

CR06681-2018

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
Sep 30, 2018
2. SEC Identification Number
A200115151
3. BIR Tax Identification No.
219-045-668
4. Exact name of issuer as specified in its charter
Ferronoux Holdings, Inc.
5. Province, country or other jurisdiction of incorporation or organization
Metro Manila, Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office
6th Floor, Hanston Building, F. Ortigas, Jr. Road, Ortigas Center, Pasig City Postal Code
Postal Code
1600
8. Issuer's telephone number, including area code
+63 917 8078815
9. Former name or former address, and former fiscal year, if changed since last report
AG Finance, Incorporated; 16/F Citibank Tower, 8741 Paseo de Roxas, Makati City; Unit
2205A East PSE Centre, Exchange Road, Ortigas Center, Pasig City;
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	261,824,002

11. Are any or all of registrant's securities listed on a Stock Exchange?

☒ Yes ☐ No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC 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 that 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

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.

Ferronoux Holdings, Inc. FERRO

PSE Disclosure Form 17-2 - Quarterly Report References: SRC Rule 17 and Sections 17.2 and 17.8 of the Revised Disclosure Rules

For the period ended	Sep 30, 2018
Currency (indicate units, if applicable)	Php

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2018	Dec 31, 2017
Current Assets	2,314,443	2,351,028
Total Assets	323,728,084	318,850,620
Current Liabilities	494,412	509,990
Total Liabilities	494,412	509,990
Retained Earnings/(Deficit)	(12,867,578)	(17,760,620)
Stockholders' Equity	323,233,672	318,340,630
Stockholders' Equity - Parent	-	-
Book Value per Share	1.23	1.33

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	1,638,016	5,155,675	4,914,058	5,156,177
Gross Expense	60,000	67,875	391,016	1,133,112
Non-Operating Income	-	-	370,000	-
Non-Operating Expense	-	-	-	-
Income/(Loss) Before Tax	1,578,016	5,087,800	4,893,042	4,023,065
Income Tax Expense	-	-	-	-
Net Income/(Loss) After Tax	1,578,016	5,087,800	4,893,042	4,023,065
Net Income Attributable to Parent Equity Holder	-	-	-	-
Earnings/(Loss) Per Share (Basic)	0.01	0.02	0.02	0.02
Earnings/(Loss) Per Share (Diluted)	0.01	0.02	0.02	0.02

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	-0.06	0.04
Earnings/(Loss) Per Share (Diluted)	-0.06	0.04

Other Relevant Information

Please see attached Quarterly Report for the quarter ending September 30, 2018 (SEC Form 17Q) of Ferronoux Holdings, Inc.

Filed on behalf by:

Name	Manuel Gonzalez
Designation	Corporate Secretary



110152018002633

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
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Doc Source

Company Information

SEC Registration No. A200115151
Company Name FERRONOUX HOLDINGS, INC.
Industry Classification Financial Holding Company Activities
Company Type Stock Corporation

Document Information

Document ID 110152018002633
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)
Document Code 17-Q
Period Covered September 30, 2018
No. of Days Late 0
Department CFD
Remarks

COVER SHEET

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S.E.C. Registration Number

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e	r	l	y		A	G				F	I	N	A	N	C	E				I	N	C	O	R	P	O	R	A	T	E	D)	

(Company's Full Name)

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C	e	n	t	e	r	,		P	a	s	i	g		C	i	t	y		1	6	0	0											

(Business Address: No. Street Company / Town / Province)

Rachellyn S. Aguilar

Contact Person

raguilar@isochoholdings.com

Company Telephone Number

Last Wednesday of May

0	9
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Month

3	0
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Day

SEC FORM 17-Q

FORM TYPE

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Month

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Day

Annual Meeting

Registered & Listed

Secondary License Type, If Applicable

MSRD

Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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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 nine-month period ending 30 September 2018
2. Commission identification number A200115151
3. BIR Tax Identification No. 219-045-668
4. Exact name of issuer as specified in its charter FERRONOUX HOLDINGS, INC. (formerly AG Finance Incorporated)
5. Province, country or other jurisdiction of incorporation or organization Metro Manila
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office 6th Floor, Hanston Building, F. Ortigas, Jr. Road, Ortigas Center, Pasig City Postal Code 1600
8. Issuer's telephone number, including area code
9. Former name, former address and former fiscal year, if changed since last report AG Finance Incorporated, Unit 2205A East PSE Centre, Exchange Road, Ortigas Center, Pasig City
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding
Common Stock, P1 par value	261,824,002

