



# MEDCO HOLDINGS, INC.

August 13, 2015

**PHILIPPINE STOCK EXCHANGE, INC.**

PSE Center, Exchange Road

Ortigas Center, Pasig City

Attention: **Janet A. Encarnacion**

*Head- Disclosure Department*

Re: SEC Form 17-Q for June 30, 2015

Gentlemen:

In compliance with the Philippine Stock Exchange (“PSE”) Disclosure Rules, please find attached the SEC Form 17-Q for the second quarter ended June 30, 2015.

We trust that you will find the foregoing in order.

Very truly yours,

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

# COVER SHEET

SEC Registration Number

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Company Name

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I	A	R	Y																										

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

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Form Type

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Department requiring the report

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Secondary License Type, If Applicable

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## COMPANY INFORMATION

Company's Email Address

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Company's Telephone Number/s

<b>(02) 811-0465</b>
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Mobile Number

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No. of Stockholders

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Annual Meeting  
Month/Day

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Fiscal Year  
Month/Day

<b>12/31</b>
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## 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>
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Email Address

<b>denniscarpio@medco.com.ph</b>
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Telephone Number/s

<b>(02) 811-0465</b>
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Mobile Number

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Contact Person's Address

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

**SECURITIES AND EXCHANGE COMMISSION  
Metro Manila, Philippines**

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

- 1. For the quarterly period ended **30 June 2015**
- 2. SEC Identification Number **39652**                      3. BIR Tax Identification No. **004-844-938**
- 4. **Medco Holdings, Inc.**  
Exact name of registrant as specified in its charter
- 5. **Metro Manila, Philippines**  
Province, country or other jurisdiction of incorporation or organization
- 6. (SEC Use Only)  
Industry Classification Code
- 7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,  
Makati City, Metro Manila, Philippines** **1229**  
Address of principal office  
Postal Code
- 8. Registrant's telephone number, including area code: **(632) 811-0465 to 66**
- 9. Securities registered pursuant to Sections 4 and 8 of the RSA

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

- 10. Are any or all of these securities listed on the Philippine Stock Exchange. Yes [ / ] No [ ]
- 11. Check whether the registrant:
  - (a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).  
Yes [ / ]                      No [ ]
  - (b) has been subject to such filing requirements for the past 90 days.  
Yes [ / ]                      No [ ]

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

See Attachment A

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

#### ***2015- Second Quarter Financial Highlights***

Consolidated revenues for the second quarter of 2015 increased significantly compared to the previous year's second quarter figure. Consolidated revenues for this quarter consisted mainly of dividend income (99.86%) and interest income from short term placements and bank deposits (.14%). The increase in the revenue account was mainly due to a higher amount of cash dividend received from Manila Exposition Complex, Inc.

On the other hand, there was no significant change in the consolidated expenses compared to the same quarter of last year. The expenses for this period were composed of salaries and wages (59%), occupancy (14%), representation (6%), professional fee (6%) and other expenses (15%).

As to the balance sheet as at the end of this quarter, total assets decreased by 5% as compared to last year. This decrease was due mainly to the decrease of 44% in the cash & cash equivalents account, which resulted from the withdrawals in deposit placements for the Corporation'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 June 30, 2015 consisted of P2.9 million of cash and cash equivalents. Its external sources of liquidity would consist of, among others, advances from its affiliate companies or major shareholders.

**2014- Second Quarter Financial Highlights**

Total consolidated revenues for the second quarter of 2014 increased substantially compared to the previous year's second quarter figure. Consolidated revenues for this quarter consisted mainly of dividend income. The increase in the revenue account was due to the cash dividend received from Manila Exposition Complex, Inc. No cash dividend was received for the second quarter of previous year. Cash dividend income comprised 99.82% of this year's second quarter revenues while interest income from short term placement and deposits comprised 0.18%.

On the other hand, total consolidated expenses for the second quarter of 2014 decreased by 20.50% compared to last year's second quarter. The expenses for this quarter were composed of salaries and wages (56%), occupancy (13%), representation (6%), professional fees (5%), utilities expense (5%) and other expenses (15%). The decrease was mainly due to there being no payment of directors' per diem for this quarter as compared to previous year's second quarter. Also, there was a 50% decrease in the representation expense for this year's second quarter. Other than these, there was no significant movement in the expense components.

