

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 2019**
2. SEC Identification Number **39652**
3. BIR Tax Identification No. **004-844-938**
4. **Medco Holdings, Inc.**
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization
6. (SEC Use Only)
Industry Classification Code
7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,
Makati City, Metro Manila, Philippines** **1229**
Address of principal office
Postal Code
8. Registrant's telephone number, including area code: **(632) 811-0465 to 66**
9. Securities registered pursuant to Sections 4 and 8 of the RSA

<u>Title of each class</u>	<u>Number of shares of common stock outstanding and amount debt outstanding</u>
Common	3,159,292,441 shares

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

11. Check whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).

Yes [/] No []

(b) has been subject to such filing requirements for the past 90 days.

Yes [/] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

See Attachment A

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

2019 - Second Quarter Financial Highlights

Revenues of Medco Holdings, Inc. (MHI or the Company) for the second quarter of 2019 did not post a significant change as compared to the same quarter of the previous year. During the quarter under review, revenues consisted mainly of dividend income (95%) and interest income (5%). The slight increase in this quarter's revenue came from interest income on short-term placements and bank deposits with a local bank.

On the other hand, there was a 53% decrease in the second quarter 2019 expenses compared to the same quarter of last year. The expenses for this period were composed of salaries and wages (63%), professional fee (13%), occupancy (8%), transportation (7%), representation (5%), and other expenses (4%). The substantial decrease was due to the 100% decline in taxes and licenses this quarter as compared to last year's second quarter. There was no documentary stamp tax payment this quarter as compared to the previous year's second quarter wherein documentary stamp tax was paid and remitted to the Bureau of Internal Revenue in relation to the Company's issuance of new common shares during said quarter. Also, no SEC fees were paid during this year's second quarter unlike in the previous year.

Apart from the accounts mentioned above, there was no significant movement in the other 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 increase in total assets was brought about by the increase in the cash & cash equivalents account and the other assets account consisting of accumulated input Value Added Tax (VAT) that remained unused or unapplied as at June 30, 2019.

On the liabilities side, the accounts payable & accrued expenses account decreased by 79%. The decrease was due to the payment of accrued audit fee & withholding taxes payable during the quarter under review.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets which as at June 30, 2019 consisted of P16 million of cash and cash equivalents. Its external sources of liquidity would consist of, among others, advances from its affiliate companies or major shareholders.

2018 - Second Quarter Financial Highlights

Total revenues of Medco Holdings, Inc. (the Company) for the second quarter of 2018 declined by 18% compared to last year's second quarter figure. During the quarter under review, revenues consisted mainly of dividend income (99%) and interest income from short-term placements (1%).

On April 27, 2017, the Company sold its investment in 17,378,495 common shares of Medco Asia Investment Corporation, its subsidiary, for a total selling price of P700,000. Said amount was recorded in the Company's books as gain on sale of investment for the second quarter of 2017. Since no similar transaction happened in the second quarter of 2018, this explains the reason for the 18% decline in revenue for said quarter, as compared to last year's second quarter.

Total expenses, on the other hand, increased by approximately 14% compared to the previous year's second quarter. The expenses for this quarter were composed of taxes & licenses (59%), salaries and employee benefits (30%), professional fees (6%), rent expense (4%) and other expenses (1%). The increase was due to a higher amount of taxes and licenses paid this quarter arising from the documentary stamp tax that was remitted to the Bureau of Internal Revenue in relation to the Company's issuance of new common shares during the quarter, as described in the following paragraph.

With respect to the balance sheet as at the end of the second quarter of 2018, there was no significant change in the total assets as compared to the previous year. The decrease in the due from related parties account resulted from the collection of advances from a related party in June 2018. On the liabilities side, the accounts payable & accrued expenses account also decreased by approximately 99%. On April 24, 2018, the Securities and Exchange Commission (the SEC) approved the Company's recapitalization and the increase in its authorized capital stock of which the subscribed capital stock portion was paid through the conversion of existing debt to equity. Based on the said SEC approval, there was a decrease in the aforementioned liabilities account due to the application of existing advances from Bonham Strand Investments Ltd. and Xu Hanjiang as payment for their subscription in newly-issued shares of stock of the Company.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets which as at June 30, 2018 consisted of P12 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.