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

Yes ☒ No ☐

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 ☐

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PART I – FINANCIAL INFORMATION

Item 1. – Summary Financial Information

The interim financial statements of FERRONOUX HOLDINGS, INC. (formerly AG Finance Incorporated) as at September 30, 2018, with comparative audited figures as at December 31, 2017 and for the nine-month period ending September 30, 2017, were prepared in compliance with generally accepted accounting principles and there were no changes made in accounting policies and methods of computation.

Summary of Income Statements for the nine-month period ending September 30, 2018 and 2017.

	For nine months ending September 30		For three months ending September 30	
	2018	2017	2018	2017
	(P'000)	(P'000)	(P'000)	(P'000)
Interest income	P4,914	P5,156	P1,638	P5,156
Other income	370	–	–	–
Total income	5,284	5,156	1,638	5,156
Operating expenses	(391)	(1,133)	(60)	(68)
Income before tax	4,893	4,023	1,578	5,088
Tax expense	–	–	–	–
Net income for the period	P4,893	P4,023	P1,578	P5,088

Summary of Balance Sheet as at September 30, 2018 and December 31, 2017

	Sept. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Sept. 30, 2018 vs. Dec. 31, 2017	
	(P'000)	(P'000)	Amount Increase (decrease)	Percentage Increase (decrease)
	(P'000)	(P'000)	(P'000)	(%)
Current assets	P2,314	P2,351	(P37)	(2%)
Noncurrent assets	321,414	316,500	4,914	2%
Total Assets	323,728	P318,851	4,877	2%
Current liabilities	P494	P510	(P16)	(3%)
Noncurrent liabilities	–	–	–	–
Total Liabilities	494	510	(16)	(3%)
Stockholders' Equity	323,234	318,341	4,893	2%
Total Liabilities and Stockholders' Equity	P323,728	P318,851	P4,877	2%

Summary of Statements of Cash Flows for the nine-month period ending September 30, 2018 and 2017.

	For nine months ending September 30		For three months ending September 30	
	2018 (P'000)	2017 (P'000)	2018 (P'000)	2017 (P'000)
Cash (used) provided in operating activities	(P67)	P31	P-	(P68)
Cash at the beginning of period	141	325	74	424
Cash at the end of period	P74	P356	P74	P356

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

The following discussion and analysis is based on the financial statements for the nine-month period ending September 30, 2018 compared with the audited figures as at December 31, 2017 and for the nine-month period ending September 30, 2017.

2.a - Results of Operations

Interest Income

Interest income was P4.91 million for the nine-month period ending September 30, 2018 compared to P5.12 million for the same period in 2017. The decrease in interest income is due to lower interest accretion on notes receivable for the current year compared to the same period last year.

Operating expenses

Operating expenses were P0.39 million for the nine-month period ending September 30, 2018 compared to P1.13 million for the same period in 2017, a decrease of P0.74 million or 65%. The decrease in operating expenses is due to lower taxes and licenses and professional fees incurred this year versus last year.

2.b - Statements of Financial Position

The significant changes in the Statements of Financial Position during the nine-month period ending September 30, 2018 compared to December 31, 2017 are as follows:

- Total assets were P323.73 million as at September 30, 2018 compared to P318.85 million as at December 31, 2017, an increase of P4.88 million or 2%. The increase is due to the accretion of interest on the notes receivables.
- Total liabilities decreased by P0.02 million or 3% from P0.51 million as at December 31, 2017 to P0.49 million in the current period mainly due to decrease of accruals this year.
- Total equity increased by P4.89 million or 2% mainly due to the recognition of interest income for the nine-month period ending September 30, 2018.

2.c - Statements of Cash Flows

The net cash used in operating activities amounted to P0.07 million for the nine-month period ending September 30, 2018 compared to net cash generated in the same period in 2017 amounting to P0.03 million. The net cash provided in the same period in 2017 of P0.03 million was due to the increase in accrued expenses.