As to the balance sheet as at the end of this quarter, there was no significant change in the total assets amount as compared to last year. The slight decrease in total assets was brought about by the decrease in the cash and cash equivalents due to withdrawals 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 June 30, 2014 consisted of P8.04 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

**2013- Second Quarter Financial Highlights**

Consolidated revenues for the second quarter of 2013 decreased significantly by 72.40% compared to the previous year's second 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 placements due to withdrawals for the Company's working capital requirement. There were no fees and other commissions earned for the second quarter of 2013.

On the other hand, consolidated expenses increased by 10.43% compared to last year's second quarter. The expenses for this quarter were composed of salaries and wages (50%), occupancy (11%), representation (9%), PSE fees (8%), professional fee (7%), per diem (5%) and other expenses (10%). The increase in the consolidated expenses was mainly due to the director's per diem paid in the second quarter of this year. Other than that, there was no significant movement in the expense components.

As to the balance sheet as at the end of this quarter, total assets decreased by 6.8% compared to the end of last year. The slight decrease in the total assets was brought about by the decrease in the cash and cash equivalents account. As mentioned above, there were withdrawals of deposit placements for working capital requirements and for advances made to other related parties, which accounts for the 30% increase in the due from related parties account. 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 subsidiary, which as at June 30, 2013 consisted of P9.9 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

**Top Five (5) Performance Indicators**  
**June 30, 2015, 2014 and 2013**

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2015	2014	2013	2015	2014	2013
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	25.11%	3,395.26%	-72.40%	-15.07%	2.24%	-99.73%
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	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.03x	0.06x	0.07x	0.04x	4.11x	0.086x
5. Debt-to-Equity-Ratio**	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	NA	NA	NA	NA	NA	NA

\* Losses

\*\* Capital Deficiency in 2015, 2014 and 2013

Note:

Y1= Current year

Y0= Previous year



**ATTACHMENT A**

**MEDCO HOLDINGS, INC. AND SUBSIDIARY**

**Financial Statements  
June 30, 2015, 2014, and 2013**

**MEDCO HOLDINGS, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2015 AND DECEMBER 31, 2014**

	<u>2015</u>	<u>(Audited) 2014</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents (Note 7)	P 2,934,873	P 5,221,902
Available-for-Sale Investments (Note 8)	31,293,500	31,293,500
Loans and receivables - net (Note 9)	578,802	529,323
Due from related parties (Note 14)	3,021,002	2,892,194
Equity Investment- net ( Note 10)	-	-
Other Assets (Note 11)	<u>577,535</u>	<u>478,362</u>
<b>TOTAL ASSETS</b>	<b>P <u>38,405,712</u></b>	<b>P <u>40,415,281</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses (Note 12)	P 1,840,338	P 2,361,165
Due to related parties (Note 14)	202,701,845	201,701,845
Retirement benefit obligation (Note 14)	<u>2,865,522</u>	<u>2,865,522</u>
	<u>207,407,705</u>	<u>206,928,532</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	(1,668,578)	(1,668,578)
Deficit	<u>(863,347,429)</u>	<u>(862,051,550)</u>
Total equity attributable to equityholders of the parent	(139,516,843)	(138,220,964)
Minority interest	<u>(29,485,150)</u>	<u>(28,292,287)</u>
	<u>(169,001,993)</u>	<u>(166,513,251)</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P <u>38,405,712</u></b>	<b>P <u>40,415,281</u></b>

MEDCO HOLDINGS, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)  
FOR THE SIX MONTHS ENDED JUNE 30, 2015 and 2014

	<u>APRIL TO JUNE</u>		<u>JANUARY TO JUNE</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
REVENUES	P 3,004,084	P 903,731	P 3,008,139	P 2,404,380
EXPENSES	<u>2,711,098</u>	<u>2,671,961</u>	<u>5,496,881</u>	<u>5,727,246</u>
INCOME/(LOSS) BEFORE MINORITY				
SHARE IN NET INCOME/(LOSS)	292,986	(1,768,230)	(2,488,742)	(3,322,866)
MINORITY SHARE IN NET LOSS	<u>(607,411)</u>	<u>(619,901)</u>	<u>(1,192,863)</u>	<u>(1,224,797)</u>
LOSS BEFORE FINAL TAX	900,397	(1,148,329)	(1,295,879)	(2,098,069)
LESS: PROVISION FOR FINAL TAX	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME/(LOSS)	900,397	(1,148,329)	(1,295,879)	(2,098,069)
DEFICIT AT BEGINNING				
OF YEAR/QUARTER (as restated)	<u>(864,247,826)</u>	<u>(855,313,636)</u>	<u>(862,051,550)</u>	<u>(854,363,896)</u>
DEFICIT AT END OF QUARTER	<u><u>(863,347,429)</u></u>	<u><u>(856,461,965)</u></u>	<u><u>(863,347,429)</u></u>	<u><u>(856,461,965)</u></u>
LOSS PER SHARE (Note 17)	P <u>0.0013</u>	P <u>(0.0016)</u>	P <u>(0.0019)</u>	P <u>(0.0030)</u>

