



# Medco Holdings, Inc.

May 11, 2017

**PHILIPPINE STOCK EXCHANGE, INC.**

Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City 1226

Attention: **Mr. Jose Valeriano B. Zuño III**  
**OIC- Head, Disclosure Department**

Re: **SEC Form 17-Q for March 31, 2017**

Gentlemen:

In compliance with the Philippine Stock Exchange (“PSE”) Disclosure Rules, please find attached the SEC Form 17-Q for the 1st quarter ended March 31, 2017.

We trust that you will find the foregoing in order.

Very truly yours,

**DIONISIO E. CARPIO, JR.**  
Corporate Information Officer

# COVER SHEET

SEC Registration Number

3	9	6	5	2						
---	---	---	---	---	--	--	--	--	--	--

Company Name

M	E	D	C	O		H	O	L	D	I	N	G	S	,		I	N	C	.		A	N	D		S	U	B	S	I	D	
I	A	R	Y																												

Principal Office (No./Street/Barangay/City/Town/Province)

3	1	s	t			F	L	O	O	R		R	U	F	I	N	O		P	A	C	I	F	I	C		T	O	W
E	R		6	7	8	4		A	Y	A	L	A		A	V	E	N	U	E		M	A	K	A	T	I		C	I
T	Y																												

Form Type

F	O	R	M		1	7	-	Q
---	---	---	---	--	---	---	---	---

Department requiring the report

--	--	--	--

Secondary License Type, If Applicable

--	--	--	--

## COMPANY INFORMATION

Company's Email Address

--

Company's Telephone Number/s

<b>(02) 811-0465 to 66</b>
----------------------------

Mobile Number

--

No. of Stockholders

--

Annual Meeting  
Month/Day

--

Fiscal Year  
Month/Day

<b>12/31</b>
--------------

## CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

<b>Mr. Dionisio E. Carpio, Jr.</b>
------------------------------------

Email Address

<b>denniscarpio@medco.com.ph</b>
----------------------------------

Telephone Number/s

<b>(02) 811-0465 to 66</b>
----------------------------

Mobile Number

--

Contact Person's Address

<b>31<sup>st</sup> Floor Rufino Pacific Tower 6784 Ayala Avenue, Makati City</b>
--

**Note:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.



## **PART I - FINANCIAL INFORMATION**

### Item 1. Financial Statements

**See Attachment A**

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

#### ***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.

**2015- First Quarter Financial Highlights**

Consolidated revenues for the first quarter of 2015 decreased significantly by 99.73% compared to the previous year's first quarter figure. Consolidated revenues for this quarter consisted mainly of interest income from bank deposits. The decrease in the revenue account was due to there being no cash dividend received this quarter. Cash dividend income comprised 99.96% of the previous year's first quarter revenues.

Consolidated expenses decreased by 8.82% compared to last year's first quarter. The expenses for this quarter were composed of salaries and wages (55%), occupancy (14%), PSE fees (9%), representation (5%), professional fee (5%) and other expenses (12%).

As to the balance sheet as at the end of this quarter, total assets decreased by 7% as compared to last year. This decrease was due mainly to the decrease of 56% 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, 2015 consisted of P2.3 million of cash and cash equivalents. Its external sources of liquidity would consist of, among others, advances from its affiliate companies or major shareholders.

**PART II - OTHER INFORMATION**

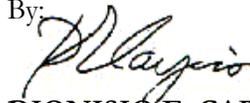
Not applicable.

**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, 2017, 2016 and 2015**

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2017	2016	2015	2017	2016	2015
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	4750.66%	-96.26%	-99.73%	1715.45%	-49.40%	-43.87%
2. Net Income Growth*	$\frac{\text{Net Income Y1-Y0}}{\text{Net Income Y0}}$	NA	NA	NA	NA	NA	NA
3. Return on Equity**	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	NA	NA	NA	NA	NA	NA
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.08x	0.01x	0.03x	0.13x	0.023x	0.035x
5. Debt-to-Equity-Ratio**	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	NA	NA	NA	NA	NA	NA

\* Losses

\*\* Capital Deficiency in 2017, 2016 and 2015

Note:

Y1= Current year

Y0= Previous year

**ATTACHMENT A**

**MEDCO HOLDINGS, INC. AND SUBSIDIARY**

**Financial Statements  
March 31, 2017, 2016, and 2015**

**MEDCO HOLDINGS, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2017 AND DECEMBER 31, 2016**

	<b>(Audited)</b>	
	<u>2017</u>	<u>2016</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents (Note 7)	P 15,836,151	P 5,351,515
Available-for-Sale Financial Assets (Note 8)	31,293,500	31,293,500
Receivables - Net (Note 9)	652,690	677,166
Due from related parties (Note 14)	2,127,635	2,061,527
Equity Investment- net ( Note 10)	-	-
Other Assets - Net (Note 11)	<u>555,645</u>	<u>508,821</u>
<b>TOTAL ASSETS</b>	<b>P <u>50,465,621</u></b>	<b>P <u>39,892,529</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses (Note 12)	P 5,019,565	P 5,080,003
Due to related parties (Note 14)	221,504,910	207,936,678
Post employment benefit obligation (Note 15)	<u>3,481,411</u>	<u>3,481,411</u>
	<u>230,005,886</u>	<u>216,498,092</u>
<b>EQUITY</b>		
Equity attributable to equityholders of the parent		
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
Fair value losses in available-for-sale financial assets	252	252
Actuarial Losses	(1,572,340)	(1,572,340)
Deficit	<u>(869,838,346)</u>	<u>(867,407,223)</u>
Total equity attributable to equityholders of the parent	(145,911,522)	(143,480,399)
Minority Interest	<u>(33,628,743)</u>	<u>(33,125,164)</u>
	<u>(179,540,265)</u>	<u>(176,605,563)</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P <u>50,465,621</u></b>	<b>P <u>39,892,529</u></b>

