

SECURITIES AND EXCHANGE COMMISSION
Metro Manila, Philippines

SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 11 OF THE REVISED
SECURITIES ACT AND RSA RULE 11(a)-1(b)(2) THEREUNDER

1. For the quarterly period ended **31 March 2018**
2. SEC Identification Number **39652**
3. BIR Tax Identification No. **004-844-938**
4. **Medco Holdings, Inc.**
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization
6. (SEC Use Only)
Industry Classification Code
7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,
Makati City, Metro Manila, Philippines** **1229**
Address of principal office
Postal Code
8. Registrant's telephone number, including area code: **(632) 811-0465 to 66**
9. Securities registered pursuant to Sections 4 and 8 of the RSA

| <u>Title of each class</u> | <u>Number of shares of common stock outstanding and amount debt outstanding</u> |
|----------------------------|---|
| Common | 700,000,000 shares |

10. Are any or all of these securities listed on the Philippine Stock Exchange. Yes [/] No []

11. Check whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 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 90 days.

Yes [/] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

See Attachment A

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

2018 - First Quarter Financial Highlights

The Company's total revenues for the first quarter of 2018 increased by 167% compared to the previous year's first quarter figure. During the quarter under review, the revenue account consisted of interest income from bank deposits and short-term placements (93%) and unrealized foreign exchange gain (7%). The increase in the revenue account was due mainly to the higher amount of interest income from time deposit placements with a local bank.

The total expenses decreased by 17% compared to last year's first quarter. The expenses for this quarter were composed of salaries and employees' benefits (51%), PSE fees (21%), professional fee (8%), occupancy (6%), representation (4%), taxes and licenses (3%) and other expenses (7%). The decrease in the expenses was mainly due to the lower professional fees paid this quarter which decreased by 71%. Also, insurance expense and general operating expenses were lower this quarter as compared to previous year's first quarter. Other than these, there was no significant movement in the other expense components.

As to the balance sheet as at the end of this quarter, there was a 3% decrease in the total assets as compared to last year. The decrease was due mainly to cash & cash equivalents account which is 26% lower, resulting from the withdrawals in deposit placements for the Company's working capital requirements. There was no significant change noted in the total liabilities.

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons during the reporting period.

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. The Company does not also anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets which as at March 31, 2018 consisted of P8.3 million of cash and cash equivalents. Its external sources of liquidity would consist of, among others, advances from its affiliate companies or major shareholders.

2017 - First Quarter Financial Highlights

Total consolidated revenues for the first quarter of 2017 increased enormously by 4751% compared to the previous year's first quarter figure. During the quarter under review, the revenue account only consisted of interest income from bank deposits and short-term placements. There was no cash dividend for this quarter. The increase in the revenue account was due to the higher amount of cash and cash equivalents which were placed under time deposit and savings account with a local bank, consequently earning a higher interest income.

Total consolidated expenses increased by 18.79% compared to last year's first quarter. The expenses for this quarter were composed of salaries and wages (53%), occupancy (13%), professional fee (13%), PSE fees (9%), representation (5%), and other expenses (7%). The increase in the consolidated expenses was mainly brought about by the higher monthly auditor's retainer fee and the payment of other professional fee. Also, foreign exchange loss and insurance expense were incurred in this year's first quarter unlike in the previous year's first quarter. Other than these, there was no significant movement in the other expense components.

As to the balance sheet as at the end of this quarter, there was a 26.50% increase in the total assets as compared to last year. The increase in the cash and cash equivalents account was due to the cash advances received from a related party by the Company's major subsidiary, Medco Asia Investment Corporation (MAIC), thereby increasing the due to related parties account on the liabilities side. There was no significant change noted in the total liabilities.

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons during the reporting period.

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. The Company does not also anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at March 31, 2017 consisted of P15.8 million of cash and cash equivalents. Its external sources of liquidity would consist of, among others, advances from its affiliate companies or major shareholders.

2016 - First Quarter Financial Highlights

Consolidated revenues for the first quarter of 2016 decreased significantly by 96.26% compared to the previous year's first quarter figure. Consolidated revenues for this quarter consisted of interest income from short-term placement. Interest income contracted because of the reduction in the deposit placement due to withdrawals for the Company's working capital requirement. There was no dividend income received in the first quarter of 2016.

Consolidated expenses decreased by 11.10% compared to last year's first quarter. The expenses for this quarter were composed of salaries and wages (62%), occupancy (15%), PSE fees (10%), representation (6%), and other expenses (7%). The decrease in the consolidated expenses was mainly due to the decline in professional fees which decreased by 86% for this quarter as compared to last year's first quarter. Also, no utilities expense and membership fees and dues were incurred during this quarter unlike in the previous year's first quarter. Other than these, there was no significant movement in the other expense components.

As to the balance sheet as at the end of this quarter, total assets decreased by 3.30% as compared to last year. This decrease was due mainly to the decrease of 77% in the cash & cash equivalents account, which resulted from the withdrawals in deposit placements for the Company's working capital requirements. There was no significant change noted in the total liabilities.

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons during the reporting period.

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. The Company does not also anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at March 31, 2016 consisted of P.4 million of cash and cash equivalents. Its external sources of liquidity would consist of, among others, advances from its affiliate companies or major shareholders.

PART II - OTHER INFORMATION

Not applicable.