**MEDCO HOLDINGS, INC. AND SUBSIDIARY  
STATEMENTS OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2015, 2014, and 2013**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital Stock- P1par 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	(1,668,578)	(2,542,551)	-
Deficit			
Balance, beginning of year (as restated)	(862,051,550)	(854,363,896)	(840,245,508)
Net loss	<u>(1,295,879)</u>	<u>(2,098,069)</u>	<u>(5,810,046)</u>
Balance, end of quarter	<u>(863,347,429)</u>	<u>(856,461,965)</u>	<u>(846,055,554)</u>
Total Equity Attributable to Equityholders of the Parent Company	<u>(139,516,843)</u>	<u>(133,505,352)</u>	<u>(120,556,390)</u>
Minority Interest	<u>(29,485,150)</u>	<u>(26,829,756)</u>	<u>(22,817,804)</u>
Total Equity	P <u>(169,001,993)</u> P	<u>(160,335,108)</u> P	<u>(143,374,194)</u>

**MEDCO HOLDINGS, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2015, 2014 AND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	(Audited)		
	June 30	December 31	June 30
	<u>2015</u>	<u>2014</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss before tax and minority interest	P (2,488,742)	P (10,320,614)	P (3,322,866)
Adjustments for:			
Impairment Losses	-	133,507	-
Dividends	-	(3,000,000)	(2,400,000)
Interest income	(8,139)	(64,570)	(4,065)
Unrealized forex exchange loss(gain)	-	4,706	-
Decrease(increase) in:			
Receivables	(49,480)	(95,865)	(71,233)
Other assets	(99,173)	(121,315)	(86,394)
Due from related parties	(128,808)	(60,435)	(121,086)
Increase (decrease) in :			
Accounts payable and accrued expenses	(520,826)	221,679	(377,220)
Retirement benefit obligation	-	(105,658)	(100,000)
Cash provided by (used in) operating activities	<u>(3,295,168)</u>	<u>(13,408,565)</u>	<u>(6,482,864)</u>
Cash paid for income taxes	<u>-</u>	<u>(12,277)</u>	<u>-</u>
Net Cash Provided by (Used in) Operating Activities	<u>(3,295,168)</u>	<u>(13,420,842)</u>	<u>(6,482,864)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	8,139	64,570	4,065
Dividends received	<u>-</u>	<u>3,000,000</u>	<u>2,400,000</u>
Net Cash Provided by Investing Activities	<u>8,139</u>	<u>3,064,570</u>	<u>2,404,065</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds of borrowings from related parties	1,000,000	6,500,000	3,042,736
Repayment of amounts due to related parties	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Provided by (Used in) Financing Activities	<u>1,000,000</u>	<u>6,500,000</u>	<u>3,042,736</u>
<b>EFFECTS OF FOREIGN EXCHANGE ON REVALUATION OF CASH AND CASH EQUIVALENTS</b>			
	<u>-</u>	<u>203</u>	<u>-</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,287,029)	(3,856,069)	(1,036,063)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,221,902</u>	<u>9,077,971</u>	<u>9,077,971</u>
CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR	<u>P 2,934,873</u>	<u>P 5,221,902</u>	<u>P 8,041,908</u>

**MEDCO HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015, 2014 AND 2013**  
*(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 April 11, 1995. 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 June 30, 2015 and 2014:

	Percentage of Ownership	Notes	Nature of Business
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 at the 31<sup>st</sup> Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

**1.2 Status of Operations**

The Group incurred net losses of P1,295,879 in 2015, P2,098,069 in 2014 and P5,810,046 in 2013, while the parent company realized a net income of P875,606 in 2015, P131,549 in 2014 and incurred net losses of P3,396,676 in 2013. Consequently, the group reported capital deficiency of P169,001,993 and P166,513,251 as at June 30, 2015 and December 31, 2014 respectively, and the parent company reported capital deficiency of P85,591,856 and P86,467,463 as at June 30, 2015 and December 31, 2014 respectively.