2017 - Second Quarter Financial Highlights

Revenues of Medco Holdings, Inc. (MHI or the Company) for the second quarter of 2017 increased by 24% versus last year's comparable unconsolidated Parent Company second quarter figure. During the quarter under review, revenues consisted mainly of dividend income (81%) and recovery on allowance of disposed investment (19%). The increase in the revenue account was due to the sale of 17,378,495 common shares of Medco Asia Investment Corporation, a subsidiary of the Company, on April 27, 2017, for a total selling price of Php700,000. Said sale resulted in a higher net income for this year's second quarter than the previous year's second quarter because of last year's consolidation of the accounts of the subsidiary and recognition of minority share in net loss. This also explains the reason why the results of operation for this quarter are discussed and analyzed by comparing the figures for second quarter 2017 with the same period in 2016 on an unconsolidated basis.

On the other hand, expenses increased by approximately 60% compared to the previous year's unconsolidated second quarter expenses. The expenses for the quarter under review were composed of taxes and licenses (36%), salaries and employee benefits (35%), interest expense (10%), professional fees (6%), rent expense (4%), transportation expense (4%), representation & entertainment (4%), and other expenses (1%). The substantial increase was due to the 100% increase in taxes and licenses paid in the said quarter as compared to last year's second quarter. Documentary stamp tax was paid and remitted to the Bureau of Internal Revenue in relation to the aforementioned sale of subsidiary. Meanwhile, the Company's application with the BIR for the Certificate Authorizing Registration is still pending. Likewise, interest expense increased by 100% due to the recording of interest accruals on certain loans.

Apart from the accounts mentioned above, there was no significant movement in the other expense components.

With respect to the Company's balance sheet as at the end of the second quarter of 2017, there was no significant change in the total assets as compared to the unconsolidated Parent Company as at the end of last year. However, there were significant movements in its components, particularly in the cash and cash equivalents and due from related parties accounts. The changes resulted from the collection of advances from the Company's then subsidiary, MAIC, thereby increasing its cash balance and decreasing the amount of due from related parties' account by the same amount. Aside from this, there was an increase in other assets account due to the accumulated input VAT that remained unused or unapplied as at June 30, 2017.

On May 24, 2017, Citivest Asia Limited, Fair Navigator Ltd., Classic Tycoon Investment Ltd., Prowealth Asia Limited and Cynthia Espiritu assigned their receivables from the Company to Bonham Strand Investments Ltd. (BSIL) and Mr. Xu Hanjiang (Mr. Xu). Then, on May 31, 2017, BSIL and Mr. Xu executed a Subscription Agreement with MHI to subscribe to new MHI common shares to be issued out of the Company's planned increase in authorized capital stock and assigned their outstanding receivables from MHI totalling P122,964,622 as their subscription payment.

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, 2017 consisted of P13 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.

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

Medco Holdings, Inc.
Second Quarter Top Five (5) Performance Indicators
June 30, 2019, 2018 and 2017

		2019	2018	2017
1. Revenue Growth	<u>Revenue Y1-Y0</u> Revenue Y0	6.23%	-18.16%	23.74%
2. Net Income Growth	<u>Net Income Y1-Y0</u> Net Income Y0	NA	NA	NA
3. Return on Equity*	<u>Net Income</u> Stockholders' Equity	1.61%	-0.77%	0.91%
4. Current Ratio	<u>Current Assets</u> Current Liabilities	5.25x	2.70x	2.81x
5. Debt-to-Equity-Ratio	<u>Total Liabilities</u> Stockholders' Equity	0.09x	0.12x	0.13x

* Capital Deficiency in 2017

Note:

Y1= Current year

Y0= Previous year

MEDCO HOLDINGS, INC.