SIGNATURES

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

Medco Holdings, Inc.

By:


DIONISIO E. CARPIO, JR.
President


MARY ANN A. MIEL
Principal Accounting Officer

**First Quarter Top Five (5) Performance Indicators
March 31, 2018, 2017 and 2016**

| | | Medco Holdings, Inc. | | |
|----------------------------|---|----------------------|---------------------|---------|
| | | <u>The Company</u> | <u>Consolidated</u> | |
| | | 2018 | 2017 | 2016 |
| 1. Revenue Growth | $\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$ | 167.06% | 4750.66% | -96.26% |
| 2. Net Income Growth* | $\frac{\text{Net Income Y1-Y0}}{\text{Net Income Y0}}$ | NA | NA | NA |
| 3. Return on Equity** | $\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$ | NA | NA | NA |
| 4. Current Ratio | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | 0.09x | 0.08x | 0.01x |
| 5. Debt-to-Equity- Ratio** | $\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$ | NA | NA | NA |

* Losses

** Capital Deficiency in 2018, 2017 and 2016

Note:

Y1= Current year

Y0= Previous year

ATTACHMENT A

MEDCO HOLDINGS, INC.

**Financial Statements
March 31, 2018, 2017, and 2016**

MEDCO HOLDINGS, INC.
BALANCE SHEETS
MARCH 31, 2018 AND DECEMBER 31, 2017

| | <u>2018</u> | <u>(Audited)</u> <u>2017</u> |
|--|----------------------------|---------------------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents (Note 7) | P 8,343,443 | P 11,266,113 |
| Available-for-sale financial assets (Note 8) | 31,268,750 | 31,268,750 |
| Receivables - net (Note 9) | 1,627,268 | 637,844 |
| Due from related parties (Note 13) | 1,952,000 | 1,352,000 |
| Other assets - Net (Note 10) | <u>55,503</u> | <u>59</u> |
| TOTAL ASSETS | P <u>43,246,964</u> | P <u>44,524,766</u> |
| <u>LIABILITIES AND EQUITY</u> | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses (Note 11) | P 123,091,487 | P 123,122,641 |
| Due to related parties (Note 13) | 3,150,000 | 3,150,000 |
| Post employment benefit obligation (Note 14) | <u>1,736,336</u> | <u>1,736,336</u> |
| | <u>127,977,823</u> | <u>128,008,977</u> |
| EQUITY | | |
| Capital stock - P1 par value | | |
| Authorized, issued & outstanding- 700,000,000 shares | 700,000,000 | 700,000,000 |
| Additional paid-in capital | 25,498,912 | 25,498,912 |
| Actuarial losses | (1,237,065) | (1,237,065) |
| Deficit | <u>(808,992,706)</u> | <u>(807,746,058)</u> |
| Total equity | <u>(84,730,859)</u> | <u>(83,484,211)</u> |
| TOTAL LIABILITIES AND EQUITY | P <u>43,246,964</u> | P <u>44,524,766</u> |

MEDCO HOLDINGS, INC.
STATEMENTS OF INCOME AND DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2018, 2017, and 2016

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|
| REVENUES | P 17,279 | P 6,470 | P 102 |
| EXPENSES | <u>1,260,490</u> | <u>1,520,876</u> | <u>1,046,099</u> |
| PROFIT (LOSS) BEFORE FINAL TAX | (1,243,211) | (1,514,406) | (1,045,997) |
| LESS: PROVISION FOR FINAL TAX | <u>3,436</u> | <u>-</u> | <u>-</u> |
| NET PROFIT (LOSS) | (1,246,647) | (1,514,406) | (1,045,997) |
| DEFICIT AT BEGINNING OF YEAR | <u>(807,746,059)</u> | <u>(806,294,123)</u> | <u>(809,537,547)</u> |
| DEFICIT AT END OF THE QUARTER | <u><u>(808,992,706)</u></u> | <u><u>(807,808,529)</u></u> | <u><u>(810,583,544)</u></u> |
| PROFIT (LOSS) PER SHARE (Note 16) | P <u><u>(0.002)</u></u> | P <u><u>(0.002)</u></u> | P <u><u>(0.001)</u></u> |

MEDCO HOLDINGS, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2018, 2017, and 2016

| | | <u>2018</u> | | <u>2017</u> | | <u>2016</u> |
|--|---|----------------------------|---|----------------------------|---|----------------------------|
| Capital stock- P1 par value | | | | | | |
| Authorized, issued and outstanding - 700,000,000 | P | 700,000,000 | P | 700,000,000 | P | 700,000,000 |
| Additional paid-in capital | | 25,498,912 | | 25,498,912 | | 25,498,912 |
| Actuarial profit (loss) | | (1,237,065) | | (1,631,163) | | (1,601,942) |
| Deficit | | | | | | |
| Balance, beginning of year | | (807,746,059) | | (806,294,123) | | (809,537,547) |
| Net profit (loss) | | <u>(1,246,647)</u> | | <u>(1,514,406)</u> | | <u>(1,045,997)</u> |
| Balance, end of quarter | | <u>(808,992,706)</u> | | <u>(807,808,529)</u> | | <u>(810,583,544)</u> |
| | | | | | | |
| Total equity | P | <u><u>(84,730,859)</u></u> | P | <u><u>(83,940,780)</u></u> | P | <u><u>(86,686,574)</u></u> |