**MEDCO HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2017, 2016, and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUES	P 7,373 P	152 P	4,055
EXPENSES	<u>2,942,073</u>	<u>2,476,601</u>	<u>2,785,783</u>
LOSS BEFORE MINORITY SHARE IN NET INCOME	(2,934,700)	(2,476,449)	(2,781,728)
LESS: MINORITY SHARE IN NET LOSS	<u>(503,577)</u>	<u>(507,179)</u>	<u>(585,452)</u>
LOSS BEFORE FINAL TAX	(2,431,123)	(1,969,270)	(2,196,276)
LESS: PROVISION FOR FINAL TAX	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	(2,431,123)	(1,969,270)	(2,196,276)
DEFICIT AT BEGINNING OF YEAR (as restated)	<u>(867,407,223)</u>	<u>(866,070,729)</u>	<u>(862,051,550)</u>
DEFICIT AT END OF THE QUARTER	<u>(869,838,346)</u>	<u>(868,039,999)</u>	<u>(864,247,826)</u>
LOSS PER SHARE (Note 17)	P <u>(0.003)</u> P	<u>(0.003)</u> P	<u>(0.003)</u>

**MEDCO HOLDINGS, INC. AND SUBSIDIARY  
STATEMENTS OF CHANGES IN EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31, 2017, 2016, and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</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
Fair value loss in available-for-sale financial assets	252	252	252
Actuarial Losses	(1,572,340)	(1,645,195)	(1,668,578)
Deficit			
Balance, beginning of year (as restated)	(867,407,223)	(866,070,729)	(862,051,550)
Net loss	<u>(2,431,123)</u>	<u>(1,969,270)</u>	<u>(2,196,276)</u>
Balance, end of quarter	<u>(869,838,346)</u>	<u>(868,039,999)</u>	<u>(864,247,826)</u>
Total Equity Attributable to Equityholders of the Parent Company	<u>(145,911,522)</u>	<u>(144,186,030)</u>	<u>(140,417,240)</u>
Minority Interest	<u>(33,628,743)</u>	<u>(31,221,199)</u>	<u>(28,877,741)</u>
Total Equity	P <u>(179,540,265)</u> P	<u>(175,407,229)</u> P	<u>(169,294,981)</u>

**MEDCO HOLDINGS, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2017, 2016 AND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

		(Audited)	
	March 31	December 31	March 31
	<u>2017</u>	<u>2016</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss before tax and minority interest	P (2,934,700)	P (3,740,372)	P (2,476,449)
Adjustments for:			
Impairment Losses	-	135,163	-
Interest income	(7,373)	(4,840)	(152)
Unrealized foreign exchange loss (gain)	-	258,075	-
Decrease (increase) in:			
Receivables	24,476	(168,209)	40,426
Other assets	(46,824)	(166,972)	(40,440)
Due from related parties	(66,109)	(82,231)	(62,560)
Increase (decrease) in:			
Accounts payable and accrued expenses	(60,438)	2,556,671	(142,147)
Retirement benefit obligation	-	316,905	-
Cash provided by (used in) operating activities	<u>(3,090,968)</u>	<u>(895,810)</u>	<u>(2,681,322)</u>
Interest received	7,373	4,840	152
Cash paid for income taxes	<u>-</u>	<u>(948)</u>	<u>-</u>
Net Cash Provided by (Used in) Operating Activities	<u>(3,083,595)</u>	<u>(891,918)</u>	<u>(2,681,170)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds of borrowings from related parties	13,568,231	5,279,899	1,432,999
Repayment of amounts due to related parties	<u>-</u>	<u>(479,100)</u>	<u>-</u>
Net Cash Provided by (Used in) Financing Activities	<u>13,568,231</u>	<u>4,800,799</u>	<u>1,432,999</u>
<b>EFFECTS OF FOREIGN EXCHANGE ON REVALUATION  OF CASH AND CASH EQUIVALENTS</b>			
	<u>-</u>	<u>(182,533)</u>	<u>-</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	10,484,636	3,726,348	(1,248,171)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,351,515</u>	<u>1,625,167</u>	<u>1,625,167</u>
CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR P	<u>15,836,151</u> P	<u>5,351,515</u> P	<u>376,996</u>

**MEDCO HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2017, 2016 AND 2015**  
*(Amounts in Philippine Pesos)*

**1. GENERAL INFORMATION**

***1.1 Corporate Information***

Medco Holdings, Inc. (MHI or the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on October 23, 1969. The Parent Company currently conducts business as an investment holding company. Its shares of stock are publicly traded at the Philippine Stock Exchange (PSE). The Parent Company holds ownership interest in the following companies (MHI and subsidiaries are collectively referred to as the Group) as at March 31, 2017 and 2016:

	<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 7.86% and indirect ownership through MAIC of 2.45%; under receivership.		