**Financial Statements
June 30, 2019, 2018, and 2017**

**MEDCO HOLDINGS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND DECEMBER 31, 2018**

	<u>2019</u>	<u>(Audited) 2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (Note 6)	P 16,077,744	P 15,402,926
Receivables - net (Note 8)	598,326	648,508
Due from related parties (Note 11)	<u>2,000</u>	<u>2,000</u>
Total Current Assets	<u>16,678,070</u>	<u>16,053,434</u>
NON-CURRENT ASSETS		
Financial assets at fair value through other comprehensive income - net (Note 7)	43,457,288	43,457,288
Other assets - net (Note 9)	<u>95,708</u>	<u>59</u>
Total Non-current Assets	<u>43,552,996</u>	<u>43,457,347</u>
TOTAL ASSETS	P <u>60,231,066</u>	P <u>59,510,781</u>
<u>LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)</u>		
CURRENT LIABILITIES		
Accrued expenses and other liabilities (Note 10)	P 45,890	P 217,090
Due to related parties (Note 11)	<u>3,150,000</u>	<u>3,150,000</u>
Total Current Liabilities	3,195,890	3,367,090
NON-CURRENT LIABILITY		
Post-employment benefit obligation (Note 12)	<u>1,774,505</u>	<u>1,774,505</u>
Total Liabilities	<u>4,970,395</u>	<u>5,141,595</u>
EQUITY (CAPITAL DEFICIENCY) (Note 5)		
Capital stock	157,964,622	157,964,622
Additional paid-in capital	25,498,912	25,498,912
Revaluation reserves	(512,467,530)	(512,467,530)
Retained earnings (Deficit)	<u>384,264,667</u>	<u>383,373,182</u>
Total Equity (Capital Deficiency)	<u>55,260,671</u>	<u>54,369,186</u>
TOTAL LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)	P <u>60,231,066</u>	P <u>59,510,781</u>

MEDCO HOLDINGS, INC.
 STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
 FOR THE SIX MONTHS ENDED JUNE 30, 2019 and 2018

	APRIL TO JUNE		JANUARY TO JUNE	
	2019	2018	2019	2018
REVENUES	P 3,158,093	P 3,021,810	P 3,228,435	P 3,039,089
EXPENSES	<u>968,877</u>	<u>2,073,411</u>	<u>2,291,266</u>	<u>3,333,901</u>
INCOME /(LOSS) BEFORE FINAL TAX	2,189,216	948,399	937,169	(294,812)
LESS: PROVISION FOR FINAL TAX	<u>31,630</u>	<u>3,809</u>	<u>45,684</u>	<u>7,245</u>
NET INCOME/(LOSS)	<u>2,157,586</u>	<u>944,590</u>	<u>891,485</u>	<u>(302,057)</u>
DEFICIT AT BEGINNING				
OF YEAR/QUARTER	382,107,081	(808,992,706)	383,373,182	(807,746,059)
APPLICATION OF ADDITIONAL PAID IN CAPITAL	-	665,000,000	-	665,000,000
NET INCOME/(LOSS)	<u>2,157,586</u>	<u>944,590</u>	<u>891,485</u>	<u>(302,057)</u>
DEFICIT AT END OF QUARTER	<u><u>384,264,667</u></u>	<u><u>(143,048,116)</u></u>	<u><u>384,264,667</u></u>	<u><u>(143,048,116)</u></u>
EARNINGS (LOSS) PER SHARE (Note 14)	P <u>0.0007</u>	P <u>0.0003</u>	P <u>0.0003</u>	P <u>(0.0001)</u>

MEDCO HOLDINGS, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2019, 2018, and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Capital stock- P1 par value			
Authorized, issued and outstanding - 700,000,000 shares	P -	P 700,000,000	P 700,000,000
Issuance of capital stock	-	122,964,622	-
Decrease in par value	<u>-</u>	<u>(665,000,000)</u>	<u>-</u>
Capital stock- P0.05 par value			
Authorized - 9,400,000,000 shares			
Issued and outstanding - 3,159,292,441 shares	<u>157,964,622</u>	<u>157,964,622</u>	<u>700,000,000</u>
Additional paid-in capital			
Balance, beginning of year	25,498,912	25,498,912	25,498,912
Decrease in par value of capital stock	-	665,000,000	-
Application to deficit	<u>-</u>	<u>(665,000,000)</u>	<u>-</u>
Balance, end of quarter	<u>25,498,912</u>	<u>25,498,912</u>	<u>25,498,912</u>
Revaluation Reserves	<u>(512,467,530)</u>	<u>(1,237,065)</u>	<u>(1,631,163)</u>
Retained Earnings / (Deficit)			
Balance, beginning of year	383,373,182	(807,746,059)	(806,294,123)
Application of APIC (equity restructuring)	-	665,000,000	-
Net profit (loss)	<u>891,485</u>	<u>(302,057)</u>	<u>370,505</u>
Balance, end of quarter	<u>384,264,667</u>	<u>(143,048,116)</u>	<u>(805,923,618)</u>
Total equity	P <u>55,260,671</u>	P <u>39,178,353</u>	P <u>(82,055,869)</u>

Supplemental Information

In 2018, the Securities and Exchange Commission approved the Company's equity restructuring application. During the year, the Company has reclassified its advances from certain parties to capital stock and has applied the decrease in par value of capital stock against deficit.

