the period ended March 31, 2019. This translates to a 12.8% cost-to-sales ratio, a decrease of 20 bps from 13.0% during the same period last year.

- Consolidated operating income for the three months ended March 31, 2019, amounted to ₱275 million, equivalent to an operating margin of 14.9%. This represents a year-on-year drop of 80 bps from the 15.7% operating margin during the same period last year.

- Consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization) for the three months ended March 31, 2019, totaled P352 million. This translates to a 19.2% EBITDA margin or a 30-bp drop from last year's 19.5%.

- Other income/expense is composed of income and expenses that are not directly related to the Company's operations, namely (1) service fee charged to franchisees, (2) gains or losses on transactions relating to foreign currency exchange, sale of scrap and PPE, (3) rental income, and (4) interest income from investments. For the three months ended March 31, 2019, PIZZA's consolidated net other income totaled ₱9 million, a 19% increase from the previous year's ₱8 million.

- Interest expense of ₱45 million was recorded for the first three months of 2019. This amount pertains to interest on the ₱3.8 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 March 31, 2019, is as follows:

- Cash and cash equivalents stood at ₱347 million. Operating activities generated a net inflow of ₱101 million. Net cash used in investing activities totaled ₱179 million while net cash used in financing activities amounted to ₱9 million.

- Current ratio improved to 1.8x as of March 31, 2019, relative to end-March 2018's 1.1x. The cash conversion cycle increased to 21 days from 2 days as of end December 2018. As of March 31, 2019, receivable and inventory days stood at 28 and 35 respectively, while accounts payable came in at 42 days.

- Net property, plant and equipment, amounted to ₱1.8 billion as of March 31, 2019. Capital expenditures for the first three months of the year totaled ₱155 million, composed of building materials for store relocations, renovation of existing stores, and carryover new equipment for the commissary plant.

- As of March 31, 2019, 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 ₱187 million, from ₱4.6 billion as of year-end 2018 to ₱4.8 billion as of March 31, 2019. The increase came from net income earned during the first three months of 2018.

- Net debt-to-equity ratio is measured at 0.96x as of March 31, 2019, an improvement compared to 1.04x as of year-end 2018. Considering only interest-bearing liabilities, the Company's net gearing ratio and net interest-bearing debt to EBITDA stood at 0.75x and 2.6x, respectively, as of March 31, 2019.

Key Performance Indicators (KPIs)

	Unaudited 1st Three Months 2019	Unaudited 1st Three Months 2018
Gross Profit Margin	28%	29%
Before Tax Return on Sales	13%	14%
Return on Sales	10%	10%
Interest-Bearing Debt-to-Equity	0.8x	1.0x
Current Ratio	1.8x	1.1x

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.

VICENTE L. GREGORIO
President and Chief Executive Officer
Date: May 2, 2019

MANUEL T. DEL BARRIO
Vice President and Chief Finance Officer
Date: May 2, 2019

SHAKEY'S PIZZA ASIA VENTURES INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	**₱347,109,057**	₱433,777,621
Trade and other receivables	**587,923,099**	508,494,649
Inventories	**537,316,144**	597,145,719
Prepaid expenses and other current assets	**91,346,547**	70,903,767
Total Current Assets	**1,563,694,847**	1,610,321,756
Noncurrent Assets		
Property and equipment	**1,798,085,372**	1,711,899,346
Goodwill	**1,078,606,020**	1,078,606,020
Trademarks	**4,987,109,602**	4,987,109,602
Pension asset	**3,112,468**	13,666,188
Deferred input value-added tax	**77,898,093**	63,451,832
Deferred tax assets	**34,941,389**	31,044,664
Rental and other noncurrent assets	**144,621,658**	137,079,814
Total Noncurrent Assets	**8,124,374,601**	8,022,857,466
TOTAL ASSETS	**₱9,688,069,448**	₱9,633,179,222
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	**₱633,205,844**	₱799,504,485
Current portion of loan payable	**48,449,757**	48,449,757
Current portion of contract liabilities	**19,285,813**	19,285,813
Income tax payable	**153,020,546**	100,558,936
Total Current Liabilities	**853,961,960**	967,798,991
Noncurrent Liabilities		
Loan payable - net of current portion	**3,836,966,162**	3,836,966,162
Accrued rent	**101,853,055**	101,853,055
Contract liabilities - net of current portion	**90,474,351**	93,314,414
Dealers' deposits and other noncurrent liabilities	**46,609,205**	63,425,467
Total Noncurrent Liabilities	**4,075,902,773**	4,095,559,098
Total Liabilities	**4,929,864,734**	5,063,358,089
Equity		
Capital stock	**1,531,321,053**	1,531,321,053
Additional paid-in capital	**1,353,554,797**	1,353,554,797
Retained earnings	**1,856,401,208**	1,668,017,627
Other components of equity	**16,927,656**	16,927,656
Total Equity	**4,758,204,715**	4,569,821,133
TOTAL LIABILITIES AND EQUITY	**₱9,688,069,448**	₱9,633,179,222