The cash as at September 30, 2018 and 2017 amounted to ₱0.07 million and ₱0.36 million, respectively.

2.d - Horizontal and Vertical Analysis

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)	Increase (Decrease)	
			Amount	Percentage
ASSETS				
Current Assets				
Cash	₱74,094	₱141,399	(₱67,305)	(48%)
Other current assets	2,240,349	2,209,629	30,720	1%
Total Current Assets	2,314,443	2,351,028	(36,585)	(2%)
Noncurrent Asset				
Notes receivable	321,413,641	316,499,592	4,914,049	2%
	₱323,728,084	₱318,850,620	₱4,877,464	2%
LIABILITIES AND EQUITY				
Current Liabilities				
Accrued expenses and other current liabilities	₱494,412	₱509,990	(₱15,578)	(3%)
Equity				
Capital stock	261,824,002	261,824,002	—	—
Additional paid-in capital	74,277,248	74,277,248	—	—
Deficit	(12,867,578)	(17,760,620)	4,893,042	(28%)
Total Equity	323,233,672	318,340,630	4,893,042	2%
	₱323,728,084	₱318,850,620	₱4,877,464	2%

FINANCIAL INDICATORS

	September 30, 2018	December 31, 2017
Net Income (Loss)	4,893,042	(15,555,532)
Quick Assets	74,094	141,399
Current Assets	2,314,443	2,351,028
Total Assets	323,728,084	318,850,620
Current Liabilities	494,412	509,990
Total Liabilities	494,412	509,990
Stockholders' Equity	323,233,672	318,340,630
Number of Common Shares Outstanding	261,842,002	261,842,002

Current Ratio (1)	4.68	4.61
Debt to Equity Ratio (2)	0.002	0.002
Asset to Equity Ratio (3)	1.00	1.00
Return on Assets (4)	2%	(5%)
Return on Equity (5)	2%	(5%)
Book Value per Share (6)	₱1.23	₱1.22

- (1) Current assets divided by current liabilities
- (2) Total liabilities divided by equity
- (3) Total assets divided by equity
- (4) Net income divided by average assets
- (5) Net income divided by average equity
- (6) Total common stockholder's equity divided by number of common shares

OTHER INFORMATION

- a. There are no known trends, demands, commitments, events or uncertainties that have a material impact on the Company's liquidity.
- b. There are no events that will trigger direct or contingent financial obligation that is material to the Company.
- c. There are no material off-balance sheet transactions, arrangements, obligations, and other relationships of the company with unconsolidated entities, or other persons were created during the interim period.
- d. There are no material commitments for capital expenditures during the interim period.
- e. There are no known trends, events or uncertainties that have or are reasonably expected to have a material impact on net sales/ revenues/ income from continuing operations.
- f. There is no significant income or expense that did not arise from the Company's continuing operations.
- g. There is no seasonal aspect that had a material effect on the financial condition or results of operation.

PART II - OTHER INFORMATION

The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

PART III - FINANCIAL SOUNDNESS INDICATORS

Liquidity	Current Ratio (1)	4.68
	Quick Ratio (2)	0.15
Solvency	Debt to Equity Ratio (3)	0.002
	Debt Ratio (4)	0.002
Profitability	Asset to Equity Ratio (5)	1.00
	Return on Assets (6)	2%
	Return on Equity (7)	2%
	Book Value per Share (8)	₱1.23

- (1) *Current assets divided by current liabilities*
- (2) *Quick assets divided by total current liabilities*
- (3) *Total liabilities divided by equity*
- (4) *Total liabilities divided by total assets*
- (5) *Total assets divided by total equity*
- (6) *Net income divided by average assets*
- (7) *Net income divided by average equity*
- (8) *Total common stockholder's equity divided by number of common shares*


SIGNATURES

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

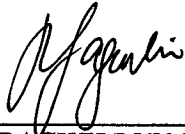
Issuer: **FERRONOUX HOLDINGS, INC.**

Date: October 15, 2018

By:



ERWIN TERRELL Y. SY
Chief Financial Officer



RACHELLYN S. AGUILAR
Chief Accountant

ANNEX A

FERRONOUX HOLDINGS, INC.
(formerly AG FINANCE INCORPORATED)
STATEMENTS OF FINANCIAL POSITION

		September 30, 2018	December 31, 2017
	Notes	(Unaudited)	(Audited)
ASSETS			
Current Assets			
Cash	4	₱74,094	₱141,399
Other current assets		2,240,349	2,209,629
Total Current Assets		2,314,443	2,351,028
Noncurrent Asset			
Note receivable	5	321,413,641	316,499,592
		₱323,728,084	₱318,850,620
LIABILITIES AND EQUITY			
Current Liabilities			
Accrued expenses and other current liabilities	6	₱494,412	₱509,990
Equity			
Capital stock		261,824,002	261,824,002
Additional paid-in capital		74,277,248	74,277,248
Deficit		(12,867,578)	(17,760,620)
Total Equity		323,233,672	318,340,630
		₱323,728,084	₱318,850,620

See accompanying Notes to Financial Statements.

ANNEX A**FERRONOUX HOLDINGS, INC.**
(formerly AG FINANCE INCORPORATED)**STATEMENTS OF COMPREHENSIVE INCOME**

	Notes	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
INCOME			
Interest income	8	₱4,914,058	₱6,419,953
Other income		370,000	—
		5,284,058	6,419,953
EXPENSES	9	(391,016)	(1,728,763)
OTHER CHARGES - NET		—	(20,641,768)
INCOME (LOSS) BEFORE INCOME TAX		4,893,042	(15,950,578)
PROVISION FOR INCOME TAX		—	(395,046)
NET INCOME (LOSS)		₱4,893,042	(₱15,555,532)
BASIC EARNINGS (LOSS) PER SHARE	10	₱0.019	(₱0.059)

See accompanying Notes to Financial Statements.

ANNEX A

FERRONOUX HOLDINGS, INC.
(formerly AG FINANCE INCORPORATED)

STATEMENTS OF COMPREHENSIVE INCOME

		Nine Months ended September 30		Three Months ended September 30	
		2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
	Notes				
INCOME					
Interest income	8	P4,914,058	P5,156,177	P1,638,016	P5,155,675
Other income		370,000	—	—	—
		5,284,058	5,156,177	1,638,016	5,155,675
EXPENSES	9	(391,016)	(1,133,112)	(60,000)	(67,875)
INCOME BEFORE INCOME TAX		4,893,042	4,023,065	1,578,016	5,087,800
PROVISION FOR INCOME TAX		—	—	—	—
NET INCOME		P4,893,042	P4,023,065	P1,578,016	P5,087,800
BASIC EARNINGS PER SHARE	10	P0.019	P0.015	P0.006	P0.019

See accompanying Notes to Financial Statements.

ANNEX A**FERRONOUX HOLDINGS, Inc.**
(formerly AG FINANCE INCORPORATED)**STATEMENTS OF CHANGES IN EQUITY**
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

	September 30	
	2018	2017
	(Unaudited)	(Unaudited)
CAPITAL STOCK - ₱1 par value		
Authorized - 550,000,000 shares		
Issued and outstanding -		
261,842,002 shares	₱261,824,002	₱261,824,002
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning and end of period	74,277,248	74,277,248
DEFICIT		
Balance at beginning of period	(17,760,620)	(2,205,088)
Net income	4,893,042	4,023,065
Balance at end of the period	(12,867,578)	1,817,977
	₱323,233,672	₱337,919,227

See accompanying Notes to Financial Statements.

ANNEX A

FERRONOUX HOLDINGS, Inc.
(formerly AG FINANCE INCORPORATED)

STATEMENT OF CASH FLOWS

	Three-month period ended September 30	
	2018	2017
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	₱1,578,016	₱5,087,800
Adjustment for:		
Interest income	(1,638,016)	(5,155,675)
Operating loss before changes in working capital	(60,000)	(67,875)
Increase in accrued expenses and other current liabilities	60,000	-
Net cash used in operations	-	(67,875)
Interest received	-	167
Net cash used in operating activities	-	(67,708)
CASH AT BEGINNING OF PERIOD	74,094	423,819
CASH AT END OF PERIOD	₱74,094	₱356,111

See accompanying Notes to Financial Statements.