MEDCO HOLDINGS, INC.
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2019, 2018 AND
FOR THE YEAR ENDED DECEMBER 31, 2018

	June 30 2019	(Audited) December 31 2018	June 30 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before tax	P 937,169	P 2,773,397	P (294,812)
Adjustments for:			
Impairment losses	-	137,177	-
Interest income	(228,435)	(173,925)	(35,182)
Unrealized foreign exchange loss (gain)	1,462	(3,313)	(3,907)
Operating profit (loss) before working capital changes	<u>710,196</u>	<u>2,733,336</u>	<u>(333,901)</u>
Decrease (increase) in:			
Receivables	50,182	(10,664)	(31,200)
Other assets	(95,649)	(137,177)	(89,337)
Due from related parties	-	1,350,000	1,350,000
Increase (decrease) in:			
Accrued expenses and other liabilities	(171,200)	59,071	(111,229)
Retirement benefit obligation	-	-	(271,863)
Cash provided by (used in) operating activities	<u>493,529</u>	<u>3,994,566</u>	<u>512,470</u>
Interest received	228,435	173,925	35,182
Cash paid for final taxes	<u>(45,684)</u>	<u>(34,991)</u>	<u>(7,245)</u>
 Net Cash Provided by (Used in) Operating Activities	 <u>676,280</u>	 <u>4,133,500</u>	 <u>540,407</u>
 CASH FLOWS FROM AN INVESTING ACTIVITY			
Proceeds from sale of subsidiary	<u>-</u>	<u>-</u>	<u>-</u>
 CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of borrowings from related parties	-	-	-
Repayment of amounts due to related parties	<u>-</u>	<u>-</u>	<u>-</u>
 Net Cash Provided by (Used in) Financing Activities	 <u>-</u>	 <u>-</u>	 <u>-</u>
 EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	<u>(1,462)</u>	<u>3,313</u>	<u>3,907</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 674,818	 4,136,813	 544,314
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>15,402,926</u>	 <u>11,266,113</u>	 <u>11,266,113</u>
 CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR	 <u>P 16,077,744</u>	 <u>P 15,402,926</u>	 <u>P 11,810,427</u>

MEDCO HOLDINGS, INC.
(A Subsidiary of Bonham Strand Investments Ltd.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019, 2018 and 2017
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Corporate Information

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

On April 27, 2017, the Company sold all of its investment holdings over Medco Asia Investment Corporation (MAIC) to a third party. Accordingly, MAIC has been deconsolidated in 2017 and the Company will no longer prepare a consolidated financial statements starting 2018.

In 2018, following the SEC-approved equity restructuring process entered into during the year and the issuance of new shares, Bonham Strand Investments Ltd. (BSIL) acquired 69.67% ownership over the Company and thereby making the Company its subsidiary. BSIL is an entity engaged in investment holding and registered in the British Virgin Islands. Prior to this, the Company was 46.04% owned by Citivest Asia Limited (CAL), also an entity engaged in investment holding and registered in the British Virgin Islands.

The registered office of the Company, which is also its principal place of business, is located at 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City. The registered office of BSIL, which is also its principal place of business, is Akara Building, 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands.

1.2 Status of Operations

The Company incurred net losses in previous years which resulted in a capital deficiency of P83,484,211 as at December 31, 2017. This condition indicates the existence of a material uncertainty which casts significant doubt on the ability of the Company to continue as a going concern. In response to this matter, BSIL has committed to continue providing financial support until the Company's financial condition and performance improves and becomes self-sustaining.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

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

In 2018, the Company adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allowed the Company not to restate its prior periods' financial statements. Differences arising from the adoption of PFRS 9 in relation to classification and measurement of financial assets are recognized in the opening balance of Retained Earnings (Deficit) and Revaluation Reserves in the current year [see Note 2.2(a)(i)].

The effect of adoption of PFRS 9 to the Company's total equity is a decrease of P523,380,834 in the Deficit account and net decrease of P501,895,940 in Revaluation Reserves as a result of reclassification and remeasurements of financial assets (see Note 7).

Further, the Company adopted PFRS 15, *Revenue from Contracts with Customers*. However, such adoption has no material impact on the Company's financial statements [see Note 2.2(a)(ii)].

Accordingly, the adoption of these two new accounting standards did not require the Company to present its third statement of financial position.

(c) *Functional and Presentation Currency*

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

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

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2018 that are Relevant to the Company*

The Company adopted for the first time the following amendments to PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle) PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

Discussed below and in the succeeding pages are the relevant information about these new PFRS, interpretations and improvements.