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

SHAKEY'S PIZZA ASIA VENTURES INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

	2019 (Unaudited)	2018 (Unaudited)
REVENUES		
Net sales	**₱1,759,318,852**	₱1,691,751,974
Royalty and franchise fees	**79,730,429**	76,079,387
	1,839,049,280	1,767,831,361
COSTS OF SALES	**(1,328,485,207)**	(1,259,262,860)
GROSS INCOME	**510,564,073**	508,568,501
GENERAL AND ADMINISTRATIVE EXPENSES	**(236,057,351)**	(230,234,322)
INTEREST EXPENSE	**(45,103,398)**	(45,380,562)
OTHER INCOME (EXPENSES) - Net	**9,441,088**	7,906,581
INCOME BEFORE INCOME TAX	**238,844,412**	240,860,198
PROVISION FOR INCOME TAX		
Current	**50,460,831**	57,147,320
Deferred	**–**	–
	50,460,831	57,147,320
TOTAL COMPREHENSIVE INCOME	**₱188,383,581**	₱183,712,877
Basic/Diluted Earnings Per Share	**₱0.12**	₱0.12

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 THREE MONTHS ENDED MARCH 31, 2019 AND 2018

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Cumulative Actuarial Loss-Net of Tax	Total
Balances at December 31, 2018 (Audited)	**₱1,531,321,053**	**₱1,353,554,797**	**₱1,668,017,627**	**₱16,927,656**	**₱4,569,821,133**
Total comprehensive income	–	–	**188,383,581**	–	**188,383,581**
Balances at March 31, 2019 (Unaudited)	**₱1,531,321,053**	**₱1,353,554,797**	**₱1,856,401,208**	**₱16,927,656**	**₱4,758,204,714**
Balances at December 31, 2017 (Audited)	₱1,531,321,053	₱1,353,554,797	₱1,095,525,015	(₱6,159,759)	₱3,974,241,106
Total comprehensive income	–	–	183,712,879	–	183,712,879
Balances at March 31, 2018 (Unaudited)	₱1,531,321,053	₱1,353,554,797	₱1,279,237,894	(₱6,159,759)	₱4,157,953,985

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 THREE MONTHS ENDED MARCH 31, 2019 AND 2018

	2019 (Unaudited)	2018 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱238,844,412**	₱240,860,198
Adjustments for:		
Depreciation and amortization	**68,452,556**	58,002,705
Interest expense	**45,103,398**	45,380,562
Movements in:		
Accrued rent	**–**	5,039,646
Accrued pension costs	**10,553,721**	4,064,684
Interest income	**(163,918)**	(187,160)
Unrealized foreign exchange gain- net	**60,578**	(1,199,114)
Income before working capital changes	**362,850,747**	351,961,522
Decrease (increase) in:		
Trade and other receivables	**(82,794,863)**	26,458,617
Inventories	**59,829,575**	(4,083,442)
Prepaid expenses and other current assets	**(20,109,932)**	(43,979,138)
Deferred input value added tax	**(18,342,986)**	6,832,088
Decrease in accounts payable and other current liabilities	**(196,146,487)**	(89,298,132)
Net cash generated from operations	**105,286,054**	247,891,515
Income taxes paid	**(4,330,593)**	(23,959,850)
Interest received	**163,918**	187,160
Net cash provided by operating activities	**101,119,380**	224,118,825
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Rental and other deposits	**(7,541,844)**	(6,600,984)
Dealer's deposits and other noncurrent liabilities	**(16,620,544)**	(12,412,458)
Acquisition of property and equipment	**(155,187,935)**	(146,461,570)
Proceeds from disposals of property and equipment	**549,354**	–
Net cash provided by (used in) investing activities	**(178,800,969)**	(165,475,012)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Interest	**(8,926,397)**	(8,640,611)
Net cash used in financing activities	**(8,926,397)**	(8,640,611)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(60,578)**	1,199,114
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(86,668,564)**	51,202,316
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**433,777,621**	244,994,340
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱347,109,057**	₱296,196,656

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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), 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 a company owned by the 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), 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 Shakeys'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 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 Shakeys'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 April 13, 2018, the Group received the approval from the Hong Kong registry for the deregistration of GGL.