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 was approved by the Parent Company's stockholders on June 28, 2013 and will be implemented in 2015 which includes the following:

- (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.

In the 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 it becomes self-sustaining again.

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. 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, and approved by the Philippine Board of Accountancy (BOA).

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.

The Group presented an unclassified statements of financial position as at June 30, 2015 and December 31, 2014.

(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 2014 that are Relevant to the Group*

In 2014, the Group adopted for the first time the following amendments and interpretation to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2014:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
PFRS 10, 12 and PAS 27 (Amendments)	:	Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21	:	Levies



Discussed below and in the succeeding pages are the relevant information about these amended standards and interpretation.

- (i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The amendment has been applied retrospectively in accordance with its transitional provisions. As the Group does not currently present any of its financial assets and financial liabilities on a net basis in accordance with the provisions of PAS 32, the amendment has no material effect on the Group's financial statements for any periods presented.

PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the financial statements. This amendment did not result in additional disclosures in the financial statements since the recoverable amounts of the Group's non-financial assets where impairment losses have been recognized were determined based on value in use which have been adequately disclosed in accordance with PAS 36 (see Notes 10 and 11).

- (ii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor does it applies hedge accounting, the amendment did not have any impact on the Group's financial statements.
- (iii) PFRS 10(Amendment), *Consolidated Financial Statements*, PFRS 12 (Amendment), *Disclosure of Interests in Other Entities* and PAS 27 (Amendment), *Separate Financial Statements*. The amendments define the term "investment entity" and provide to such an investment entity an exemption from consolidation of particular subsidiaries and instead require to measure investment in each eligible subsidiary at fair value through profit or loss in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, both in its consolidated financial statements or separate financial statements, as

the case may be. The amendments also require additional disclosure about the details of the entity's unconsolidated subsidiaries and the nature of its relationship and certain transactions with those subsidiaries. These amendments did not have a significant impact on the Group's financial statements as there were no transactions entered by the Group involving an investment entity.

- (iv) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the Group's financial statements.

(b) *Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2014 which are adopted by the FRSC, subject to the approval of the BOA. The Group 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 Group's financial statements:

- (i) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's financial statements.
- (ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages 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 amendment clarifies that an entity's share of 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.
- (iii) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces 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 or PFRS 9, *Financial Instruments*. As of the end of the reporting period, the Group has no plan to change the accounting policy for its investments in its subsidiaries and an associate.

- (iv) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits 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.
- (v) PFRS 10 (Amendment), *Consolidated Financial Statements*, and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective from January 1, 2016). The amendment to PFRS 10 requires 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 or contribution of assets that do not constitute a business. Corresponding amendment has 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.
- (vi) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually 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.

The Group does not expect to implement and adopt PFRS 9 (2014) until its effective date. In addition, management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Group 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.

- (vii) Annual Improvements to PFRS. Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Company but management does not expect those to have material impact on the Company's financial statements:

*Annual Improvements to PFRS (2010-2012 Cycle)*

- (a) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

- (b) PFRS 3 (Amendment), *Business Combinations*. The amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32, *Financial Instruments – Presentation*. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.
- (c) PFRS 8 (Amendment), *Operating Segments*. The amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.
- (d) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

- (a) PFRS 3 (Amendment), *Business Combinations*. The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11, *Joint Arrangement*, in the financial statements of the joint arrangement itself.
- (b) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

*Annual Improvements to PFRS (2012-2014 Cycle)*

- (a) PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.
- (b) PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies 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.

### ***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 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 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 2.7).

(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 instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity 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 fair value through profit or loss are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

Currently, the Group's financial assets are categorized as follows:

(a) *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 or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period which are classified as non-current assets.



The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Receivables, Due from Related Parties and Security deposits, included as part of Other Assets, in the statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments 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. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. 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 amount of the reversal is recognized in the profit or loss.

(b) *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 mostly pertain to investments in equity securities.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves from Net Unrealized Gains (Losses) on Available-for-sale Financial Assets account in equity.

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.

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.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Income or Finance Cost account in the statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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.

The financial assets are derecognized when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the 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.

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

## **2.6 Financial Liabilities**

Financial liabilities, which include accounts payable and accrued expenses (except tax-related 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 Costs in the statement of comprehensive income.

Trade and other payables 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 classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

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 Business Combinations**

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

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, 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.