(i) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013. 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, i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);

- an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at fair value through profit or loss, which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; 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.

The Company's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in Notes 2.3 and 2.5.

(a) *Investment*

The impact of the adoption of this new accounting standard to the Company's financial statements pertains to the effect of the reclassification of certain investment securities from Available-for-Sale (AFS) Financial Assets and Other Assets to Financial Assets at FVOCI. The unquoted equity securities under the AFS Financial Asset account in the 2017 statement of financial position with a carrying amount of P31,268,750 had a fair value of P52,753,644 upon reclassification on January 1, 2018 to FVOCI. The related net fair value gain of P21,484,894 is accordingly adjusted to the opening balance of Revaluation Reserves account in the statements of financial position (see Note 7). In addition, the related impairment losses previously recognized in profit or loss and Retained Earnings (Deficit), which represent the fair value losses on certain AFS financial assets and amounting to P523,380,834, was also reclassified into the Revaluation Reserves account.

(b) *Credit Losses on Financial Assets at Amortized Cost*

The adoption of this new accounting standard required the application of the ECL methodology through simplified approach for trade and other receivables and due from related parties. Such application, however, has not resulted in significant required allowance for credit losses for trade and other receivables.

- (ii) PFRS 15, *Revenue from Contract with Customers*, together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This new standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of the new standard has no material impact on the

Company's financial statements as the company does not have any revenue sources covered by PFRS 15.

- (iii) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this amendment has no significant impact on the Company's financial statements.
- (iv) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, only PFRS 1 (Amendments), *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions*, is identified by management relevant to the Company. The amendments removed short-term exemptions in PFRS 1 covering PFRS 7, *Financial Instruments: Disclosures*, PAS 19, *Employee Benefits*, and PFRS 10, *Consolidated Financial Statements*, because the reporting period to which the exemptions applied have already transpired.

(b) *Effective in 2018 that is not Relevant to the Company*

The following amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Company's financial statements:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, amendments, interpretations and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).
- (ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.
- (iii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application. The Company will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application.

- (iv) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.
- (v) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends* is relevant to the Company where it clarifies that all income tax consequence of dividend payments should be recognized in profit or loss. But management has assessed that these has no material impact on the Company's financial statements as these amendments merely clarify existing requirements.

2.3 Financial Assets

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

- (a) *Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9*

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets that are relevant to the company are described in the succeeding pages.

(i) *Financial Assets at Amortized Cost*

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Company's financial assets categorized as amortized cost are presented as Cash and Cash Equivalents, Receivables - net and Due from Related Parties.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally 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.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized as Interest Income under the Income section of the statement of comprehensive income.

(ii) *Financial Assets at Fair Value Through Other Comprehensive Income*

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Company for trading or as mandatorily required to be classified as FVTPL. The Company has designated certain equity instruments as at FVOCI on the date of initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Retained Earnings account.

Any dividends earned on holding equity instruments are recognized under the Income section of the statement of comprehensive income, when the Company's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Company, and, the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

(b) *Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39*

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

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

(i) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. 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 Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Receivables – net and Due from Related Parties in the statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

(ii) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in the non-current assets section of the statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period. The Company's AFS financial assets include equity securities.

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

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

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. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of comprehensive income. Dividends on equity instruments are recognized in profit or loss when the Company's right to receive payment is established.

(c) *Impairment of Financial Assets Under PFRS 9*

From January 1, 2018, the Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Company's identification of a credit loss event. Instead, the Company considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Company applies the simplified approach through external benchmarking in measuring ECL, which uses a lifetime expected loss allowance for all receivables. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Company uses its historical experience, external indicators and forward-looking information to calculate the ECL.

For financial assets at amortized cost, the allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial asset, in such case, a lifetime ECL for a purchased or originated credit impaired, the allowance for credit losses is based on the change in the ECL over the life of the asset. The Company recognized a loss allowance for such losses at each reporting date.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of default over a given time horizon.

- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral.
- *Exposure at default* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(d) *Impairment of Financial Assets Under PAS 39*

In 2017 and prior years the Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or Company of financial assets is impaired. The Company recognizes impairment loss based on the category of financial assets as follows:

(i) *Carried at Amortized Cost – Loans and Receivables*

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

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

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

(ii) *Carried at Cost – AFS Financial Assets*

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(e) *Derecognition of Financial Assets*

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

2.4 Other Assets

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

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

2.5 Financial Liabilities

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

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

Financial liabilities are 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 Company does not have an unconditional right to defer settlement of the liability for at least twelve 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.