MEDCO HOLDINGS, INC.
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2018, 2017 AND
FOR THE YEAR ENDED DECEMBER 31, 2017

| | March 31 | (Audited) December | March 31 |
|--|---------------------------|----------------------------|---------------------------|
| | 2018 | 31 | 2017 |
| | <u>2018</u> | <u>2017</u> | <u>2017</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit (loss) before tax | P (1,243,211) | P (1,427,630) | P (1,514,406) |
| Adjustments for: | | | |
| Gain on sale of subsidiary | - | (700,000) | - |
| Impairment losses | - | 202,433 | - |
| Interest income | (16,119) | (121,619) | (6,470) |
| Unrealized foreign exchange loss (gain) | (1,160) | (129) | - |
| Operating profit (loss) before working capital changes | <u>(1,260,490)</u> | <u>(2,046,945)</u> | <u>(1,520,876)</u> |
| Decrease (increase) in: | | | |
| Receivables | (989,424) | (6,847) | 2,693 |
| Other assets | (55,444) | (199,733) | (51,462) |
| Due from related parties | (600,000) | 7,650,000 | (500,000) |
| Increase (decrease) in: | | | |
| Due to related parties | - | (120,180,426) | - |
| Accounts payable and accrued expenses | (31,155) | 120,116,915 | (29,240) |
| Retirement benefit obligation | - | (3,476) | - |
| Cash provided by (used in) operating activities | <u>(2,936,513)</u> | <u>5,329,488</u> | <u>(2,098,885)</u> |
| Interest received | 16,119 | 121,619 | 6,470 |
| Cash paid for income taxes | <u>(3,436)</u> | <u>(24,306)</u> | <u>-</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>(2,923,830)</u> | <u>5,426,801</u> | <u>(2,092,415)</u> |
| CASH FLOWS FROM AN INVESTING ACTIVITY | | | |
| Proceeds from sale of subsidiary | <u>-</u> | <u>700,000</u> | <u>-</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds of borrowings from related parties | - | - | 19,731 |
| Repayment of amounts due to related parties | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Cash Provided by (Used in) Financing Activities | <u>0</u> | <u>0</u> | <u>19,731</u> |
| EFFECTS OF FOREIGN EXCHANGE ON REVALUATION | | | |
| OF CASH AND CASH EQUIVALENTS | <u>1,160</u> | <u>129</u> | <u>-</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (2,922,670) | 6,126,930 | (2,072,684) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>11,266,113</u> | <u>5,139,183</u> | <u>5,139,183</u> |
| CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR | P <u><u>8,343,443</u></u> | P <u><u>11,266,113</u></u> | P <u><u>3,066,499</u></u> |

MEDCO HOLDINGS, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018, 2017 AND 2016
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Corporate Information

Medco Holdings, Inc. (MHI or the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on October 23, 1969. The Company currently conducts business as an investment holding company. Its shares of stock are publicly traded at the Philippine Stock Exchange (PSE).

As at March 31, 2017 and 2016, the Company held ownership interest in the following companies:

| | <u>Percentage of Ownership</u> | <u>Notes</u> | <u>Nature of Business</u> |
|--|--|--------------|----------------------------|
| Subsidiaries: | | | |
| Medco Asia Investment Corporation (MAIC) | 64.54% | | Investment house |
| Safeharbor Holdings, Inc. (SHI) | 64.54% | (a) | Investment holding company |
| Outperform Holdings, Inc. (OHI) | 64.54% | (a) | Investment holding company |
| Associate – | | | |
| Export and Industry Bank, Inc. (EIB) | 10.31% | (b) | Banking institution |
| Notes: | | | |
| (a) | Indirectly owned through MAIC; dormant company | | |
| (b) | Includes direct ownership of 2.45% and indirect ownership through MAIC of 7.86%; under receivership. | | |

On April 27, 2017, the Company sold all of its investment holdings over MAIC to a third party. Accordingly, MAIC has been deconsolidated in the 2017 financial statements of the Company. In addition, the Company determined that it no longer has significant influence over EIB (see Notes 1.2 and 10).

MHI is 46.04% owned by Citivest Asia Limited (CAL), an entity engaged in investment holding and registered in the British Virgin Islands (BVI). CAL considers MHI as one of its principal associates.

The registered office of the Parent Company and its subsidiaries, which is also their principal place of business, is located at 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

1.2 Status of Operations

The Company incurred net losses of P1,246,647 in 2018, P1,514,406 in 2017 and P1,045,997 in 2016 which resulted in a capital deficiency of P84,730,859 and P83,484,211 as at March 31, 2018 and December 31, 2017, respectively.

The above condition indicates the existence of a material uncertainty which casts significant doubt on the ability of the Company to continue as a going concern. To address this material uncertainty, the Company's management finalized the planned recapitalization as its initial step. The proposed recapitalization plan, which includes the following, was approved by the Company's BOD and stockholders on May 31, 2017 and November 24, 2017, respectively, and will be implemented as soon as approved by the SEC:

- decrease in the authorized capital stock from P700,000,000 to P35,000,000 through a reduction in the par value per share from P1.00 to P0.05;
- reduction of the outstanding deficit by applying the resulting additional paid-in capital from the above capital restructuring and the current additional paid-in capital balance;
- increase in authorized capital stock from P35,000,000 to P470,000,000; and,
- private placement transactions covering the shares of stock subscription by Bonham Strand Investments Ltd. and Mr. Xu Han Jiang amounting to P2,459,292,441 common shares issued out of the increase in authorized capital stock which shall be paid through the assignment of the Parent Company's debts amounting to P122,964,622.