MHI is 46.04% owned by Citivest Asia Limited (CAL), an entity engaged in investment holding and registered in the British Virgin Islands. 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 31<sup>st</sup> Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

***1.2 Status of Operations***

The Group incurred net losses of P2,431,123 in 2017, P1,969,270 in 2016, and P2,196,276 in 2015. Consequently, the Group reported capital deficiency of P179,540,265 and P176,605,563 as at March 31, 2017 and December 31, 2016, respectively. The Parent Company incurred net losses of P1,514,406 in 2017, P1,045,998 in 2016 and P1,130,514 in 2015. The Parent Company reported capital deficiency of P83,940,781 and P82,426,373 as at March 31, 2017 and December 31, 2016, respectively.

As disclosed in Note 10.2, the Group recognized full allowance for impairment on the carrying amount of the investment in EIB in 2011 (the carrying amount of the Group's investment in EIB represents substantial portion of the Group's consolidated assets). EIB is currently under government receivership.

The above conditions indicate the existence of a material uncertainty which casts significant doubt on the ability of the Group to continue as a going concern. To address this material uncertainty, the Parent Company's management is finalizing the recapitalization of the Group as its initial step. The proposed recapitalization plan, which includes the following, was approved by the Parent Company's stockholders on June 28, 2013 and will be implemented as soon as practicable:

- (a) decrease in the authorized capital stock from P700,000,000 to P7,000,000 through a reduction in the par value per share from P1.00 to P0.01;
- (b) increase in authorized capital stock from P7,000,000 to P470,000,000;
- (c) private placement transactions covering the issuance of new shares to its existing shareholders and/or third parties involving a total subscription amount of P117,600,526; and,
- (d) waiver of the requirement to conduct rights or public offering by a majority vote of the minority stockholders present or represented during the meeting.

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

The financial statements have been prepared assuming that the Group 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 page. 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 Group and the separate Parent Company have 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 Group presents all items of income and expenses and other comprehensive income in a single statement of comprehensive income.

The Group 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 Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

**2.2 Adoption of New and Amended PFRS**

*(a) Effective in 2016 that are Relevant to the Group*

The Company adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2016:

PAS 1 (Amendments)	:	Presentation of Financial Statements – Disclosure Initiative
PAS 27 (Amendments)	:	Separate Financial Statements – Equity Method in Separate Financial Statements
PFRS 10, PFRS 12 and PAS 28 (Amendments)	:	Consolidated Financial Statements, Disclosure of Interests in Other Entities, and Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception
Annual Improvements	:	Annual Improvements to PFRS (2012-2014 Cycle)

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

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure Initiative*. The amendments encourage entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendments clarify that an entity's share in other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements. The adoption did not result to any significant change in disclosures as the Company has already clear disclosures to begin with.
- (ii) PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*. These amendments introduce a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9 (2014), *Financial Instruments*. The Parent Company did not change its accounting on its subsidiaries, at cost method.
- (iii) PFRS 10 (Amendments), *Consolidated Financial Statements*, PFRS 12 (Amendments), *Disclosure of Interests in Other Entities*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception*. These amendments address the concerns that have arisen in the context of applying the consolidation exception for investment entities. It clarifies which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of PFRS 10 and clarifies whether the exemption to present consolidated financial statements, set out in paragraph 4 of PFRS 10, is available to a parent entity that is a subsidiary of an investment entity. These amendments also permit a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.
- (iv) Among the Annual Improvements to PFRS (2012-2014 Cycle), PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*, which clarify that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations, is relevant to the Company but had no material impact on the Company's financial statements as this amendment merely clarify the existing requirements.

*(b) Effective in 2016 that are not Relevant to the Group*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2016 but are not relevant to the Company's financial statements:

PAS 16 and 38 (Amendments)	:	Property, Plant and Equipment, and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 16 and 41 (Amendments)	:	Property, Plant and Equipment, and Agriculture – Bearer Plants
PFRS 11 (Amendments)	:	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
PFRS 14	:	Regulatory Deferral Accounts
Annual Improvements to PFRS (2012-2014 Cycle)	:	
PAS 34 (Amendments)	:	Interim Financial Reporting – Disclosure of Information “Elsewhere in the Interim Financial Report”
PFRS 5 (Amendments)	:	Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal
PFRS 7 (Amendments)	:	Financial Instruments: Disclosures – Servicing Contracts And Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements

*(c) Effective Subsequent to 2016 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2016, 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) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). 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). It requires 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, it suggests 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.

- (ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 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 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.

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 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.

Management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Company and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (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, *Transfer of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*, effective January 1, 2018. 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 is currently assessing the impact of this standard on the Company's financial statements.

- (iv) 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.
- (v) 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 its financial statements.

- (vi) 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.

### **2.3 Basis of Consolidation and Investments in Subsidiaries and an Associate**

The Parent Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries, as disclosed in Note 1.1, after the elimination of all intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

The Parent Company accounts for its investment in subsidiaries and an associate and non-controlling interest as follows:

#### *(a) Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Parent Company has control. The Parent Company controls an entity when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Parent Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.8).