2.6 Offsetting Financial Instruments

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

2.7 Provisions and Contingencies

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

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

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

2.8 Revenue and Expense Recognition

Currently, the company does not have any revenue source except those arising from financial assets which are under PFRS 9 (i.e., dividends and interest income).

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

2.9 Leases - Company as Lessee

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

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

2.10 Foreign Currency Transactions and Translation

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

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

2.11 Impairment of Non-financial Assets

The Company's non-financial assets are subject to impairment testing. These assets 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 the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

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

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

2.12 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually or every two years by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], 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. BVAL provides evaluated prices that are based on market observations from contributed sources.

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

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

(b) *Defined Benefit Contribution Plans*

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

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of Philippine Accounting Standard 37, *Provisions, Contingent Liabilities and Contingent Assets* 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.

2.13 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred 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.

2.14 Related Party Relationships and Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual; and, (c) the Company's funded retirement plan.

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

2.15 Equity (Capital Deficiency)

Capital stock represents the nominal value of shares that have been issued, reduced by the decrease in par value as approved by the SEC.

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

Revaluation reserves comprise fair value changes of financial assets at FVOCI (previously as AFS financial assets) and remeasurements of the defined benefit post-employment plan.

Retained earnings (Deficit) includes the current and prior period results as reported in the profit or loss section of the statement of comprehensive income, the effect of the adoption of PFRS 9 and the application of surplus from the decrease in par value of capital stock due to the equity restructuring scheme.

2.16 Earnings (Loss) Per Share

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

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

2.17 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Determination of ECL on Receivables (2018)

The Company uses external benchmarking approach to calculate ECL for receivables and due from related parties. The provision rates are derived from published global credit ratings by external rating agencies, e.g., Standard & Poors credit rating, Moody's Credit Review, etc. As referenced to these external credit benchmarks, the Company defines the credit ratings based on certain financial ratios and appropriately determine the equivalent internal credit ratings. Referenced probability of default is then derived from the latest annual global corporate default study published by the external rating agency. The Company makes an annual re-assessment of the applicability and reliability of the reference rates used. Based on the determination of management, the related losses are not material to the financial statements.

(b) *Evaluation of Business Model Applied in Managing Financial Instruments (2018)*

Upon adoption of PFRS 9, the Company developed business models which reflect how it manages its portfolio of financial instruments. The Company's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Company) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Company evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Company (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Company's investment and trading strategies.

(c) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model (2018)*

In determining the classification of financial assets under PFRS 9, the Company assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. Moreover, the assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Company assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Company considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

(d) *Impairment of AFS Financial Assets (2017)*

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

Based on the recent evaluation of information and circumstances affecting the Company's AFS financial assets, management concluded that the assets, except the portion that has already been provided with allowance for impairment, are not impaired as at December 31, 2017. Future changes in those information and circumstance might significantly affect the carrying amount of the assets (see Note 7).

(e) *Distinction Between Operating and Finance Leases*

The Company has entered in various lease agreements as lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. As at December 31, 2018 and 2017, management has determined that the current lease agreements are operating leases.

(f) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.7 and relevant disclosures are presented in Note 15.

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) *Estimation of Allowance for ECL (2018)*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of counterparties defaulting and the resulting losses). Based on the external benchmarking approach used by the Company, the required ECL allowance as of December 31, 2018 is determined by management to be immaterial to the financial statements [see also Note 3.1(a)].

(b) *Impairment of Receivables and Due from Related Parties (2017)*

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

The carrying value of receivables and the analysis of allowance for impairment as of December 31, 2017 on such financial assets are shown in Note 8.

(c) *Determination of Fair Value Measurement for Financial Instruments*

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

The carrying values of the Company's financial assets at FVOCI (previously classified as AFS financial assets) and the amounts of fair value changes recognized on those assets are disclosed in Note 7.

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

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. No deferred tax assets were recognized as of December 31, 2018 and 2017 as the Company's management believes that the Company will not be able to generate sufficient taxable profit in the coming years against which the assets can be utilized (see Note 13).

(e) *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 2.11). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Accumulated impairment loss recognized on the Company's other assets is disclosed in Note 9.

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

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

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 12.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

4.1 Market Risk

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

(a) Foreign Currency Risk

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

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

As at June 30, 2019 and December 31, 2018, the U.S. dollars denominated financial assets, translated into Philippine pesos at the closing rate amounted to P61,186 and P62,588, respectively.