The Company is in the process of filing the necessary documents with SEC. As of March 31, 2017, the documents initially submitted by the Company are still being subjected to the evaluation by the SEC. Certain requirements are still being completed subsequent to the end of the reporting period. Accordingly, assigned liabilities to Bonham Strand Investments Ltd. and Mr. Xu Hanjiang are presented as Due to Bonham Strand Investments Ltd. and Due to Mr. Xu Hanjiang under the Accounts Payable and Other Liabilities account in the 2018 and 2017 statement of financial position (see Note 11).

In the meantime, to ensure that the Company can continue to operate as a going concern, CAL has committed to continue providing financial support until the Company's financial condition and performance improves and becomes self-sustaining.

The financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities which may result from the outcome of this material uncertainty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 *Basis of Preparation of Financial Statements*

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company has been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are prepared in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income and expenses and other comprehensive income in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2017 that are Relevant to the Company*

The Company adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

| | | |
|---------------------|---|--|
| PAS 7 (Amendments) | : | Statement of Cash Flows – Disclosure Initiative |
| PAS 12 (Amendments) | : | Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses |

Discussed below and in the succeeding page are the relevant information about these amendments.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above. Management has applied these amendments in the current year.
- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has no material impact on the Company's financial statements.

(b) *Effective in 2017 that is not Relevant to the Company*

Annual improvements to PFRS (2014-2016 Cycle) pertain to PFRS 12, *Disclosure of Interest in Other Entities*. It is effective for annual periods beginning on or after January 1, 2017 and covers the scope clarification on disclosure of summarized financial information for interest classified as held for sale. The same is not relevant to the Company's financial statements.

(c) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS, amendments, interpretations and annual improvements to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

(i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
- an expected loss model (ECL) in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income (FVTOCI) if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment of the Company's financial assets and liabilities as at March 31, 2018 and December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified the following areas that are expected to be most affected by the application of PFRS 9 (2014):

- On classification and measurement of the Company's financial assets, management expects that Receivables and Due from Related Parties will continue to be accounted for at amortized cost as these are held to hold and collect the associated cash flows.
- The Company's available-for-sale (AFS) financial assets, regardless if quoted or not, will be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition. Under PFRS 9, the cost method of recognizing AFS financial assets is no longer allowed and hence, AFS financial assets need to be measured at fair value.
- Most of the financial liabilities of the Company are measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the amortized cost classification for most of the financial liabilities will be retained.
- The ECL model will apply to the Company's Receivables and Due from Related Parties on which the Company will apply a simplified model of recognizing lifetime expected credit losses as these items do not have a significant financing component.

- (ii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.
- (iii) PFRS 15, *Revenue from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management does not expect significant impact of this new standard to the financial statements as it currently does not have revenue transactions from contracts with customers.
- (iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this interpretation has no material impact on the Group's financial statements.

- (v) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* (effective from January 1, 2018) is relevant to the Company. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.
- (vi) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of this amendment on the Company's financial statements.
- (vii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of these amendments on the financial statements.
- (viii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right of use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in the Company's financial statements.

(ix) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019).

The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new interpretation on the financial statements.

(x) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

2.3 *Financial Assets*

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) *Classification and Measurement of Financial Assets*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: FVTPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the two categories of financial assets is as follows:

(i) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables.

The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Receivables and Due from Related Parties and Security deposits presented under Other Assets in the statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(ii) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS financial assets include equity securities.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(b) Impairment of Financial Assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Company recognizes impairment loss based on the category of financial assets as follows:

(i) Carried at Amortized Cost – Loans and Receivables

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

(ii) Carried at Fair Value – AFS Financial Assets

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) Items of Income and Expense Related to Financial Assets

All income and expenses, including impairment losses, relating to financial assets are recognized in the profit or loss section of the statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4 Other Assets

Other current assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

2.5 Financial Liabilities

Financial liabilities, which include accounts payable and other liabilities (except tax-related liabilities included therein) and due to related parties, are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in the profit or loss section of the statement of comprehensive income.

Accounts payable and other liabilities and due to related parties are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.6 Offsetting Financial Instruments

Financial assets and financial liabilities are set-off and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.7 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.8 Income and Expense Recognition

Income is recognized to the extent that the income can be reliably measured; it is probable that future economic benefits will flow to the Company; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before income is recognized:

(a) *Dividends* – Income is recognized when the Company’s right to receive the payment is established.

(b) *Interest* – Interest is recognized as the interest accrues taking into account the effective yield on the asset.

Expenses are recognized in profit or loss upon utilization of the goods or services or at the date they are incurred.

2.9 Leases - Company as Lessee

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.10 Foreign Currency Transactions and Translation

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.11 Segment Reporting

Operating segments, which applies only to the Company's financial statements, are reported in a manner consistent with the internal reporting provided to the Company's strategic steering committee, its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Company's service lines as disclosed in Note 4, which represent the main services provided by the Company.