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.

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 May 2, 2019.

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.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and 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(s) with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights.

The 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.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in 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 Parent Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

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

	Principal Activities	Place of Incorporation	Percentage of Ownership (%)
Bakemasters, Inc. (BMI) [a]	Manufacturer of pizza dough and pastries	Philippines	100%
Shakey's International Limited (SIL) [a]	Trademark	Hong Kong	100%
Shakey's Seacrest Incorporated (SSI) [b]	Trademark	Philippines	100%
Shakey's Pizza Regional Foods Limited (SPRFL) [c]	Trademark	Hong Kong	100%
Shakey's Pizza Commerce Inc. (SPCI) [d]	Trading of goods	Philippines	100%

[a] *Acquired on October 5, 2016 from SAFHI*
[b] *Incorporated on June 29, 2016*
[c] *Incorporated on November 25, 2016*
[d] *Incorporated on November 25, 2017*

3. 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 accounting pronouncements starting January 1, 2019. Adoption of these new standards and amendments did not have any significant impact on the Group's financial position or performance, except for the adoption of PFRS 16, *Leases*.

- PFRS 16, *Leases*
- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Amendments to PAS 19, *Plan amendment, curtailment or settlement*
- Annual Improvements to PFRSs 2015-2017 Cycle
    - Amendments to PFRS 3 and PFRS 11, *Previously held interest in a joint operation*
    - Amendments to PAS 12, *Income tax consequences of payments on financial instruments classified as equity*
    - Amendments to PAS 23, *Borrowing costs eligible for capitalization*

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
Current Assets:		
Cash	₱13,620,583	₱13,620,583
Receivables	78,036,652	78,036,652
Inventory	18,402,386	18,402,386
Other current assets	1,427,246	1,427,246
Total Current Assets	111,486,867	111,486,867
Noncurrent Assets		
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
Total Noncurrent Assets	117,036,365	154,221,593
Current Liabilities		
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
Total Current Liabilities	58,979,828	58,979,828
Noncurrent Liabilities		
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
Total Noncurrent Liabilities	4,143,634	15,299,202

	Carrying Values	Fair Values Recognized
Identifiable Net Assets Acquired	₱165,399,770	₱191,429,430

Identifiable Net Assets Acquired	₱191,429,430
Goodwill from the acquisition	1,078,606,020
Purchase consideration transferred	₱1,270,035,450

Cash flows from an investing activity:	
Cash payment	₱1,270,035,450
Net cash acquired from subsidiary	(13,620,583)
Net cash outflow	₱1,256,414,867

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 ₱4,987.1 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
Total Current Assets	6,626,591	6,626,591
Current Liabilities		
Accounts payable	₱491,657	₱491,657
Due to a stockholder	232,744,536	232,744,536
Total Current Liabilities	233,236,193	233,236,193
Identifiable Net Liabilities Acquired	(₱226,609,602)	(₱226,609,602)

Identifiable Net Liabilities Acquired	(₱226,609,602)
Trademark from the acquisition	4,987,109,602
Purchase consideration transferred	₱4,760,500,000

Cash flows from an investing activity:	
Cash payment	₱4,760,500,000
Net cash acquired from subsidiary	(6,277,921)
Net cash outflow	₱4,754,222,079

5. Segment Information

Segment information is prepared on the following bases:

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 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 three months ended March 31, 2019 and 2018:

	2019	2018
Consolidated EBITDA	**₱352,236,448**	₱344,056,305
Depreciation and amortization	**(68,452,556)**	(58,002,705)
Provision for income tax	**(50,460,831)**	(57,147,320)
Interest expense	**(45,103,398)**	(45,380,562)
Interest income	**163,918**	187,160
Consolidated net income	**₱188,383,581**	₱183,712,877

6. Cash and Cash Equivalents

	March 31, 2019	December 31, 2018
Cash on hand	**₱76,531,893**	₱169,324,822
Cash in banks	**164,020,888**	264,452,799
Short-term deposits	**106,556,275**	–
	₱347,109,057	₱433,777,621

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 three months ended March 31, 2019 and 2018. Interest income on cash and cash equivalents amounted to ₱163,918 and ₱187,160 for the three months ended March 31, 2019 and 2018, respectively.