*(b) Investment in an Associate*

An associate is an entity over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investment in an associate is initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in an associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associate are credited or charged against Equity in Net Earnings (Losses) of an Associate account in profit or loss.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.14).

Changes resulting from other comprehensive income of the associate recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Group as applicable. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

*(c) Transactions with Non-controlling Interests*

The Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests result in gains and losses for the Group that are also recognized in equity.

When the Parent Company ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Parent Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Non-controlling interests represent the interests not held by the Parent Company in MAIC.

The Parent Company holds interest in various subsidiaries and in an associate as presented in Note 10.

**2.4 Financial Assets**

Financial assets are recognized when the Group 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 available-for-sale (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 Group provides money, goods or services directly to a debtor with no intention of trading the receivables.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Receivables and Due from Related Parties 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 Group's AFS financial assets include equity securities, corporate bonds and gold club shares.

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 Group 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 Group 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 that are recognized in profit or loss are presented as part of Interest Income or Finance Costs account in 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 Group 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 Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## **2.5 Other Assets**

Other assets pertain to other resources controlled by the Group 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 Group and the asset has a cost or value that can be measured reliably.

## **2.6 Financial Liabilities**

Financial liabilities, which include accounts payable and other liabilities (except tax-related liabilities and retirement liabilities) and due to related parties, are recognized when the Group 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 profit or loss under the caption Finance Cost in 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.

## **2.7 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.

## **2.8 Business Combinations**

Business acquisitions are accounted for using the acquisition method of accounting.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of

acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.14).

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss. For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business acquisition is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

## **2.9 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 Group 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 Group 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.

## **2.10 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 Group; 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 Group’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.

## **2.11 Leases - Group as Lessee**

Leases which do not transfer to the Group 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 Group 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.

## **2.12 Foreign Currency Transactions and Translation**

The accounting records of the Group 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.

## **2.13 Segment Reporting**

Operating segments, which applies only to the Group’s consolidated financial statements, are reported in a manner consistent with the internal reporting provided to the Group’s strategic steering committee, its chief operating decision-maker (CODM). 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 Group’s service lines as disclosed in Note 4, which represent the main services provided by the Group.

Each of these operating segments 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 Group 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.

#### ***2.14 Impairment of Non-financial Assets***

The Group's investments in an associate and goodwill and the Parent Company's investments in a subsidiary and an associate and other non-financial assets are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually (see also Note 2.8). 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 Group'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.

#### ***2.15 Employee Benefits***

The Group provides post-employment benefits to employees through a defined benefit plan, defined contribution plan, 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 Group, 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 Group'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 a zero coupon government bond, 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 Finance Costs or Finance 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 Group pays fixed contributions into an independent entity (such as the Social Security System). The Group 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 Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group 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.

## **2.16 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 Group 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 Group 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.

## **2.17 Related Party Relationships and Transactions**

Related party transactions are transfers of resources, services or obligations between the Group and its related parties (including transactions between MHI and its subsidiaries), 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 with MHI and subsidiaries; (b) associates; (c) the Group's funded retirement plan; and, (d) individuals owning, directly or indirectly, an interest in the voting power of MHI and subsidiaries that gives them significant influence over MHI and subsidiaries 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.

### ***2.18 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.

Non-controlling interests represent the portion of net assets and profit or loss not attributable to the Parent Company's stockholders which are presented separately in the Group's consolidated statement of income and consolidated statement of comprehensive income and within equity in the Group's consolidated statement of financial position and consolidated statement of changes in equity.

### ***2.19 Earnings (Loss) Per Share***

Basic earnings (loss) per share is computed by dividing net profit (loss) attributable to shareholders of the Parent 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 Group does not have potentially dilutive shares outstanding; hence, the diluted earnings (loss) per share is equal to the basic earnings (loss) per share.

### ***2.20 Events After the End of the Reporting Period***

Any post-year-end event that provides additional information about the Group'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 Group'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 Group'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) Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group 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 Group'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 March 31, 2017 and 2016. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

#### *(b) Distinction Between Operating and Finance Leases*

The Group has entered in a lease agreement 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 March 31, 2017 and 2016, management has determined that the current lease agreement is an operating lease.

#### *(c) 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 2.9 and relevant disclosures are presented in Note 18.

### **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*

Adequate amount of allowance for impairment is provided for specific and groups

of accounts, where objective evidence of impairment exists. The Group evaluates these amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group'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 Group 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.

*(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 Group's AFS financial assets and the amounts of fair value changes recognized in March 31, 2017 and December 31, 2016 on those assets are disclosed in Note 8.

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

The Group 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 since the Group's management believes that it will not be able to generate sufficient taxable profit in the coming years (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 2.14). 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 Group's goodwill and other non-financial assets is disclosed in Note 11 while accumulated impairment losses recognized on the Investments in a Subsidiary and an Associate are discussed in Note 10.

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

The determination of the Group'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 15.2.

#### 4. SEGMENT REPORTING

##### 4.1 *Business Segments*

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

- (a) *Investment banking* – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.
- (b) *Investment holding* – consists mainly of investment holding activities of the Parent Company, OHI and SHI.