The operating segment is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All intersegment transfers, if any, are carried out at arm's length prices.

The measurement policies the Company uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements, except that post-employment benefit expense are not included in arriving at the operating profit of the operating segments.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.12 Impairment of Non-financial Assets

The Company's investment in an associate and goodwill and other non-financial assets are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested for impairment either individually or at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.13 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan, certain defined contribution plans, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies. The Company's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually or every two years by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds, as published by Philippine Dealing & Exchange Corp., that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Expense or Interest Income account in the statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) Defined Benefit Contribution Plans

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity (such as the Social Security System). The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.14 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax assets are to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.15 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

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. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control; (b) associates; (c) the Company's funded retirement plan; and, (d) individuals owning, directly or indirectly, an interest in the voting power of MHI that gives them significant influence over MHI and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.16 Capital Deficiency

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital represents premium received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves comprise unrealized gains and losses on fair value changes of AFS financial assets and remeasurements of defined benefit post-employment plan.

Deficit represents all current and prior period results as reported in the profit or loss section of the statement of comprehensive income.

2.17 Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net profit (loss) attributable to shareholders of the Company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current year, if any.

Diluted loss per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Company does not have potentially dilutive shares outstanding; hence, the diluted earnings (loss) per share is equal to the basic earnings (loss) per share.

2.18 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Determination of Significant Influence over Entities in which the Company Holds Less than 20% Ownership

The Company determines whether significant influence exists over EIB which the Company holds less than 20% ownership interest over the investee. The Company considers the ability to influence the operating and financial policies of the investee, representation on the board of directors of the investee and routine participation in management decision making.

As of December 31, 2017, management determined that it no longer have significant influence over EIB. Accordingly, the investment is reclassified as part of Other Assets in the 2017 statement of financial position (see Note 10).

(b) Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Company's AFS financial assets, management concluded that the assets, except the portion that has already been provided with allowance for impairment, are not impaired as at December 31, 2017 and 2016. Future changes in those information and circumstance might significantly affect the carrying amount of the assets (see Note 8).

(c) Distinction Between Operating and Finance Leases

The Company has entered in various lease agreements as lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. As at December 31, 2017 and 2016, management has determined that the current lease agreements are operating leases.

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.7.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Impairment of Receivables and Due from Related Parties

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Company's relationship with the counterparties and their current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

The carrying value of receivables and the analysis of allowance for impairment on such financial assets are shown in Note 9. There was no impairment loss recognized on the Group's due from related parties (see Note 14.3).

(b) *Fair Value Measurement of AFS Financial Assets*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of reporting period.

The carrying values of the Company's AFS financial assets are disclosed in Note 8. There were no fair value changes recognized on these assets in 2018 and 2017.

(c) *Determining Realizable Amounts of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period 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. No deferred tax assets were recognized as of December 31, 2017 and 2016 since the Company's management believes that it will not be able to generate sufficient taxable profit in the coming years against which the assets can be utilized (see Note 16).

(d) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.12). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Accumulated impairment loss recognized on the Company's goodwill and other non-financial assets is disclosed in Note 10 while accumulated impairment losses recognized on the Company's Investment in an Associate are also discussed in Note 10.

(e) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by an independent actuary in calculating such amounts. Those assumptions include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 15.

4. SEGMENT REPORTING

4.1 *Business Segments*

The Company is engaged into investment holding activities. In identifying its operating segments, management generally follows the Company's service lines. These are also the basis of the Company for management assessment of each unit and the basis of the Company in reporting to its strategic steering committee for its strategic decision-making activities.

Investment holding consists mainly of investment holding activities of the Company.

4.2 *Segment Assets and Liabilities*

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash, AFS financial assets and receivables, net of allowance and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

4.3 *Analysis of Segment Information*

The Company's segment information for the quarters ended March 31, 2018, 2017 and 2016 follows:

| | <u>Investment Holding</u> |
|----------------------------------|-------------------------------|
| 2018 | |
| Segment revenues | P 17,279 |
| Operating expenses | <u>1,260,490</u> |
| Segment operating loss | P <u>1,243,211</u> |
| Total Segment Assets | P <u>43,246,964</u> |
| Total Segment Liabilities | P <u>127,977,823</u> |

| | |
|---------------------------------|----------------------|
| <u>2017</u> | |
| Segment revenues | P 6,470 |
| Operating expenses | <u>1,520,876</u> |
| Segment operating loss | <u>P 1,514,406</u> |
| | |
| Total Segment Assets | <u>P 35,019,774</u> |
| | |
| Total Segment Liabilities | <u>P 101,545,331</u> |
| | |
| <u>2016</u> | |
| Segment revenues | P 102 |
| Operating expenses | <u>1,046,099</u> |
| Segment operating loss (income) | <u>P 1,045,997</u> |
| | |
| Total Segment Assets | <u>P 32,049,514</u> |
| | |
| Total Segment Liabilities | <u>P 123,536,089</u> |

Currently, the Group's operation is concentrated in the Philippines; hence, it has no geographical segment.

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks in relation to financial instruments. The main types of risks are market risk, credit risk, and liquidity risk. The Company's risk management is coordinated with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are described below and in the succeeding pages.