7. Trade and Other Receivables

	March 31, 2019	December 31, 2018
Trade:		
Franchisee	**₱192,044,793**	₱165,424,339
Related parties	**75,580**	3,448,612
Third parties	**37,893,448**	25,047,784
Advances to Suppliers		
Third parties	**187,244,242**	148,950,530
Related parties	**4,801,032**	7,883,112
Royalty receivable	**38,514,810**	43,131,150
Receivable from National Advertising Fund (NAF)	**52,045,861**	38,938,469
Receivables from franchisees	**44,147,693**	38,358,086
Receivables from employees	**20,051,385**	20,301,429
Others	**17,577,173**	23,484,055
	594,396,016	514,967,566
Less allowance for doubtful accounts	**(6,472,917)**	(6,472,917)
	₱587,923,099	₱508,494,649

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.
- Receivable from NAF pertains to reimbursable advertising and promotion expenses from dealers which will be applied on future dealer remittances.
- Receivable from franchisees pertains to receivables for transactions other than sale of goods such as management fees, freight and gas expenses, are non-interest bearing and generally have 30 to 45 days' term.
- 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.
- Other receivables consist mainly of receivables from online and credit card transaction which are non-interest bearing and generally have 30 to 45 days' term

The movements of allowance for doubtful accounts are as follows:

	2019			2018		
	Trade and Others	**Receivables from Employees**	**Total**	Trade and Others	Receivables from Employees	Total
Balance at beginning of year	**₱4,973,440**	**₱1,499,477**	**₱6,472,917**	₱4,973,440	₱2,567,666	₱7,541,106
Accounts written-off	–	–	–	–	(1,068,189)	(1,068,189)
Balance at year-end	**₱4,973,440**	**₱1,499,477**	**₱6,472,917**	₱4,973,440	₱1,499,477	₱6,472,917

8. **Inventories**

	March 31, 2019	December 31, 2018
At net realizable value:		
Finished goods	**₱7,567,625**	₱7,613,788
Merchandise	**507,090,865**	563,351,323
Raw materials:		
Food	**12,965,167**	15,209,139
Packaging	**9,692,487**	10,971,469
	₱537,316,144	₱597,145,719

The cost of the inventories carried at NRV follows:

	2019	2018
Merchandise	**₱511,347,466**	₱577,557,632
Raw materials:		
Food	**13,006,008**	15,249,980
Packaging	**9,726,837**	1,056,112
	₱534,080,311	₱593,863,724

Allowance for inventory obsolescence amounted to ₱4.3 million as at March 31, 2019 and December 31, 2018.

No reversal and provision for inventory obsolescence was recognized as at March 31, 2019 and December 31, 2018.

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	Total
Cost								
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	134,016,928	133,506,295	115,539,479	26,109,530	3,251,095	50,207	21,648,848	434,122,382
Disposals	–	(32,787,986)	(45,690,839)	–	(20,602,427)	(595,446)	(58,816,915)	(158,493,613)
At December 31, 2018	243,395,836	1,217,518,546	1,416,925,011	198,978,742	40,880,690	50,207	37,459,279	3,155,208,311
Additions	266,872	59,533,863	83,846,116	846,132	3,890,329	21,956	28,075,729	176,480,997
Disposals	(43,321)	–	(14,221,933)	–	–	–	–	(14,265,253)
Reclassification	(4,616,964)	–	(16,676,098)	–	–	–	–	(21,293,062)
Balance at March 31, 2019	**₱239,002,423**	**₱1,277,052,409**	**₱1,469,873,096**	**₱199,824,874**	**₱44,771,019**	**₱72,163**	**₱65,535,008**	**₱3,296,130,993**
Accumulated Depreciation and Amortization								
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	13,250,033	81,013,629	105,047,437	25,655,296	2,123,527	12,418	3,650,580	230,752,920
Disposals	–	(14,741,107)	(34,504,460)	–	(19,980,175)	(595,446)	(58,816,915)	(128,638,103)
At December 31, 2018	14,861,839	583,691,248	760,370,113	51,679,864	27,993,637	8,351	4,703,913	1,443,308,965
Depreciation and amortization	3,609,054	20,650,083	35,392,668	6,347,056	1,164,370	14,081	1,275,244	68,452,556
Disposals	–	–	(13,715,900)	–	–	–	–	(13,715,900)
Balance at March 31, 2019	**₱18,470,893**	**₱604,341,331**	**₱782,046,882**	**₱58,026,920**	**₱29,158,007**	**₱22,432**	**₱5,979,157**	**₱1,498,045,621**
Net Book Value								
Balance at March 31, 2019	**₱220,531,531**	**₱672,711,078**	**₱687,826,215**	**₱141,797,954**	**₱15,613,012**	**₱49,731**	**₱59,555,851**	**₱1,798,085,372**
Balance at December 31, 2018	228,533,997	633,827,298	656,554,898	147,298,878	12,887,053	41,856	32,755,366	1,711,899,346