##### 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 Group's segment information for the years ended March 31, 2017, 2016 and 2015 follows:

	2017		
	Investment Banking	Investment Holding	Total
Income:			
Investment income	P 903	P 6,470	P 7,373
Others	-	-	-
	<u>903</u>	<u>6,470</u>	<u>7,373</u>

Expenses	<u>1,421,197</u>	<u>1,520,876</u>	<u>2,942,073</u>
Operating Loss	(P <u>1,420,294</u> )	(P <u>1,514,406</u> )	(P 2,934,700)
Non-controlling interest in Net losses of subsidiary			<u>(503,577)</u>
Net Loss			(P <u>2,431,123</u> )
Segment assets	<u>P 15,445,847</u>	<u>P 35,019,774</u>	P 50,465,621
Goodwill			<u>-</u>
Total assets			<u>P 50,465,621</u>
Segment liabilities	<u>P 128,460,555</u>	<u>P 101,545,331</u>	<u>P 230,005,886</u>

	<u>2016</u>		
	<u>Investment Banking</u>	<u>Investment Holding</u>	<u>Total</u>
Income:			
Investment income	P 50	P 102	P 152
Others	<u>-</u>	<u>-</u>	<u>-</u>
	<u>50</u>	<u>102</u>	<u>152</u>
Expenses	<u>1,430,502</u>	<u>1,046,099</u>	<u>2,476,601</u>
Operating Loss	(P <u>1,430,452</u> )	(P <u>1,045,997</u> )	(P 2,476,449)
Non-controlling interest in Net losses of subsidiary			<u>(507,179)</u>
Net Loss			(P <u>1,969,270</u> )
Segment assets	<u>P 2,648,820</u>	<u>P 32,049,514</u>	P 34,698,334
Goodwill			<u>-</u>
Total assets			<u>P 34,698,334</u>
Segment liabilities	<u>P 86,569,474</u>	<u>P 123,536,089</u>	<u>P 210,105,563</u>

	<u>2015</u>		
	<u>Investment Banking</u>	<u>Investment Holding</u>	<u>Total</u>
Income:			
Investment income	P 98	P 3,957	P 4,055
Others	<u>-</u>	<u>-</u>	<u>-</u>
	<u>98</u>	<u>3,957</u>	<u>4,055</u>
Expenses	<u>1,651,312</u>	<u>1,134,471</u>	<u>2,785,783</u>
Operating Loss	(P <u>1,651,214</u> )	(P <u>1,130,514</u> )	(P 2,781,728)
Non-controlling interest in Net losses of subsidiary			<u>(585,452)</u>
Net Loss			(P <u>2,196,276</u> )
Segment assets	<u>P 3,653,464</u>	<u>P 33,909,028</u>	P 37,562,492
Goodwill			<u>-</u>
Total assets			<u>P 37,562,492</u>
Segment liabilities	<u>P 83,700,468</u>	<u>P 123,157,005</u>	<u>P 206,857,473</u>

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

## **5. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group 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 Group's risk management is coordinated with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group 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 Group 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 Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates mainly arise from the Group'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 Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

#### *(b) Interest Rate Risk*

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At March 31, 2017 and December 31, 2016, the Group is exposed to changes in market interest rates through its cash and cash equivalents which are subject to variable interest rates (see Note 7). 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 Group. The Group is exposed to this risk for various financial instruments from granting receivables to customers including related parties and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparty, identified either individually or by group, and incorporates this information into its credit risk controls. The Group'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.

	Notes	Group		Parent Company	
		2017	2016	2017	2016
Cash and cash equivalents	7	P 15,836,151	P 5,351,515	P 3,066,499	P 5,139,183
Receivables – net	9	652,690	677,166	628,304	630,997
Due from related parties	14	2,127,636	2,061,527	9,502,000	9,002,000
Security deposits	11	181,456	181,456	-	-
		<u>P 18,797,933</u>	<u>P 8,271,664</u>	<u>P 13,196,803</u>	<u>P 14,772,180</u>

None of the Group’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 (PDIC) up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) *Receivables*

In respect of receivables, 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 Group’s management considers that all the above financial assets that are not impaired as at the end of each of the reporting periods are of good credit quality. Also, there are no unimpaired financial assets that are past due as at March 31, 2017 and December 31, 2016.

### 5.3 *Liquidity Risk*

The Group 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, 2017, the Group’s financial liabilities have contractual maturities of within one year as presented below.

	Notes	Group		Parent Company	
		2017	2016	2017	2016
Due to related parties	14	P 221,504,910	P 207,936,678	P 123,350,158	123,330,426
Accounts payable and other liabilities	12	4,884,900	4,941,616	2,919,135	2,949,000
		<u>P 226,389,810</u>	<u>P 212,878,294</u>	<u>P 126,269,293</u>	<u>P 126,279,426</u>

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

## 6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

### 6.1 Capital Management Objectives, Policies and Procedures

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

Relevant information is shown below.

	Group		Parent Company	
	2017	2016	2017	2016
Total liabilities	P 230,005,886	P 216,498,092	P 128,460,555	P 128,470,062
Capital deficiency	179,540,265	176,605,563	83,940,781	82,426,373

As at March 31, 2017 and December 31, 2016, the Group is not subject to any externally imposed capital requirements.