## **2.8 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.

## **2.9 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 commitment 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 Revenue and Expense Recognition**

Revenue comprises revenue from rendering of services and is measured by reference to the fair value of consideration received or receivable by the Group for services rendered, excluding value-added tax (VAT) and discounts, if any.

Revenue is recognized to the extent the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the cost incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Dividends* – Revenue is recognized when the Group’s right to receive the payment is established.
- (b) *Professional fees* – Revenue from rendering of professional services is recognized once the service has been substantially rendered.
- (c) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Costs and 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 Translations***

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 are the same as those used in its financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses; and,
- expenses relating to share-based payments;

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 2.7). 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. 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 by independent actuaries 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 and Exchange Corporation, 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

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 Equity**

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 interest pertains to the initial investment and the equity share in the income and losses of the minority stockholders.

## **2.19 Loss Per Share**

Basic loss per share is computed by dividing net 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 dilutive potential shares outstanding; hence, the diluted loss per share is equal to the basic 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 June 30, 2015. 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 June 30, 2015, management 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 collectability 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 apply 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 2015 and 2014 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.

Impairment loss recognized on the Group's goodwill and other non-financial assets is disclosed in Note 11 while impairment losses recognized on the Investments in a Subsidiary and an Associate are discussed in Note 10.

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

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries 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 and receivables. 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. Segment assets and liabilities do not include deferred taxes.

##### 4.3 Analysis of Segment Information

The details of the Group’s segment information, including the reconciliation to the key financial information presented in its consolidated financial statements, are as follow:

	2015		
	Investment Banking	Investment Holding	Total
Income:			
Investment Income	P 2,939	P 5,200	P 8,139
Others	-	3,000,000	3,000,000
	<u>2,939</u>	<u>3,005,200</u>	<u>3,008,139</u>
Expenses	<u>3,367,287</u>	<u>2,129,594</u>	<u>5,496,881</u>
Operating loss/(income)	<u>P 3,364,348</u>	<u>P (875,606)</u>	P 2,488,742
Non-controlling interest in Net losses of subsidiary			<u>(1,192,863)</u>
Net loss			<u>P (1,295,879)</u>
Segment assets	<u>P 4,037,335</u>	<u>P 34,368,377</u>	P 38,405,712
Goodwill			-
Total assets			<u>P 38,405,712</u>
Segment liabilities	<u>P 84,547,472</u>	<u>p 122,860,233</u>	<u>P 207,407,705</u>

	2014		
	Investment Banking	Investment Holding	Total
Income:			
Investment Income	P 3,145	920	4,065
Others	<u>315</u>	<u>2,400,000</u>	<u>2,400,315</u>
	<u>3,460</u>	<u>2,400,920</u>	<u>2,404,380</u>
Expenses	<u>3,457,875</u>	<u>2,269,371</u>	<u>5,727,246</u>
Operating loss	P <u>3,454,415</u>	p <u>131,549</u>	P 3,322,866
Non-controlling interest in Net losses of subsidiary			<u>(1,224,797)</u>
Net loss			P <u>(2,098,069)</u>
Segment assets	P <u>4,069,076</u>	p <u>39,300,816</u>	P <u>43,369,892</u>
Segment liabilities	P <u>79,891,199</u>	p <u>123,813,801</u>	P <u>203,705,000</u>
	2013		
	Investment Banking	Investment Holding	Total
Income:			
Investment Income	P 512	67,721	68,233
Others	<u>557</u>	<u>67,721</u>	<u>557</u>
	<u>1,069</u>	<u>67,721</u>	<u>68,790</u>
Expenses	<u>3,740,181</u>	<u>3,464,398</u>	<u>7,204,579</u>
Operating loss	P <u>3,739,112</u>	P <u>3,396,676</u>	P 7,135,789
Non-controlling interest in Net losses of subsidiary			<u>(1,325,743)</u>
Net loss			P <u>(5,810,046)</u>
Segment assets	P <u>7,202,255</u>	P <u>41,963,698</u>	P <u>49,165,953</u>
Segment liabilities	P <u>70,557,537</u>	P <u>121,982,610</u>	P <u>192,540,147</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 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 June 30, 2015 and December 31, 2014, 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 non interest-bearing.

## 5.2 Credit Risk

Credit risk is the risk that a counter party 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 counter party, 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 counter parties.