ANNEX A

FERRONOUX HOLDINGS, Inc.
(formerly AG FINANCE INCORPORATED)
STATEMENT OF CASH FLOWS

		Nine-month period ended September 30	
	Notes	2018 (Unaudited)	2017 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		₱4,893,042	₱4,023,065
Adjustment for:			
Interest income	8	(4,914,058)	(5,156,177)
Operating loss before changes in working capital		(21,016)	(1,133,112)
Decrease (increase) in other current assets		(30,720)	500
Increase (decrease) in accrued expenses and other current liabilities		(15,578)	1,163,551
Net cash generated from (used in) operations		(67,314)	30,939
Interest received	4	9	670
Net cash provided by (used in) operating activities		(67,305)	31,609
CASH AT BEGINNING OF PERIOD		141,399	324,502
CASH AT END OF PERIOD		₱74,094	₱356,111

See accompanying Notes to Financial Statement

ANNEX A

FERRONOUX HOLDINGS, INC. **(formerly AG FINANCE INCORPORATED)**

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Ferronoux Holdings, Inc., formerly AG Finance Incorporated, (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 14, 2001 primarily to operate as a financing company and provide short-term, unsecured credit facilities to permanent rank-and-file employees of medium-sized companies in the Philippines.

The Company's business address transferred from Unit 2205A East Tower, Philippine Stock Exchange Center, Exchange Road, Ortigas Center, Pasig City to 6th Floor, Hanston Building, F. Ortigas, Jr. Road, Ortigas Center, Pasig City.

The Company's shares of stock were listed in the Philippine Stock Exchange (PSE) on August 13, 2013. As at June 30, 2018 and December 31, 2017, 261,824,002 shares of the Company are listed in the Philippine Stock Exchange (PSE).

On June 25, 2015, RYM Business Management Corp. (RYM) acquired 183,276,801 shares representing 70% interest in the Company from various stockholders.

On November 27, 2017, ISOC Holdings, Inc. (ISOC) entered into an agreement with RYM for the purchase of 175,422,081 common shares held by RYM equivalent to 67% interest in the Company. A mandatory tender offer was conducted for the benefit of the minority shareholders and the same was completed on January 3, 2018. Thus, the shares were crossed via the PSE on January 4, 2018.

Status of Operations

The Company's lending activities were winded down in 2015. Further, the Company has not conducted any other business activities since then. The Company's new shareholders have committed to provide financial support in order for the Company to continue as going concern. Also, the new shareholder is considering to implement changes in the Company's business structure and operations which may include infusing assets that will generate revenue.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of issuances by the International Financial Reporting Interpretations Committee, issued by the Financial Reporting Standards Council and adopted by the SEC, including SEC pronouncements.

Measurement Bases

The financial statements are presented in Philippine Peso (Peso), which is the Company's functional currency. All values are in absolute amount, unless otherwise stated.

The financial statements of the Company have been prepared on a historical basis. Historical cost is generally based on the fair value of the consideration given in exchange of an asset.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

The Company uses market observable data to a possible extent when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair value is included in Note 15, Financial Risk Management Objectives and Policies.

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Company adopted effective for annual periods beginning on or after January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

New and Amended PFRS in Issue but Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2017 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2018 –

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract. It will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

Effective for annual periods beginning on or after January 1, 2019 –

- PFRS 16, *Leases* – Significant change introduced by the new standard is that almost all leases will be brought onto lessees’ statements of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Company. Additional disclosures will be included in the notes financial statements, as applicable.

Financial Assets and Liabilities

Date of Recognition. Financial assets and liabilities are recognized in the statements of financial position when the Company becomes a party to the contractual provision of a financial instrument. Financial instruments are initially recognized at fair value. In the case of regular way purchase or sale of financial asset, recognition and derecognition, as applicable, is done using trade date accounting.

Initial Recognition. Financial assets and liabilities are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Classification. The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) held-to-maturity (HTM) investments, (c) loans and receivables and (d) available-for-sale (AFS) investments. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities at amortized cost. The classification depends on the purpose for which the financial instruments were acquired or incurred and whether or not the instruments are quoted in an active market.

“Day 1” Differences. Where the transaction in a non-active market is different from the fair value

of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a “Day 1” difference) in the statement of comprehensive income. In cases where there is no observable data on inception, the Company deemed the transactions price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference.