The Group has fully depreciated property and equipment still used in the operations with cost of ₱741.8 million and ₱753.9 million as at March 31, 2019 and December 31, 2018, respectively. There are no idle assets as at March 31, 2019 and December 31, 2018.

10. Accounts Payable and Other Current Liabilities

	March 31, 2019	December 31, 2018
Trade:		
Suppliers	**₱214,176,710**	₱392,103,291
Related parties	**16,444,346**	13,922,815
Nontrade	**92,620,387**	123,277,661
Accrued expenses:		
Utilities	**15,821,386**	30,239,481
Interest	**40,043,502**	5,362,500
Suppliers	**49,989,839**	21,490,436
Customers loyalty	**7,128,798**	5,076,989
Salaries and wages	**4,019,004**	27,223,810
Payable to National Advertising Fund (NAF)	**18,757,857**	–
Others	**174,204,016**	180,807,502
	₱633,205,844	₱799,504,485

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 4.0% 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:

	March 31, 2019	December 31, 2018
Output VAT	**₱62,447,748**	₱92,061,793
Salaries payable	**32,828,411**	33,083,869
Withholding tax payable	**16,795,958**	14,606,496
Customers' deposits	**15,452,883**	3,796,884
Fun certificates payable	**10,262,396**	10,995,797
SSS, Philhealth and Pag-ibig payable	**5,440,000**	5,639,221
Due to cooperative	**1,159,016**	10,044,439
Others	**29,817,604**	10,579,002
	₱174,204,016	₱180,807,501

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 three months ended March 31, 2019 and 2018, 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 Receivable	Outstanding Balance Payable	Terms	Conditions
Century Pacific Group Inc. (CPGI, Ultimate Parent Company)							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	**2019**	**₱–**	**₱–**	**₱–**	30-day; non-interest bearing	Unsecured
		2018	114,149	–	–		
Advances to related parties	Pertains to security deposit mutually agreed upon by both parties	**2019**		**–**	**–**	30-day; non-interest bearing	Unsecured; not impaired
		2018	–	3,082,080	–		
Companies with common members of BOD and stockholders as the Group							
The Pacific Meat Company Inc. (PMCI)							
Sales	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	**2019**	**67,482**	**75,580**	**–**	30-day; non-interest bearing	Unsecured; not impaired
		2018	–	141,472	–		
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	**2019**	**4,299,143**	**–**	**8,425,394**	30-day; non-interest bearing	Unsecured
		2018	4,412,136	–	4,482,804		
DBE Project Inc. (DBE)							
Trade sales and service income	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	**2019**	**–**	**–**	**–**	30-day; non-interest bearing	Unsecured; not impaired
		2018	58,345	334,825	–		
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	**2019**	–	**–**	**₱5,243,481**	30-day; non-interest bearing	Unsecured
		2018	491,680	–	5,243,481		

(forwarded)

Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance Receivable	Payable	Terms	Conditions
Advances to related parties	Pertains to cash advances for working capital purposes.	**2019**	–	**4,801,032**	–	30-day; non-interest bearing, due and demandable	Unsecured; not impaired
		2018	4,801,032	4,801,032	–		
Century Pacific Agricultural Ventures, Inc. (CPAVI)							
Sales	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	**2019**	–	–	–	30-day; non-interest bearing	Unsecured; not impaired
		2018	–	200,000	–		
Snow Mountain Dairy Corporation (SMDC)							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	**2019**	–	–	–	30-day; non-interest bearing	Unsecured
		2018	–	–	987,000		
Century Pacific Food Inc. (CPFI)							
Sales	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	**2019**	–	–	–	30-day; non-interest bearing	Unsecured; not impaired
		2018	–	2,772,315	–		
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	**2019**	**2,518,889**	–	**2,775,471**	30-day; non-interest bearing	Unsecured
		2018	578,428	–	3,209,530		
		2019		**₱4,876,612**	**₱16,444,346**		
		2018		11,331,724	13,922,815		

Compensation of Key Management Personnel
The salaries and pension costs of key management personnel in 2019 and 2018 are as follows:

	For the three months ended March 31,	
	2019	2018
Salaries	**₱59,839,871**	₱59,676,122
Pension costs	**5,921,966**	6,636,414
	₱65,761,836	₱66,312,537

There are no other short-term and long-term benefits given to the key management personnel.