The sensitivity of profit/loss before tax with respect to changes in Philippine peso against U.S. dollar exchange rates is identified by management to have an insignificant impact on the Company's financial statements.

(b) Interest Rate Risk

The Company monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At June 30, 2019 and December 31, 2018, the Company is exposed to changes in market interest rates through its cash and cash equivalents which are subject to variable interest rates (see Note 6). Management believes that the impact of changes in market interest rates is not material to the financial statements. All other financial assets and financial liabilities are noninterest-bearing.

4.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments from granting receivables to customers including related parties and placing deposits with banks. The Company continuously monitors defaults of customers and other counterparties, identified either individually or by Company, and incorporates this information into its credit risk controls. The Company's policy is to deal only with creditworthy counterparties.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to financial statements, as summarized below.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	6	P 16,077,744	P 15,402,926
Receivables – net	8	598,326	648,508
Due from related parties	11	<u>2,000</u>	<u>2,000</u>
		<u>P 16,678,070</u>	<u>P 16,053,434</u>

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

(a) Cash and Cash Equivalents

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

(b) Receivables and Due from Related Parties

The Company applies PFRS 9 simplified approach in measuring ECL, which uses a 12-month ECL allowance for due from related parties as management considers them "low credit risk". Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Advances to employees and other receivables relate to receivables from both third and related parties and have substantially the same risk characteristics. The Company has therefore concluded that the expected loss rates are applicable for the entire group of receivables.

The provision rates based on external benchmarking are derived from published global credit ratings by external rating agencies, e.g., Standard & Poors credit rating, Moody’s Credit Review, etc. These rating agencies uses evaluation of current and historical information and assesses the potential impact of foreseeable future events as basis for the credit ratings. As referenced to these external credit benchmarks, the Company defines the credit ratings based on internal default experience, potential impact of foreseeable future events as basis for the credit ratings. Management has used Moody’s Credit Review rating of “Baa” on due from related parties as basis for the credit loss rates to compute for the ECL. Management has assessed that the computed ECL is immaterial; hence, no loss allowance was recognized as at December 31, 2018 and January 1, 2018 (upon adoption of PFRS 9).

The credit risk for interest receivable is considered negligible as this pertains to interest earned from short-term placements, which normally matures within 30-35 days. High credit risk is considered for accounts receivable as management believes that this may no longer be collectible.

4.3 *Liquidity Risk*

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

As at June 30, the Company’s financial liabilities have contractual maturities of within one year as presented below.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Accrued expenses and other liabilities	10	P -	P 144,200
Due to related parties	11	<u>3,150,000</u>	<u>3,150,000</u>
		<u>P 3,150,000</u>	<u>P 3,294,200</u>

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

5. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

5.1 *Capital Management Objectives, Policies and Procedures*

The Company’s capital management objectives are to ensure that the Company continues as a going concern. With the current financial condition of the Company, the management is working closely with the parent company and the BOD to achieve these objectives.

Relevant information is shown below.

	<u>2019</u>	<u>2018</u>
Total liabilities	P 4,970,395	P 5,141,595
Total equity (capital deficiency)	55,260,671	54,369,186

As at June 30, 2019 and December 31, 2018, the Company is not subject to any externally imposed capital requirements.

5.2 Track Record of Registration of Securities

On April 24, 2018, the SEC approved the decrease in the Company's authorized capital stock from P700,000,000 divided into 700,000,000 common shares to P35,000,000 divided into 700,000,000 common shares by reducing the par value per share from P1.0 to P0.05. In addition, the SEC also approved the application of the resulting surplus amounting to P665,000,000 against the outstanding deficit as of December 31, 2017. On the same day, the SEC approved the Company's application for increase of its capital stock from P35,000,000 divided into 700,000,000 common shares to P470,000,000 divided into 9,400,000,000 shares. The payables to BSIL and Mr. Xu Hanjiang totalling P122,964,622 were used as subscription for this application.

The Company has a total authorized capital stock of P470,000,000 divided into 9,400,000,000 common shares with a P0.05 par value at December 31, 2018 and a total authorized capital stock of P700,000,000 divided into 700,000,000 common shares with a P1.00 par value as at December 31, 2017. There are 3,159,292,441 issued and outstanding shares with a total par value of P157,964,622 as of December 31, 2018, while there are 700,000,000 issued and outstanding shares with a total par value of P700,000,000 as of December 31, 2017.

As at June 30, 2019 and December 31, 2018, the Company has 477 and 478 stockholders respectively, owning 100 or more shares each of the Company's capital stock.