5.1 Market Risk

The Company is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates mainly arise from the Company's cash and cash equivalents and advances to and from related parties, which are primarily denominated United States (U.S.) dollars and Hong Kong (HK) dollars.

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's currency risk.

(b) Interest Rate Risk

The Company monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At March 31, 2018 and December 31, 2017, the Company is exposed to changes in market interest rates through its cash and cash equivalents which are subject to variable interest rates (see Note 7). Management believes that the impact of changes in market interest rates is not material to the financial statements. All other financial assets and financial liabilities are noninterest-bearing.

5.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments from granting receivables to customers including related parties and placing deposits with banks.

The Company continuously monitors defaults of customers and other counterparty, identified either individually or by group, and incorporates this information into its credit risk controls. The Company's policy is to deal only with creditworthy counterparties. Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to financial statements, as summarized below.

| | <u>Notes</u> | <u>2018</u> | <u>2017</u> |
|---------------------------|--------------|----------------------------|---------------------|
| Cash and cash equivalents | 7 | P 8,343,443 | P 11,266,113 |
| Receivables – net | 9 | 1,627,268 | 637,844 |
| Due from related parties | 13 | 1,952,000 | 1,352,000 |
| | | <u>P 11,922,711</u> | <u>P 13,255,957</u> |

None of the Company's financial assets are secured by collateral or other credit enhancements.

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) *Receivables and Due from Related Parties*

In respect of receivables and due from related parties, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information about counterparty default rates, management consider the credit quality of trade receivables that are not past due or impaired to be good.

The Company's management considers that all the above financial assets that are not impaired as at March 31, 2018 and December 31, 2017 are of good credit quality.

5.3 Liquidity Risk

The Company manages its liquidity needs by carefully monitoring cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

As at March 31, the Group's financial liabilities have contractual maturities of within one year as presented below.

| | <u>Notes</u> | <u>2018</u> | <u>2017</u> |
|--|--------------|----------------------|----------------------|
| Accounts payable and other liabilities | 11 | P 122,964,622 | P 123,065,622 |
| Due to related parties | 13 | <u>3,150,000</u> | <u>3,150,000</u> |
| | | <u>P 126,114,622</u> | <u>P 126,215,622</u> |

Due to the Company's financial condition, related parties have not required immediate payment of the amounts due to them to enable the Company to conduct normal business operations.

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

6.1 Capital Management Objectives, Policies and Procedures

The Company's capital management objectives are to ensure that the Company continues as a going concern. With the current financial condition of the Company, the management is working closely with the BOD for the recapitalization of the Company which it will then be able to use in its operating and future investing activities (see Note 1.2).

Relevant information is shown below.

| | | <u>2018</u> | <u>2017</u> |
|--------------------|---|-------------|---------------|
| Total liabilities | P | 127,977,823 | P 128,008,977 |
| Capital deficiency | | 84,730,859 | 83,484,211 |

As at March 31, 2018 and December 31, 2017, the Company is not subject to any externally imposed capital requirements.

6.2 Track Record of Registration of Securities

The Company has a total authorized capital stock of P700,000,000 divided into 700,000,000 common shares with a P1 par value which are issued and outstanding as at March 31, 2018 and December 31, 2017.

The Company's additional paid-in capital amounting to P25,498,912 represents premium received on the initial issuance of capital stock.

As at March 31, 2018 and December 31, 2017, the Company has 476 stockholders, owning 100 or more shares each of the Company's capital stock.

On November 18, 1975, the SEC approved the listing at the PSE of the Company's shares totalling 700,000,000. As at March 31, 2018 and December 31, 2017, there are 673 of the listed shares equivalent to 100% of the Company's total outstanding shares. Such listed shares closed at P0.56 per share and P0.60 per share as at March 31, 2018 and December 31, 2017, respectively. The Company has no other securities being offered for trading in any stock exchange. It did not list any other securities since its first listing of its securities.

7. CASH AND CASH EQUIVALENTS

This account consists of:

| | <u>2018</u> | <u>2017</u> |
|-----------------------|--------------------|---------------------|
| Cash on hand | P - | P - |
| Cash in banks | 1,343,443 | 2,191,589 |
| Short-term placements | <u>7,000,000</u> | <u>9,074,524</u> |
| | <u>P 8,343,443</u> | <u>P 11,266,113</u> |

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods between 30 to 35 days and earn annual effective interest ranging from 1.250% to 1.550% in 2018 and 1.250% to 1.600% in 2017.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

AFS financial assets consisting of shares of stock are summarized below.

| | <u>2018</u> | <u>2017</u> |
|--------------------------|----------------------|----------------------|
| Unquoted | P 76,268,750 | P 76,268,750 |
| Quoted | <u>-</u> | <u>-</u> |
| | 76,268,750 | 76,268,750 |
| Allowance for impairment | <u>(45,000,000)</u> | <u>(45,000,000)</u> |
| | <u>P 31,268,750</u> | <u>P 31,268,750</u> |

The fair values of quoted AFS financial assets have been determined directly by reference to published prices in active markets, (i.e., the PSE).

The investments in unquoted AFS financial assets of the Company as at March 31, 2018 and December 31, 2017 mainly pertains to the Company's investment in Manila Exposition Complex, Inc. (MEC) representing 18.18% ownership interests (P31,268,750) and investment in I-Mart Corporation representing 10% ownership interests (P45,000,000). The Company provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business. Management believes that its investments in MEC is not impaired as of March 31, 2018 and December 31, 2017.