12. **Loan Payable**

	March 31, 2019	December 31, 2018
Long-term facility loan	**₱3,884,935,066**	₱3,884,935,066
Loan mortgage payable	**480,853**	480,853
	3,885,415,919	3,885,415,919
Less current portion of long-term loan	**48,449,757**	48,449,757
	₱3,836,966,162	₱3,836,966,162

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:

	March 31, 2019	December 31, 2018
Principal	**₱3,900,000,000**	₱3,900,000,000
Less unamortized debt issue costs	**15,064,934**	15,064,934
	3,884,935,066	3,884,935,066
Less current portion of long-term loan	**48,306,339**	48,306,339
Noncurrent portion	**₱3,836,628,727**	₱3,836,628,727

The loan is payable within 10 years to commence on the 12th 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 ₱45.1 million and ₱45.4 million was recognized for the three months ended March 31, 2019 and 2018, 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 March 31, 2019, and December 31, 2018, the Group is in compliance with the aforementioned affirmative covenants.

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:

	March 31, 2019		December 31, 2018	
	Number of shares	**Amount**	Number of shares	Amount
Authorized capital stock - ₱1 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
	2,000,000,000	**₱2,000,000,000**	2,000,000,000	₱2,000,000,000
Issued and outstanding capital stock - ₱1 par value				
Beginning	**1,531,321,053**	**₱1,531,321,053**	768,614,050	₱768,614,050
Issuance	–	–	762,707,003	762,707,003
	1,531,321,053	**₱1,531,321,053**	1,531,321,053	₱1,531,321,053

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
December 1, 2016	Registered and Listed Shares (Original Shares)	2,000,000,000	1,179,321,053	₱1.00
	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 March 31, 2019 and December 31, 2018 are held by 31 equity holders.

Retained Earnings

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

	Dividend		
Date of Declaration	Rate (per share)	Amount	Record Date
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	October 10, 2018

There are no outstanding dividends payable as at March 31, 2019 and December 31, 2018. Cash dividends declared and paid as at March 31, 2019 and December 31, 2018 amounted to nil and ₱153.1 million, respectively.

Undistributed earnings of the subsidiaries included in the Group's retained earnings amounting to ₱626.6 million as at March 31, 2019 and ₱467.0 million as at December 31, 2018 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 were recognized as "APIC".

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 March 31, 2019 and December 31, 2018, hence, diluted EPS is the same as the basic EPS.

The Group's EPS were computed as follows:

	For the three months ended March 31,	
	2019	2018
(a) Net income	**₱188,383,581**	₱183,712,877
(b) Weighted average number of shares outstanding	**1,531,321,053**	1,531,321,053
Basic/ diluted EPS (a/b)	**₱0.12**	₱0.12

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:

	March 31, 2019	December 31, 2018
Cash and cash equivalents*	**₱270,577,164**	₱264,452,799
Trade and other receivables:		
Trade receivables	**225,521,295**	189,428,210
Receivable from NAF	**52,045,861**	38,938,469
Receivable from franchisees	**44,147,693**	38,358,086
Royalty receivable	**38,514,810**	43,131,150
Receivables from employees	**18,551,908**	18,801,952
Other receivables	**17,096,258**	20,627,511
Rental deposits	**142,182,453**	129,950,317
Total credit risk exposure	**₱808,637,442**	₱743,688,494