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	Consolidated		Parent Company	
		2015	2014	2015	2014
Cash and cash equivalents	7	P 2,934,873	P 5,221,902	P 2,493,335	P 5,072,184
Receivables - net	9	578,802	529,323	499,719	464,975
Due from related parties	14	3,021,002	2,892,194	2,902,000	2,000
Security deposits	11	185,456	185,456	-	-
		<u>P 6,720,133</u>	<u>P 8,828,875</u>	<u>P 5,895,054</u>	<u>P 5,539,159</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 P500,000 for every depositor per banking institution.

(b) *Trade and Other Receivables*

In respect of trade and other receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer 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 for 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 June 30, 2015 and December 31, 2014.

### 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 June 30, the Group's financial liabilities have contractual maturities of within one year as presented below.

	Notes	Consolidated		Parent Company	
		2015	2014	2015	2014
Due to related parties	14	P 202,701,845	P 201,701,845	P120,750,527	P120,750,527
Accounts payable and Accrued Expenses (Excluding tax-related Liabilities)	12	<u>1,704,628</u>	<u>2,162,807</u>	<u>-</u>	<u>357,738</u>
		<u>P 204,406,473</u>	<u>P 203,864,652</u>	<u>P 120,750,527</u>	<u>P 121,108,265</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 continue 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 future investing activities (see Note 1.2).

Relevant information is shown below.

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Total Liabilities	<b>P 207,407,705</b>	P 206,928,532	<b>P 122,860,233</b>	P 123,280,772
Capital Deficiency	<b>169,001,993</b>	166,513,251	<b>85,591,856</b>	86,467,463

As at June 30, 2015 and December 31, 2014, 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 June 30, 2015 and December 31, 2014.

On November 18, 1975, the SEC approved the listing at the PSE of the Parent Company's shares totalling 700,000,000. As at June 30, 2015, there are 681 holders of the listed shares equivalent to 100% of the Parent Company's total outstanding shares. Such listed shares closed at P0.390 per share as at June 30, 2015. 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:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Cash On Hand	<b>p 8,000</b>	P 8,000	<b>p -</b>	P -
Cash In Banks	<b>926,873</b>	210,485	<b>493,335</b>	68,767
Short-term Placements	<b>2,000,000</b>	5,003,417	<b>2,000,000</b>	5,003,417
	<b><u>P 2,934,873</u></b>	<u>P 5,221,902</u>	<b><u>P 2,493,335</u></b>	<u>P 5,072,184</u>

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods between 30 to 45 days and earn annual effective interest ranging from 0.75% to 1.00% for the second quarter of 2015.

## **8. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

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

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Not quoted	<b>P 76,292,533</b>	P 76,292,533	<b>P 76,268,750</b>	P 76,268,750
Quoted	<b>967</b>	967	<b>-</b>	-
	<b>76,293,500</b>	76,293,500	<b>76,268,750</b>	76,268,750
Allowance for impairment	<b>( 45,000,000)</b>	( 45,000,000)	<b>( 45,000,000)</b>	( 45,000,000)
	<b><u>P 31,293,500</u></b>	<u>P 31,293,500</u>	<b><u>P 31,268,750</u></b>	<u>P 31,268,750</u>

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



The investment in unquoted AFS financial assets of the Group as at June 30, 2015 and December 31, 2014 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 Group provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business.

## 9. RECEIVABLES

This account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Accounts Receivable	P 40,313,000	P 40,313,000	P 40,313,000	P 40,313,000
Advances to Employees	138,548	85,992	60,165	22,344
Other Receivables	<u>440,254</u>	<u>443,331</u>	<u>439,554</u>	<u>442,631</u>
	40,891,802	40,842,323	40,812,719	40,777,975
Allowance for Impairment	( 40,313,000)	( 40,313,000)	( 40,313,000)	( 40,313,000)
	<u>P 578,802</u>	<u>P 529,323</u>	<u>P 499,719</u>	<u>P 464,975</u>

All of the receivables have been reviewed for indications of impairment. Certain receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized.

## 10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

	% Interest Held	<u>Consolidated</u>		<u>Parent Company</u>	
		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Associate					
EIB	10.31%	P 860,659,849	P 860,659,849	P -	P -
	2.45%	-	-	478,380,834	478,380,834
Subsidiary					
MAIC	64.54%	<u>-</u>	<u>-</u>	<u>199,995,929</u>	<u>199,995,929</u>
		860,659,849	860,659,849	678,376,763	678,376,763
Allowance for impairment		( 860,659,849)	( 860,659,849)	( 678,376,763)	( 678,376,763)
		<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>

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

As at December 31, 2011, MAIC reported deficit of P361,700,895 and capital deficiency of P59,389,933. Consequently, the Parent Company fully impaired the carrying value of the investment in MAIC.