9. RECEIVABLES

This account consists of the following:

| | <u>2018</u> | <u>2017</u> |
|--------------------------|----------------------|----------------------|
| Accounts receivable | 40,313,000 | P 40,313,000 |
| Advances to employees | 28,941 | 39,517 |
| Other receivables | <u>1,598,327</u> | <u>598,327</u> |
| | 41,940,268 | 40,950,844 |
| Allowance for impairment | <u>(40,313,000)</u> | <u>(40,313,000)</u> |
| | <u>P 1,627,268</u> | <u>P 637,844</u> |

The accounts receivable of the Company pertains to \$1.0 million advances granted to a foreign corporation. These advances, which has a book value of P40,313,000, as of March 31, 2018 and December 31, 2017 matured on August 31, 2000. Full allowance for impairment has been provided on this balance as management believes that it may no longer be collectible.

Other receivables pertain to the taxes and licenses paid by the Company in behalf of Classic Tycoon Investment Limited (CTIL) and Fair Navigator Limited (FNL), related parties under common ownership, with registered address at BVI. The outstanding receivables are unsecured, noninterest-bearing and collectible in cash on demand (see Note 13.2).

10. OTHER ASSETS

This account consists of the following:

| | <u>2018</u> | <u>2017</u> |
|--------------------------|------------------------|--------------------|
| Investment | P478,380,384 | P 478,380,384 |
| Input value added tax | 1,675,976 | 1,620,532 |
| Miscellaneous | 59 | 59 |
| | 480,056,419 | 480,000,975 |
| Allowance for impairment | (480,000,916) | (480,000,916) |
| | <u>P 55,503</u> | <u>P 59</u> |

The Company recognized impairment losses on its input VAT since management believes that the Company will not be able to offset such against any future tax liabilities.

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account consists of the following:

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------------|-----------------------------|
| Due to Bonham Strand Investment Ltd. | P 110,058,962 | P 110,058,962 |
| Due to Mr. Xu Hanjiang | 12,905,660 | 12,905,660 |
| Accrued expenses | 81,702 | 101,000 |
| Withholding tax payable | 45,163 | 57,019 |
| | <u>P 123,091,487</u> | <u>P 123,122,641</u> |

On May 31, 2017, the Company's due to related parties totalling to P120,180,426, accounts payable of P2,600,000, and accrued interest on these payables of P184,196 for the period of January to May 31, 2017, were assigned to Bonham Strand Investments Ltd. (BSIL) and Mr. Xu Hanjiang as a result of the Company's recapitalization plan (see Note 1.2). BSIL and Mr. Xu are the Company's prospective investors. Pending the completion of the filing of documents with the SEC, these have been presented as Due to Bonham Strand Investments Ltd. and Due to Mr. Xu Hanjiang under the Accounts Payable and Other Liabilities account in the 2018 and 2017 statement of financial position.

Accrued expenses primarily include unpaid professional fees as of the end of the reporting dates.

12. OTHER EXPENSES

This account consists of:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|-------------------------|-----------------|-----------------|----------------|
| Insurance | P 900 | P 3,286 | P - |
| Supplies | 3,934 | 3,500 | - |
| Repairs and maintenance | 17,500 | 4,500 | - |
| Miscellaneous | <u>6,977</u> | <u>23,004</u> | <u>9,400</u> |
| | <u>P 29,311</u> | <u>P 34,290</u> | <u>P 9,400</u> |

13. RELATED PARTY TRANSACTIONS

The Company's related parties include its ultimate parent company, stockholders, associate, other entities through common ownership and/or with interlocking directors, its retirement fund and key management personnel as described in the succeeding page.

13.1 Lease of Office Space

The Company leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party under common ownership of Lippo Group in Hong Kong, for a period of one year, renewable upon mutual agreement of the parties. Total rent charged to operations are presented as Occupancy in the statements of comprehensive income. The Company does not have any outstanding liabilities arising from these transactions as at March 31, 2018 and December 31, 2017.

13.2 Due from Related Parties

The Company grant advances to related parties for working capital requirements and other purposes. The advances are noninterest-bearing, unsecured, collectible in cash upon demand and presented as Due from Related Parties in the statements of financial position.

This account consists of the following as of March 31, 2018 and December 31, 2017:

| | <u>2018</u> | <u>2017</u> |
|--|--------------------|--------------------|
| Capital Place International, Ltd. | P 1,950,000 | P 1,350,000 |
| CTC Entrepreneurs Corp. | 1,000 | 1,000 |
| Keytrend Technologies Phils., Inc. (KTPI) | 1,000 | 1,000 |
| | <u>P 1,952,000</u> | <u>P 1,352,000</u> |

These entities are related parties of the Company by virtue of having interlocking directors and common executive officers. There was no impairment loss recognized with respect to amounts due from related parties based on management's assessment.

13.3 Due to Related Parties

Due to related parties pertain to noninterest-bearing, unsecured cash advances from related parties for working capital requirements and other purposes. The advances are generally payable in cash upon demand.