### 6.2 Track Record of Registration of Securities

The Parent 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, 2017 and December 31, 2016.

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, 2017 and December 31, 2016, the Parent Company has four stockholders owning 100 or more shares each of the Parent Company's capital stock.

On November 18, 1975, the SEC approved the listing at the PSE of the Parent Company's shares totalling 700,000,000. As at March 31, 2017, there are 675 holders of the listed shares equivalent to 100% of the Parent Company's total outstanding shares. Such listed shares closed at P0.65 per share as at March 31, 2017. The Parent 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:

	Group		Parent Company	
	2017	2016	2017	2016
Cash on hand	P 8,000	P 8,000	P -	P -
Cash in banks	13,824,360	4,343,182	1,062,709	4,138,850
Short-term placements	<u>2,003,791</u>	<u>1,000,333</u>	<u>2,003,791</u>	<u>1,000,333</u>
	<u>P 15,836,151</u>	<u>P 5,351,515</u>	<u>P 3,066,500</u>	<u>P 5,139,183</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 1.375% in March 31, 2017, and 1.150% to 1.250% in 2016.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Unquoted	<b>P 76,292,533</b>	P 76,292,533	<b>P 76,268,750</b>	P 76,268,750
Quoted	<u>967</u>	<u>967</u>	<u>-</u>	<u>-</u>
	<b>76,293,500</b>	76,293,500	<b>76,268,750</b>	76,268,750
Allowance for impairment	<u>( 45,000,000)</u>	<u>( 45,000,000)</u>	<u>( 45,000,000)</u>	<u>( 45,000,000)</u>
	<b><u>P 31,293,500</u></b>	<b><u>P 31,293,500</u></b>	<b><u>P 31,268,750</u></b>	<b><u>P 31,268,750</u></b>

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 investment in unquoted AFS financial assets of the Group as at March 31, 2017 and December 31, 2016 pertains to the Parent 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 Parent 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, 2017 and December 31, 2016.

## 9. RECEIVABLES

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Accounts receivable	<b>P 40,313,000</b>	P 40,326,428	<b>P 40,313,000</b>	P 40,313,000
Advances to employees	<b>41,616</b>	87,241	<b>29,977</b>	54,500
Other receivables	<u>611,074</u>	<u>576,497</u>	<u>598,327</u>	<u>576,497</u>
	<b>40,965,690</b>	40,990,166	<b>40,941,304</b>	40,943,997
Allowance for impairment	<u>( 40,313,000)</u>	<u>( 40,313,000)</u>	<u>( 40,313,000)</u>	<u>( 40,313,000)</u>
	<b><u>P 652,690</u></b>	<b><u>P 677,166</u></b>	<b><u>P 628,304</u></b>	<b><u>P 630,997</u></b>

Accounts receivable of the Parent Company pertains to \$1 million advances granted to a foreign corporation. These advances, which has a book value of P40,313,000, as of March 31, 2017 and December 31, 2016, matured on August 31, 2000. A 100% allowance for probable losses has been provided on such loan since 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 British Virgin Islands (BVI).

## 10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

	% Interest Held	Group		Parent Company	
		2017	2016	2017	2016
Associate					
EIB	10.31%	<b>P 860,659,849</b>	P 860,659,849	<b>P -</b>	P -
	2.45%	-	-	<b>478,380,834</b>	478,380,834
Subsidiary					
MAIC	64.54%	-	-	<b>199,995,929</b>	199,995,929
		<b>860,659,849</b>	860,659,849	<b>678,376,763</b>	678,376,763
Allowance for impairment		<b>( 860,659,849)</b>	( 860,659,849)	<b>( 678,376,763)</b>	( 678,376,763)
		<b>P -</b>	P -	<b>P -</b>	P -

The place of incorporation, which is similar with the place of operation of the Parent Company's subsidiary and associate are as follows:

- (a) EIB – 36<sup>th</sup> Floor, Export Bank Plaza, Don Chino Roces Avenue, corner Sen. Gil Puyat Avenue, Makati City
- (b) MAIC – 31<sup>st</sup> Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City

### 10.1 Investment in a Subsidiary

The Parent Company has fully impaired the carrying value of the investment in MAIC as a result of the downturn in its business.

### 10.2 Investment in an Associate

EIB is considered an associate because the Parent Company has significant influence over EIB as certain members of the Parent Company's BOD are also members of the BOD of EIB.

On April 26, 2012, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) placed EIB under receivership pursuant to Section 30 of Republic Act No. 7653, otherwise known as the *The New Central Bank Act*. PDIC was designated as Receiver of EIB and took over EIB on April 27, 2012. Prior to the receivership order of the BSP, EIB had been incurring losses and was in negotiations to sell its assets (with assumption by the buyer of its liabilities). These negotiations did not push through and in 2011, the Group provided full allowance for impairment on the investment.