## 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 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	Consolidated		Parent Company	
		2015	2014	2015	2014
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Creditable withholding tax		3,104,911	3,104,911	-	-
Input taxes – net		100,523	1,146,502	100,523	1,146,502
Advance rentals	14.2, 18.1	203,231	203,231	-	-
Security deposits	14.2, 18.1	185,456	185,456	-	-
Prepaid expenses		4,050	5,400	4,050	5,400
Miscellaneous		84,275	84,275	-	-
		8,497,302	9,544,631	104,573	1,151,902
Allowance for impairment		( 7,919,767)	( 9,066,269)	( - )	( 1,146,502)
		<u>P 577,535</u>	<u>P 478,362</u>	<u>P 104,573</u>	<u>P 5,400</u>

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 ACCRUED EXPENSES

This account consists of the following:

	Consolidated		Parent Company	
	2015	2014	2015	2014
Accounts payable	P 1,577,901	P 1,580,900	P -	P -
Accrued expenses	126,728	581,907	-	357,738
Withholding tax payable	135,709	198,258	56,943	119,644
Other Payable	-	100	-	100
	<u>P 1,840,338</u>	<u>P 2,361,165</u>	<u>P 56,943</u>	<u>P 477,482</u>

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

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

### 13. OTHER EXPENSES

This account consists of:

	Consolidated			Parent Company		
	2015	2014	2013	2015	2014	2013
Utilities	P 162,857	P 228,200	P 226,740	P -	P -	P -
Office supplies	21,109	72,338	69,927	-	-	3,300
Insurance	26,017	27,213	61,012	24,894	26,091	34,804
Repairs and maintenance	14,286	7,467	32,364	14,286	7,467	19,564
Machine rental	24,000	-	-	-	-	-
Bank charges	50	50	100	-	-	-
Donations and Contributions	-	-	300	-	-	-
Miscellaneous	23,967	43,101	45,338	14,702	28,171	23,751
	<b>P 272,286</b>	<b>P 378,369</b>	<b>P 435,781</b>	<b>P 53,882</b>	<b>P 61,729</b>	<b>P 81,419</b>

### 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 P765,692 for the Group and P156,000 for the Parent Company in the second quarter of 2015, 2014 and 2013. 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 June 30, 2015 and 2014. Security deposits and advance rentals, which shall be applied against the last two months of the lease term, totalling P384,687 as at June 30, 2015 and 2014 are included as part of Security deposits 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 non interest-bearing, unsecured and repayable in cash within 12 months from the end of the reporting period, and presented as Due from Related Parties in the statements of financial position.

This account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Lead Bancfund Corp.	<b>P 562,656</b>	P 549,071	<b>P -</b>	P -
Apex Bancrights Corp.	<b>561,506</b>	547,920	-	-
Solid Payback Holdings, Inc. (SPHI)	<b>519,420</b>	505,835	-	-
Bountiful Bancresources Holdings, Inc. (BBHI)	<b>496,470</b>	482,884	-	-
Cardinal Bancresources, Inc.	<b>375,340</b>	361,754	-	-
Goldwin Bancshares, Inc.	<b>375,158</b>	361,572	-	-
CTC Entrepreneurs Corp.	<b>103,445</b>	82,158	<b>1,000</b>	1,000
Lippo Securities, Inc. (LSI)	<b>33</b>	-	-	-
Keytrend Technologies Phils., Inc. (KTPI)	<b>1,000</b>	1,000	<b>1,000</b>	1,000
Others	<b>25,974</b>	-	-	-
	<b><u>P 3,021,002</u></b>	<u>P 2,892,194</u>	<b><u>P 2,000</u></b>	<u>P 2,000</u>

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.

#### ***14.4 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 June 30, 2015 this account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Lippo China Resources Ltd. (LCR)	<b>P -</b>	P -	<b>P -</b>	P -
CAL	<b>122,074,673</b>	122,074,673	<b>57,831,127</b>	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>17,500,000</b>	16,500,000	-	-
LSI	<b>3,150,000</b>	3,150,000	<b>3,150,000</b>	3,150,000
KTPI	<b>207,772</b>	207,772	-	-
	<b><u>P 202,701,845</u></b>	<u>P 201,701,845</u>	<b><u>P 120,750,527</u></b>	<u>P 120,750,527</u>

In 2012, LCR assigned its receivable from the Parent Company totalling P117,600,526 to CTIL, FNL and CAL. CTIL and FNL are both related parties under common ownership; while CAL is the Parent Company's stockholder.