As of March 31, 2018 and December 31, 2017, this account consists of the following:

| | <u>2018</u> | <u>2017</u> |
|------------------------------|---------------------------|--------------------|
| Lippo Securities, Inc. (LSI) | P 3,150,000 | P 3,150,000 |
| | <u>P 3,150,000</u> | <u>P 3,150,000</u> |

In 2012, Lippo China Resources Limited, Inc. assigned its receivable from the Company totalling P117,600,527 to CTIL, FNL and CAL. CTIL and FNL are both related parties under common ownership; while CAL is the Company's stockholder.

On May 31, 2017, the balances due to related parties amounting to P120,180,426 were assigned to Bonham Strand Investments Ltd and Mr. Xu Hanjiang, third parties and prospective stockholders. As of March 31, 2018, the debt-to-equity conversion of the Company is yet to be approved by the SEC. Payables to the new assignees are presented as Due to Bonham Strand Investments Ltd and Due to Mr. Xu Hanjiang under Accounts Payable and Other Liabilities account in the 2018 and 2017 statement of financial position.

13.4 Key Management Personnel Compensation

The compensation and benefits provided to key management personnel generally consist of short-term employee benefits. These are presented as part of Employee Benefits in the statements of comprehensive income (see Note 15).

13.5 Transactions with the Retirement Fund

The retirement fund for the defined benefit post-employment plan is administered and managed by a trustee bank. The fair value and the composition of the plan assets as of March 31, 2018 and December 31, 2017 are presented in Note 15.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Company nor its investments covered by any restrictions or liens.

The details of the contributions of the Company and benefits paid out by the plan are presented in Note 15.2.

14. EMPLOYEE BENEFITS

14.1 Employee Benefits Expense

Details of salaries and employee benefits are presented below.

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|------------------------------------|--------------------|--------------------|--------------------|
| Short-term employee benefits | P 2,852,942 | P 2,852,942 | P 2,752,993 |
| Post-employment defined benefit | <u>180,191</u> | <u>180,191</u> | <u>192,049</u> |
| | <u>P 3,033,133</u> | <u>P 3,033,133</u> | <u>P 2,945,042</u> |

14.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Company maintains a partially-funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Company. The trustee bank managed the fund in coordination with the Company's Management Committee who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 65. The plan also provides for an early retirement at age 50 with a minimum of 10 years of credited service and voluntary separation with a minimum of five years of credited service, both subject to the approval of the Company's BOD. Normal retirement benefit is an amount equivalent to 100% of the final monthly salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made periodically or every two years to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2017.

The amounts of post-employment benefit obligation recognized in the statements of financial position are determined as follows:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------|--------------------|--------------------|
| Present value of obligation | P 2,694,965 | P 2,694,965 |
| Fair value of plan assets | (<u>958,629</u>) | (<u>958,629</u>) |
| | <u>P 1,736,336</u> | <u>P 1,736,336</u> |

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

15. CURRENT AND DEFERRED TAXES

The breakdown of the Company's NOLCO as at March 31, 2018, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

| <u>Year</u> | <u>Original Amount</u> | <u>Expired Balance</u> | <u>Remaining Balance</u> | <u>Valid Until</u> |
|-------------|----------------------------|----------------------------|------------------------------|------------------------|
| 2017 | P 7,896,164 | P - | P 7,896,164 | 2020 |
| 2016 | 5,213,225 | - | 5,213,225 | 2019 |
| 2015 | 4,848,777 | - | 4,848,777 | 2018 |
| 2014 | <u>5,438,289</u> | <u>5,438,289</u> | <u>-</u> | |
| | <u>P 23,396,455</u> | <u>P 5,438,289</u> | <u>P 17,958,166</u> | |

The Company is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations, or RCIT whichever is higher. There was no MCIT and RCIT incurred in 2017 and 2016 as the Company is in a gross and taxable loss position in both years.

In March 31, 2018, 2017 and 2016, each entity in the Group opted to claim itemized deductions in computing for its income tax due.

16. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted loss per share for the quarters ended March 31, 2018, 2017 and 2016 is computed as follows:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|----------------------|--------------------|--------------------|
| Net profit (loss) | (P 1,246,647) | (P1,514,406) | (P1,045,997) |
| Divided by the weighted average number outstanding shares | <u>700,000,000</u> | <u>700,000,000</u> | <u>700,000,000</u> |
| Basic and diluted earnings (loss) per share | (P 0.002) | (P 0.002) | (P 0.001) |

The Company has no potentially dilutive common shares as at March 31, 2018, 2017 and 2016.

17. COMMITMENTS AND CONTINGENCIES

17.1 Operating Lease Commitments

The Company is a lessee under a non-cancellable lease agreement covering certain office space. The lease is for a period of one year which may be renewed for another year. Future minimum lease payments of the Company as of March 31, 2018 amounts to P52,000, and P130,000 as of December 31, 2017.

17.2 Others

There are other commitments and contingencies that arise in the normal course of the Company's operations which are not reflected in the financial statements. As at March 31, 2018 and December 31, 2017, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Company's financial statements.

MEDCO HOLDINGS, INC.
AGING OF ACCOUNTS RECEIVABLE
As of March 31, 2018

| | NO OF DAYS OUTSTANDING | | | | |
|---------|------------------------|------------|---------------|----------------|------------------|
| | 1 -30 days | 31-60 days | 61-90 days | 91-120 days | Over 120 days |
| Various | P1,627,268 | P1,000,000 | | | P627,268 |