## 11. OTHER ASSETS

This account consists of the following:

	Notes	Group		Parent Company	
		2017	2016	2017	2016
Goodwill		<b>P 4,814,856</b>	P 4,814,856	<b>P -</b>	P -
Creditable withholding tax		<b>3,104,911</b>	3,104,911	-	-
Input value added tax		<b>1,469,561</b>	1,418,099	<b>1,469,561</b>	1,418,099
Advance rentals	14.1, 18.1	<b>203,231</b>	203,231	-	-
Security deposits	14.1, 18.1	<b>181,456</b>	181,456	-	-
Miscellaneous		<b>119,496</b>	124,134	<b>2,759</b>	2,759
		<b>9,893,511</b>	9,846,687	<b>1,472,320</b>	1,420,858
Allowance for impairment		<b>( 9,337,866)</b>	( 9,337,866)	<b>( 1,418,099)</b>	( 1,418,099)
		<b>P 555,645</b>	P 508,821	<b>P 54,221</b>	P 2,759

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. In relation to the management's decision to fully impair the Parent's Company investment in MAIC, the Group also recognized full valuation allowance on its goodwill [see also Notes 3.2(d) and 10].

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

## 12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Accounts payable	<b>P 4,341,412</b>	P 4,329,277	<b>P 2,612,135</b>	P 2,600,000
Accrued expenses	<b>543,488</b>	612,339	<b>307,000</b>	349,000
Withholding tax payable	<b>134,606</b>	138,328	<b>57,293</b>	56,667
Income tax payable	<b>59</b>	59	<b>59</b>	59
	<b><u>P 5,019,565</u></b>	<u>P 5,080,003</u>	<b><u>P 2,976,487</u></b>	<u>P 3,005,726</u>

Accounts payable include unpaid salaries of the Group's director as of the end of the reporting dates.

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

## 13. OTHER EXPENSES

This account consists of:

	<u>Consolidated</u>			<u>Parent Company</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utilities	<b>P -</b>	P -	P 90,495	<b>P -</b>	P -	P -
Office supplies	<b>3,500</b>	170	11,071	<b>3,500</b>	-	-
Insurance	<b>33,286</b>	-	4,703	<b>32,160</b>	-	3,580
Repairs and maintenance	<b>4,500</b>	-	-	<b>4,500</b>	-	-
Machine rental	-	10,800	12,000	-	-	-
Bank charges	<b>554</b>	50	50	-	-	-
Donations and contributions	-	-	-	-	-	-
Miscellaneous	<b>4,839</b>	15,100	10,252	<b>2,337</b>	9,400	4,552
	<b><u>P 46,679</u></b>	<u>P 26,120</u>	<u>P 128,571</u>	<b><u>P 42,497</u></b>	<u>P 9,400</u>	<u>P 8,132</u>

## 14. RELATED PARTY TRANSACTIONS

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

### 14.1 Lease of Office Space

The Group 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 amounted to P382,846 for the Group and P78,000 for the Parent Company in the quarter presented. These are presented as Occupancy in the statements of comprehensive income. The Group does not have any outstanding liabilities arising from these transactions as at March 31, 2017 and December 31, 2016. Security deposits and advance rentals, which shall be applied against the last two months of the lease term, totalling P384,687 as at March 31, 2017 and December 31, 2016 are included as part of Security deposits and Advance rentals under Other Assets in the statements of financial position (see Note 11).

#### 14.2 Due from Related Parties

The Group and the Parent Company grant advances to related parties for working capital requirements and other purposes. The advances are noninterest-bearing, unsecured and repayable 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, 2017 and December 31, 2016:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Lead Bancfund Corp.	<b>P 584,525</b>	P 578,045	<b>P -</b>	P -
Apex Bancrights Corp.	<b>583,374</b>	576,894	-	-
Cardinal Bancresources, Inc.	<b>396,408</b>	389,928	-	-
Goldwin Bancshares, Inc.	<b>396,226</b>	389,746	-	-
CTC Entrepreneurs Corp.	<b>140,182</b>	125,914	<b>1,000</b>	1,000
Keytrend Technologies Philis., Inc. (KTPI)	<b>1,000</b>	1,000	<b>1,000</b>	1,000
Solid Payback Holdings, Inc.	<b>6,480</b>	-	-	-
Bountiful Bancresourdes Holdings, Inc.	<b>6,480</b>	-	-	-
Medco Asia Investment Corp.			<b>9,500,000</b>	9,000,000
Others	<b>12,960</b>	-	-	-
	<b><u>P 2,127,635</u></b>	<b><u>P 2,061,527</u></b>	<b><u>P 9,502,000</u></b>	<b><u>P 9,002,000</u></b>

These entities are related parties of the Group 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.

#### 14.3 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, this account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
CAL	<b>P 121,029,607</b>	P 121,029,607	<b>P 57,831,127</b>	P 57,831,127
Classic Tycoon Investment, Ltd. (CTIL)	<b>29,884,700</b>	29,884,700	<b>29,884,700</b>	29,884,700
Fair Navigator, Ltd. (FNL)	<b>29,884,700</b>	29,884,700	<b>29,884,700</b>	29,884,700
CPIL	<b>22,200,000</b>	21,200,000	-	-
LSI	<b>3,150,000</b>	3,150,000	<b>3,150,000</b>	3,150,000
Prowealth Asia Limited (PAL)	<b>15,148,131</b>	2,579,899	<b>2,599,631</b>	2,579,899
KTPI	<b>207,772</b>	207,772	-	-
	<b><u>P 221,504,910</u></b>	<b><u>P 207,936,678</u></b>	<b><u>P 123,350,158</u></b>	<b><u>P 123,330,426</u></b>

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

#### **14.4 Key Management Personnel Compensation**

The compensation and benefits provided to key management personnel, which generally consist of short-term employee benefits, amounted to P1,351,302 in March 31, 2017 and 2016 for the Group and P540,000 in March 31, 2017 and 2016 for the Parent Company. These are presented as part of Employee Benefits in the statements of comprehensive income (see Note 15). The Group's outstanding liabilities pertain to the unpaid salaries of the Group director as at March 31, 2017 and December 31, 2016 and is presented as part of Accounts payable and other liabilities in the statements of financial position (see Note 12).