As at September 30, 2018 and December 31, 2017, the Company does not have financial assets and liabilities at FVPL, HTM investments and AFS financial assets.

Loans and Receivables. Loans and receivables are financial assets with fixed or determinable payments and fixed maturities and that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investments or financial asset at FVPL. Loans and receivables are included in current assets if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent assets.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and any transaction cost which are directly attributable in the acquisition of the financial instrument. The amortization is included in profit or loss.

This category includes cash and note receivable.

Other Financial Liabilities at Amortized Cost. Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or through borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as when there is amortization process.

This category includes accrued expenses and other current liabilities (excluding statutory payables).

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized by the Company when:

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

When the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the

Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset, if any, is measured at the lower of original carrying value of the asset and the maximum amount of consideration that the Company could be required to pay.

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

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Company could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the separate statements of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying value is adjusted by the costs or fees paid or received in the restructuring.

Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset, and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements where the related assets and liabilities are presented gross in the statements of financial position.

Impairment of Financial Assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The carrying value of the impaired account is reduced to the extent that it exceeds the asset's net realizable value. Impairment losses are recognized in full in profit or loss. If in a subsequent period, the amount of accumulated impairment losses has decreased because of an event occurring after impairment was recognized, the decline is allowed to be reversed to profit or loss to the extent that the resulting carrying value will not exceed the amortized cost determined had no impairment been recognized.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for

impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying value of the asset shall be reduced directly or through the use of an allowance account. The amount of loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Other Current Assets

Other current assets primarily include creditable withholding taxes (CWT).

CWT. CWT are amounts withheld from income subject to expanded withholding taxes. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued.

Additional Paid-in Capital (APIC). Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as APIC. Incremental costs directly attributable to the issuance of new shares are treated as deduction from equity, net of tax.

Deficit. Deficit represents the accumulated net income or loss, less any dividends declared.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is recognized as follows:

Interest Income. Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

Processing Fees. Processing fees are recognized at the time the loan contract was agreed with the borrowers to the extent of the cost incurred for processing of the loans extended.

Penalties. Penalties are recognized based on a certain percentage of monthly amortizations that were collected beyond due date.

Other income. Income from other sources is recognized when earned.

Expense Recognition

Expenses are recognized in profit or loss when there is a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably.

Employee Benefits

Short-term Benefits. The Company provides short-term benefits to its employees in the form of basic 13th month pay, bonuses, employer's share on government contribution, and other

short-term benefits. Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. The Company has an unfunded, noncontributory defined benefit plan covering all qualified employees. The retirement benefits cost is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Company recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements and interest expense in profit or loss. Interest expense is calculated by applying the discount rate to the retirement liability or asset. Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Company recognizes restructuring-related costs.

Remeasurements comprising actuarial gains and losses are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The retirement liability is the aggregate of the present value of the defined benefit obligation. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

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

Income Taxes

Current Tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate used to compute the amount is the one that has been enacted or substantively enacted at the reporting date.

Deferred Tax. Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry-forward benefits of any unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and any unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward benefits of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate that has been enacted or substantively enacted at the reporting date.

Deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items directly recognized in equity as other comprehensive income.

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

Earnings per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to capital stockholders by the weighted average number of capital stock outstanding during the year, with retroactive adjustments for any stock dividends declared and stock split.

Diluted EPS is calculated by adjusting the weighted average number of capital stock outstanding to assume conversion of all dilutive potential ordinary shares.

Where the EPS share effect of potential dilutive capital stock would be anti-dilutive, basic and diluted EPS are stated at the same amount.

Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Company's other components.

The Company's operating segment consists only of lending activities which was winded down in 2015. As discussed in Note 1, the Company's application with the SEC for the change of its principal purpose to a holding company was approved on February 6, 2018.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingencies

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

Events after the Reporting Date

Post year-end events that provide additional information about the Company's financial position at the end of reporting period (adjusting events) are reflected in the financial statements when material. Post year-end events that are non-adjusting are disclosed in the notes to financial statements when material.

3. Significant Judgments, Accounting Estimates and Assumptions

PFRS requires management to exercise judgments and make estimates and assumptions that affect the amounts reported in the financial statements. The judgment and estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. The estimates and underlying assumptions are reviewed on an on-going basis. Actual results could differ from such estimates.