**Excluding cash on hand.*

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

	March 31, 2019					
	Neither Past Due nor Impaired	**Past Due but not Impaired**			**Impaired**	**Total**
		1–180 Days	**181–360 Days**	**Subtotal**		
Cash and cash equivalents*	**₱270,577,164**	**₱–**	**₱–**	**₱–**	**₱–**	**₱270,577,164**
Trade and other receivables:						
Trade receivables	**164,415,927**	**35,718,552**	**25,386,816**	**61,105,368**	**4,492,525**	**230,013,820**
Receivable from NAF	**52,045,861**	**–**	**–**	**–**	**–**	**52,045,861**
Receivable from franchisees	**44,147,693**	**–**	**–**	**–**	**–**	**44,147,693**
Royalty receivable	**38,514,810**	**–**	**–**	**–**	**–**	**38,514,810**
Receivables from employees	**10,642,429**	**4,001,494**	**3,907,985**	**7,909,479**	**1,499,477**	**20,051,385**
Other receivables	**2,410,575**	**7,817,708**	**6,867,975**	**14,685,683**	**480,915**	**17,577,173**
Rental deposits	**142,182,453**	**–**	**–**	**–**	**2,070,290**	**144,252,743**
	₱724,936,912	**₱47,537,754**	**₱36,162,776**	**₱83,700,530**	**₱8,543,207**	**₱817,180,649**

**Excluding cash on hand.*

	December 31, 2018					
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1–180 Days	181–360 Days	Subtotal		
Cash and cash equivalents*	₱264,452,799	₱–	₱–	₱–	₱–	₱264,452,799
Trade and other receivables:						
Trade receivables	137,911,315	30,113,703	21,403,192	51,516,895	4,492,525	193,920,735
Receivable from NAF	38,938,469	–	–	–	–	38,938,469
Receivable from franchisees	38,358,086	–	–	–	–	38,358,086
Receivables from employees	1,284,709	9,029,361	8,487,882	17,517,243	1,499,477	20,301,429
Royalty receivable	43,131,150	–	–	–	–	43,131,150
Other receivables	10,722,547	4,212,439	5,692,525	9,904,964	480,915	21,108,426
Rental deposits	129,950,317	–	–	–	3,322,293	133,272,610
	₱664,749,392	₱43,355,503	₱35,583,599	₱78,939,102	₱9,795,210	₱753,483,704

**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:

	March 31, 2019			
	High grade	**Medium grade**	**Standard grade**	**Total**
Cash and cash equivalents*	**₱270,577,164**	**₱–**	**₱–**	**₱270,577,164**
Trade and other receivables:				
Trade receivables	**117,607,216**	**14,707,027**	**32,101,684**	**164,415,927**
Receivable from NAF	**–**	**–**	**52,045,861**	**52,045,861**
Receivable from franchisee	**–**	**–**	**44,147,693**	**44,147,693**
Royalty receivable	**38,514,810**	**–**	**–**	**38,514,810**
Receivables from employees	**–**	**–**	**10,642,429**	**10,642,429**
Other receivables	**586,060**	**1,824,516**	**–**	**2,410,575**
Rental deposits	**–**	**–**	**142,182,453**	**142,182,453**
	₱427,285,249	**₱16,531,543**	**₱281,120,120**	**₱724,936,912**

**Excluding cash on hand.*

	December 31, 2018			
	High grade	Medium grade	Standard grade	Total
Cash and cash equivalents*	₱264,452,799	₱–	₱–	₱264,452,799
Trade and other receivables:				
Trade receivables	98,648,386	12,336,186	26,926,743	137,911,315
Royalty receivable	43,131,150	–	–	43,131,150
Receivable from franchisee	–	–	38,358,086	38,358,086
Receivable from NAF	–	–	38,938,469	38,938,469
Receivables from employees	–	–	1,284,709	1,284,709
Other receivables	2,606,868	8,115,679	–	10,722,547
Rental deposits	–	–	129,950,317	129,950,317
	₱408,839,203	₱20,451,865	₱235,458,324	₱664,749,392

**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.

(forwarded)