#### **14.5 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, 2017 and December 31, 2016 are presented in Note 15.2.

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

### **15. EMPLOYEE BENEFITS**

#### **15.1 Employee Benefits Expense**

Details of salaries and employee benefits are presented below.

	<u>Group</u>			<u>Parent Company</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Short-term employee benefits	P 1,560,190	P 1,542,416	P 1,543,917	P 617,172	P 603,975	P 605,900
Post-employment defined benefit	-	-	-	-	-	-
	<u>P 1,560,190</u>	<u>P 1,542,416</u>	<u>P 1,543,917</u>	<u>P 617,172</u>	<u>P 603,975</u>	<u>P 605,900</u>

#### **15.2 Post-employment Defined Benefit**

##### *(a) Characteristics of the Defined Benefit Plan*

The Group 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 Group. The trustee bank managed the fund in coordination with the Group'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 Group'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 below are based on the actuarial valuation report obtained from an independent actuary in 2015.

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Present value of obligation	P 5,241,127	P 5,241,127	P 2,778,578	P 2,778,578
Fair value of plan assets	( <u>1,759,716</u> )	( <u>1,759,716</u> )	( <u>644,668</u> )	( <u>644,668</u> )
	<u>P 3,481,411</u>	<u>P 3,481,411</u>	<u>P 2,133,910</u>	<u>P 2,133,910</u>

**16. CURRENT AND DEFERRED TAXES**

The breakdown of NOLCO as at March 31, 2017, 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>Group</u>			
	<u>Original Amount</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2016	P 11,692,631	P -	P 11,692,631	2019
2015	11,479,205	-	11,479,205	2018
2014	12,631,367	-	12,631,367	2017
2013	<u>14,089,173</u>	<u>14,089,173</u>	<u>-</u>	
	<u>P 49,892,376</u>	<u>P 14,089,173</u>	<u>P 35,803,203</u>	

<u>Year</u>	<u>Parent Company</u>			
	<u>Original Amount</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2016	P 5,213,225	P -	P 5,213,225	2019
2015	4,848,777	-	4,848,777	2018
2014	5,438,289	-	5,438,289	2017
2013	<u>6,217,185</u>	<u>6,217,185</u>	<u>-</u>	
	<u>P 21,717,476</u>	<u>P 6,217,185</u>	<u>P 15,500,291</u>	

The Group is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations, or RCIT whichever is higher. The Group recognized MCIT amounting to P59 in 2016. No MCIT was reported for the years ended December 31, 2015 and 2014.

In March 31, 2017, 2016 and 2015, each entity in the Group opted to claim itemized deductions in computing for its income tax due.

## 17. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted loss per share for the quarters ended March 31, 2017, 2016 and 2015 is computed as follows:

	Group			Parent Company		
	2017	2016	2015	2017	2016	2015
Net profit (loss) attributable to the shareholders of Parent Company	(P 2,431,123)	(P 1,969,270)	(P 2,196,276)	(P 1,514,406)	(P 1,045,997)	(P 1,130,514)
Divided by the weighted average number outstanding shares	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>
Basic and diluted loss per share	<u>(P 0.003)</u>	<u>(P 0.003)</u>	<u>(P 0.003)</u>	<u>(P 0.002)</u>	<u>(P 0.001)</u>	<u>(P 0.002)</u>

The Group has no potentially dilutive common shares as at March 31, 2017, 2016 and 2015.

## 18. COMMITMENTS AND CONTINGENCIES

### 18.1 Operating Lease Commitments

The Group is a lessee under a non-cancellable lease agreement covering certain office space. The lease is for a period of two years which may be renewed for another two years. Future minimum lease payments of the Group and of the Parent Company as of March 31, 2017 amount to P233,456 and P52,000, respectively, and P613,640 and P130,000, respectively, as of December 31, 2016.

In addition, the lease provides for payment of advance rental equivalent to two months' rent, inclusive of VAT, of P203,231, and security deposit of P181,456. These are presented as part of Other Assets in the statements of financial position (see Note 11).

Total rent expense from this operating lease in March 31, 2017, 2016 and 2015 amounted to P382,846 and P78,000 for the Group and the Parent Company, respectively. This is shown as Occupancy in the statements of comprehensive income.

### 18.2 Others

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the financial statements. As at March 31, 2017 and 2016, 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 Group's or the Parent Company's financial statements.

**MEDCO HOLDINGS, INC. and SUBSIDIARY**

**AGING OF ACCOUNTS RECEIVABLE**

As of March 31, 2017

**NO OF DAYS OUTSTANDING**

	<b>AMOUNT</b>	<b>1 -30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91-120 days</b>	<b>Over 120 days</b>
Various	P652,690					P652,690