Judgements

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

Accounting for Operating Lease - Company as a Lessee. The Company, as a lessee, has an operating lease agreement for its office space. The Company has determined that the risks and benefits of ownership related to the leased properties are retained by the lessor. Accordingly, the lease is accounted for as an operating lease.

Rent expense amounted to nil in September 30, 2018 and 2017.

Estimates and Assumptions

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

Assessing Note Receivable for Impairment. The Company maintains allowance for receivable impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behaviour and known market factors. The Company identifies and provides for specific accounts that are doubtful of collection and reviews the age and status of the remaining receivables and establishes a provision considering, among others, historical collection and write-off experience.

As discussed in Note 5, the Company waived the interest on notes receivable resulting in a loss on modification of terms amounting to ₱24.1 million in 2017. The carrying amount of note receivable amounted to ₱321.4 million and ₱316.5 million at September 30, 2018 and December 31, 2017, respectively (see Note 5).

Assessing Realizability of Deferred Tax Assets. The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets were not recognized on temporary differences and carry forward benefits of unused NOLCO and MCIT as at September 30, 2018 and December 31, 2017 because the management has assessed that there will be no sufficient taxable profits against which deferred tax assets can be utilized.

The Company's unrecognized deferred tax assets amounted to ₱18.0 million and ₱19.5 million as at September 30, 2018 and December 31, 2017, respectively.

4. Cash

Cash in bank amounting to ₱0.1 million as at September 30, 2018 and December 31, 2017, earn interest at prevailing bank deposit rates. Interest income earned amounted to ₱9 and ₱670 in September 30, 2018 and 2017, respectively.

5. Note Receivable

On May 5, 2015, the Company's outstanding loans receivables with carrying amount of ₱344.2 million, net of allowance for impairment loss of ₱40.9 million, were exchanged for a five-year note receivable with a nominal amount of ₱332.6 million, resulting to a loss of ₱11.6 million. The note receivable bears interest rate at 5% per annum on unpaid principal amount beginning June 6, 2017.

In 2017, the Company agreed to waive the interest on the note. The waiver resulted to a loss on modification of terms amounting to ₱24.1 million.

Movements in this account are shown below:

	September 30, 2018	December 31, 2017
Nominal amount	₱316,499,592	₱332,639,733
Net accretion of (unamortized) "Day-1 "difference	4,914,049	(16,140,141)
	₱321,413,641	₱316,499,592

Accretion of interest income amounted to ₱4.9 million and ₱6.4 million as at September 30, 2018 and December 31, 2017, respectively. (see Note 8)

6. Accrued Expenses and Other Current Liabilities

This account consists of:

	Note	September 30, 2018	December 31, 2017
Due to a related party	7	₱420,455	₱—
Due to a third party		73,957	128,957
Accrued expenses		—	370,000
Statutory payables		—	11,033
		₱494,412	₱509,990

7. Related Party Transactions

Outstanding balance and transaction with related parties are as follows:

Nature of Transaction	Amount of Transaction		Outstanding Balance	
	September 30, 2018	December 2017	September 30, 2018	December 31 2017
Due to a related party				
Under common control	Advances for working capital purposes	₱420,455	₱—	₱420,455
				₱—

In 2017, the Company, recognized a reversal of liability to a related party amounting to ₱3.5 million. In 2018, the Company reclassified a liability to related party amounting to ₱0.1 million from due to a related party to due to a third party as a result of the purchase by ISOC of RYM's shares in the Company.

Key Management Personnel

The Company has no key management compensation in 2018 and 2017.

8. Interest Income

This account consists of:

	Note	September 30, 2018	September 30, 2017
Accretion	5	₱4,914,049	₱5,155,507
Cash in bank	4	9	670
		₱4,914,058	₱5,156,177

9. Expenses

Operating expenses for the nine-month period ending September 30, 2018 and 2017 consists of:

	2018	2017
PSE fees	₱256,000	₱288,960
Outside services	90,000	90,697
Director's fees	40,000	60,000
Taxes and licenses	500	492,292
Professional fees	—	123,200
Representation	—	5,000
Transportation & travel	—	
Others	4,516	72,963
	₱391,016	₱1,133,112

10. Earnings Per Share

Basic EPS for the nine-month period ending September 30, 2018 and 2017 were computed as follows:

	2018	2017
Net income	₱4,893,042	₱4,023,065
Weighted average number of common shares	261,824,002	261,824,002
	₱0.019	₱0.015

There has been no transaction involving common shares or potential common shares that occurred subsequent to the reporting dates.