	March 31, 2019					
	Due and Demandable	< 90 Days	91–180 Days	181–365 Days	Over 365 Days	Total
Cash and cash equivalents	₱347,109,057	₱–	₱–	₱–	₱–	₱347,109,057
Trade and other receivables						
Trade	164,415,927	35,718,552	25,386,816	–	4,492,525	230,013,820
Receivable from NAF	52,045,861	–	–	–	–	52,045,861
Receivable from franchisees	44,147,693	–	–	–	–	44,147,693
Royalty receivables	–	38,514,810	–	–	–	38,514,810
Receivables from employees	10,642,429	4,001,494	3,907,985	–	1,499,477	20,051,385
Other receivables	2,410,575	7,817,708	6,867,975	–	480,915	17,577,173
Rental deposits	142,182,453	–	–	–	2,070,290	144,252,743
	762,953,995	86,052,564	36,162,776	–	8,543,207	893,712,542
Accounts payable and other current liabilities:						
Trade payables	–	228,942,403	1,678,652	–	–	230,621,056
Accrued expenses	–	117,002,529	–	–	–	117,002,529
Nontrade payables	–	92,620,387	–	–	–	92,620,387
Other payables*	–	74,067,428	–	–	–	74,067,428
Payable to NAF	–	18,757,857				18,757,857
Dealers' deposit and other noncurrent payables	–	–	–	–	46,609,205	46,609,205
Loan payable**	–	111,844,308	–	111,731,829	5,357,448,202	5,581,024,339
	–	643,234,912	1,678,652	111,731,829	5,404,057,407	6,160,702,800
Liquidity gap	₱762,953,995	(₱557,182,348)	₱34,484,124	(₱111,731,829)	(₱5,395,514,200)	(₱5,266,990,258)

**excluding statutory payables*
***Including future interest payments*

	December 31, 2018					
	Due and Demandable	< 90 Days	91–180 Days	181–365 Days	Over 365 Days	Total
Cash and cash equivalents	₱433,777,621	₱–	₱–	₱–	₱–	₱433,777,621
Trade and other receivables						
Trade	137,911,315	30,113,704	21,403,191	–	4,492,525	193,920,735
Royalty receivables	–	43,131,150	–	–	–	43,131,150
Receivable from NAF	38,938,469	–	–	–	–	38,938,469
Receivable from franchisees	38,358,086	–	–	–	–	38,358,086
Receivables from employees	1,284,709	13,333,012	4,184,231	–	1,499,477	20,301,429
Other receivables	10,722,547	3,691,428	6,213,536	–	480,915	21,108,426
Rental deposits	129,950,317	–	–	–	3,322,293	133,272,610
	790,943,064	90,269,294	31,800,958	–	9,795,210	922,808,526
Accounts payable and other current liabilities:						
Trade payables	–	406,026,106	–	–	–	406,026,106
Nontrade payables	–	123,277,661	–	–	–	123,277,661
Accrued expenses	–	89,393,216	–	–	–	89,393,216
Other payables*	–	68,499,992	–	–	–	68,499,992
Dealers' deposit and other noncurrent payables	–	–	–	–	63,425,467	63,425,467
Loan payable**	–	43,440,174	68,404,134	111,731,829	5,357,448,202	5,581,024,339
	–	730,637,149	68,404,134	111,731,829	5,420,873,669	6,331,646,781
Liquidity gap	₱790,943,064	(₱640,367,855)	(₱36,603,176)	(₱111,731,829)	(₱5,411,078,459)	(₱5,408,838,255)

**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:

	March 31, 2019	December 31, 2018
Total liabilities	₱4,929,864,734	₱5,063,358,089
Total equity	4,758,204,715	4,569,821,133
	1.04:1	1.11:1

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:

		As at March 31, 2019		
			Fair Value	
	Date of Valuation	**Carrying Value**	**Level 1 Quoted**	**Level 2 Significant Observable Input**
Asset for which fair value are disclosed:				
Rental deposits	**March 31, 2019**	**₱137,070,872**	**₱–**	**₱104,739,246**
Liabilities for which fair value are disclosed:				
Loan payable	**March 31, 2019**	**₱3,885,415,919**	**₱–**	**₱3,692,415,813**
Dealers' deposits	**March 31, 2019**	**19,038,010**	**–**	**15,487,431**
		₱3,904,453,929	**₱–**	**₱3,707,903,244**

		As at December 31, 2018		
			Fair Value	
	Date of Valuation	Carrying Value	Level 1 Quoted	Level 2 Significant Observable Input
Asset for which fair value are disclosed:				
Rental deposits	December 31, 2018	₱133,272,610	₱–	₱101,836,900
Liabilities for which fair value are disclosed:				
Loan payable	December 31, 2018	₱3,885,415,919	₱–	₱3,692,415,813
Dealers' deposits	December 31, 2018	13,532,615	–	11,008,789
		₱3,898,948,534	₱–	₱3,703,424,602

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 5.41% to 7.07% as at March 31, 2019 and December 31, 2018.

Loans Payable. The fair value of loan payable which was discounted using prevailing market rate of 7.06% and 5.70% as at March 31, 2019 and December 31, 2018 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 7.05% as at March 31, 2019 and December 31, 2018.

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