#### ***14.5 Key Management Personnel Compensation***

The compensation and benefits provided to key management personnel, which generally consist of short-term employee benefits, amounted to P2,702,603 in 2015 and P2,768,123 in 2014 for the Group and P1,080,000 in 2015 and P1,175,000 in 2014 for the Parent Company. These are presented as part of Employee Benefits in the statements of comprehensive income. The Group does not have any outstanding liabilities arising from these transactions as at June 30, 2015 and 2014.

#### 14.6 Transactions with the Retirement Fund

The retirement fund for the defined benefit post-employment plan is administered and managed by a trustee bank.

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.

	Consolidated			Parent Company		
	2015	2014	2013	2015	2014	2013
Short-term						
Employee Benefits	P 3,138,180	P 3,210,934	P 3,568,835	P 1,213,137	P 1,313,908	P 1,727,963
Post-employment						
Defined Benefit	-	-	-	-	-	-
	<u>P 3,138,180</u>	<u>P 3,210,934</u>	<u>P 3,568,835</u>	<u>P 1,213,137</u>	<u>P 1,313,908</u>	<u>P 1,727,963</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 60. 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 5 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 annually 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 2014.

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

	Consolidated		Parent Company	
	2015	2014	2015	2014
Present value of obligation	P 4,095,419	P 4,095,419	P 2,403,631	P 2,403,631
Fair value of plan assets	( <u>1,229,897</u> )	( <u>1,229,897</u> )	( <u>350,868</u> )	( <u>350,868</u> )
	<u>P 2,865,522</u>	<u>P 2,865,522</u>	<u>P 2,052,763</u>	<u>P 2,052,763</u>

## 16. CURRENT AND DEFERRED TAXES

The breakdown of NOLCO as at June 30, 2015, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

<b>Consolidated</b>						
<u>Year</u>		<u>Original Amount</u>		<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2014	P	12,631,404	P	-	P 12,631,404	2017
2013		14,089,173		-	14,089,173	2016
2012		13,523,547		-	13,523,547	2015
2011		<u>10,420,194</u>		<u>10,420,194</u>	-	2014
		<u>P 50,664,318</u>		<u>P 10,420,194</u>	<u>P 40,244,124</u>	
<b>Parent Company</b>						
<u>Year</u>		<u>Original Amount</u>		<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2014	P	5,438,289	P	-	P 5,438,289	2017
2013		6,217,185		-	6,217,185	2016
2012		5,995,697		-	5,995,697	2015
2011		<u>4,632,872</u>		<u>4,632,872</u>	-	2014
		<u>P 22,284,043</u>		<u>P 4,632,872</u>	<u>P 17,651,171</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. No MCIT and RCIT was reported since the Group does not have taxable revenues and other income for the quarters ended June 30, 2015, 2014 and 2013.

As at June 30, 2015, MCIT which can be applied against future RCIT within three years from the year MCIT was incurred in 2011 amounts to P2,445 and P30 for the Group and the Parent Company, respectively.

In 2015, 2014 and 2013, each entity in the Group opted to claim itemized deductions in computing for its income tax due.

## 17. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the years ended June 30, 2015, 2014 and 2013 are computed as follow:

	<b>Consolidated</b>			<b>Parent Company</b>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net loss attributable to the Shareholders of Parent Company	<b>P 1,295,879</b>	P 2,098,069	P 5,810,046	<b>P (875,606)</b>	P (131,549)	P 3,396,676
Divided by the weighted average number of 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	<b><u>P 0.0019</u></b>	<u>P 0.0030</u>	<u>P 0.0083</u>	<b><u>P (0.0013)</u></b>	<u>P (0.0002)</u>	<u>P 0.0048</u>

The Group has no dilutive potential common shares as at June 30, 2015, 2014 and 2013.

## **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.

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 2015, 2014 and 2013 amounted to P765,692 and P156,000 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 June 30, 2015, 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 financial statements.

MEDCO HOLDINGS, INC. and SUBSIDIARY  
AGING OF ACCOUNTS RECEIVABLE  
As of June 30, 2015

	NO OF DAYS OUTSTANDING				
AMOUNT	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days
Various	<u>P578,802</u>				<u>P578,802</u>