11. Financial Risk Management Objectives and Policies

The Company has risk management policies that systematically view the risks that could prevent the Company from achieving its objectives. These policies are intended to manage risks identified in such a way that opportunities to deliver the Company's objectives are achieved. The Company's risk management takes place in the context of day-to-day operations and normal business processes such as strategic and business planning. Management has identified each risk and is responsible for coordinating and continuously improving risk strategies, processes and measures in accordance with the Company's established business objectives.

Financial Risks

The Company's financial instruments consist of cash in bank, note receivable and accrued expenses and other current liabilities (excluding statutory payables), which arise directly from its operations. The main risks arising from the use of these financial instruments are credit risk and liquidity risk. Management reviews and approves the policies for managing each of these risks which are summarized below.

Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation. The Company's exposure to credit risk arises primarily from cash in banks and note receivable.

The carrying value of financial assets recognized in the financial statements represents the company's maximum exposure to credit risk, without taking into account collateral or other credit enhancement.

The Company manages credit risk concentration by transacting with counterparties with good financial condition and with relatively low defaults.

The aging analyses of financial assets are as follows:

September 30, 2018					
	Neither Past Due Nor Impaired	Past Due But Not Impaired		Past Due And Impaired	Total
		Less Than 30 Days	31-60 Days		
Cash in bank	₱73,956	₱-	₱-	₱-	₱73,956
Note receivable	321,413,641	-	-	-	321,413,641
	₱321,487,597	₱-	₱-	₱-	₱321,487,597

December 31, 2017					
	Neither Past Due Nor Impaired	Past Due But Not Impaired		Past Due And Impaired	Total
		Less Than 30 Days	31-60 Days		
Cash in banks	₱141,261	₱-	₱-	₱-	₱141,261
Note receivable	316,499,592	-	-	-	316,499,592
	₱316,640,853	₱-	₱-	₱-	₱316,640,853

The credit quality of the Company's financial assets is being managed by using internal credit ratings such as high grade and standard grade.

High grade – pertains to counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal.

Standard grade - these are financial assets where collections are probable due to the financial ability of the counter party to pay but have been outstanding for a certain period of time.

Cash in banks are entered into with reputable financial institutions duly approved by the BOD.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to settle or meet its financial obligations when they fall due. The Company aims to maintain flexibility by maintaining sufficient cash to meet all foreseeable cash needs.

The carrying amount of the accrued and other current liabilities (excluding statutory payables) as at September 30, 2018 and December 31, 2017 represents the contractual undiscounted cash flows and is payable on demand.

Fair Value Measurement

Set out below is a comparison by category of carrying values and fair values of the Company's financial instruments that are carried in the financial statements:

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash in bank	₱73,956	₱73,956	₱141,399	₱141,399
Note receivable	321,413,641	321,413,641	316,499,592	303,107,082
	₱321,487,597	₱321,487,597	₱316,640,991	₱303,248,481
Financial Liabilities				
Accrued and other current liabilities*	₱494,412	₱494,412	₱498,957	₱498,957

**Excluding statutory payables amounting to nil and ₱11,033 as at September 30, 2018 and December 31, 2017, respectively.*

The carrying values of cash in bank and accrued and other current liabilities (excluding statutory payables) approximate their fair values due to their short term nature of transactions.

Note Receivable. The fair value of the Company's note receivable was determined based on the discounted cash flow analysis using effective interest rates for similar types of instruments. This financial instrument is classified under Level 2 (significant observable inputs) of the fair value hierarchy groups in the financial statements.

12. Capital Management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to shareholders by creating products and services commensurate with the level of risk. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares or convert related party advances to an equity component item.

The Company monitors its capital using the debt to equity ratio, which is the total liabilities divided by the total equity.

There has been no change made in the objectives, policies and process in September 30, 2018 and December 31, 2017.