On November 18, 1975, the SEC approved the listing at the PSE of the Company's shares totalling 700,000,000. As at June 30, 2019 and December 31, 2018, there are 674 holders of the listed shares equivalent to 100% of the Company's total outstanding shares. Such listed shares closed at P0.50 per share and P0.47 per share as at June 30, 2019 and December 31, 2018, respectively. The Company has no other securities being offered for trading in any stock exchange. It currently has a pending application for listing of its newly authorized securities with the PSE.

6. CASH AND CASH EQUIVALENTS

This account consists of:

	<u>2019</u>	<u>2018</u>
Cash in banks	P 825,625	P 327,179
Short-term placements	<u>15,252,119</u>	<u>15,075,747</u>
	<u>P 16,077,744</u>	<u>P 15,402,926</u>

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods between 30 to 35 days and earn annual effective interest ranging from 3.00% to 5.25% in 2019 and 1.38% to 5.25% in 2018.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Company's investment securities at FVOCI pertains to unquoted equity securities. The reconciliation of the carrying amounts of these financial assets are as follows:

Balance at beginning of year	
upon adoption of PFRS 9	P 52,753,644
Fair value loss	(<u>9,296,356</u>)
	<u>P 43,457,288</u>

The Company has designated the above equity securities as at FVOCI because they are held for long-term investments and are neither held-for-trading nor designated as at FVTPL. The investment in unquoted equity security of the Company as at June 30, 2019 and December 31, 2018 mainly pertains to the Company's investment in Manila Exposition Complex, Inc. (MEC) representing 18.18% ownership interest (P31,268,750), investment in I-Mart Corporation (I-Mart) representing 10% ownership interest (P45,000,000) and investment in Export and Industry Bank, Inc. (EIB) representing 2.45% ownership (P478,380,834).

The fair value of the Company's investment in MEC is determined using dividend discount model while the fair values of the investments in I-Mart and EIB were determined using the net asset valuation approach. Hence, these assets are categorized under Level 3 of the fair value hierarchy. The Company received cash dividends amounting to P9.0 million, P6.0 million, and P9.0 million in 2018, 2017 and 2016, respectively, from its investment in MEC.

In 2018, the fair value changes in the Company's financial assets at FVOCI (relating to MEC) amounted to P9.3 million, which are recognized as an adjustment in Revaluation Reserve and is presented in the 2018 statement of comprehensive income under items that will not be reclassified subsequently to profit or loss [see also Note 2.2(a)(i)].

The investments in I-Mart and EIB are carried at nil in the financial statements as of June 30, 2019 and December 31, 2018.

The Company's investments in MEC and I-Mart are presented as AFS Financial Assets in the 2017 statement of financial position and are carried at cost less allowance for impairment. The Company provided full allowance for impairment losses on its investment in I-Mart following the latter's cessation of business. On the other hand, the Company's investment in EIB was previously presented as part of Other Assets and also provided with full valuation allowance (see Note 9).

Due to the reclassification of the investments in I-Mart and EIB to the Financial Assets at FVOCI account, the related impairment losses totalling P523,380,834 previously recognized in profit or loss and Deficit account were reclassified to the Revaluation Reserves account.

8. RECEIVABLES

This account consists of the following:

	<u>2019</u>	<u>2018</u>
Accounts receivable	P 40,313,000	P 40,313,000
Interest receivables	-	47,563
Advances to employees	-	2,618
Other receivables	<u>598,326</u>	<u>598,327</u>
	40,911,326	40,961,508
Allowance for impairment	<u>(40,313,000)</u>	<u>(40,313,000)</u>
	<u>P 598,326</u>	<u>P 648,508</u>

The accounts receivable of the Company pertains to advances granted to a foreign corporation. These advances matured on August 31, 2000. Full allowance for impairment has been provided on this balance as management believes that it may no longer be collectible.

Other receivables pertain to the taxes and licenses paid by the Company on behalf of Classic Tycoon Investment Limited and Fair Navigator Limited, related parties under common ownership, with registered address at British Virgin Islands. The outstanding receivables are unsecured, noninterest-bearing and collectible in cash on demand. These receivables have been reviewed for indications of impairment. Based on such review, management determines that the related losses are immaterial to the financial statements (see Note 4.2).

9. OTHER ASSETS

This account consists of the following:

	<u>2019</u>	<u>2018</u>
Input value added tax	P 1,853,358	P 1,757,709
Miscellaneous	59	59
Investments	<u>-</u>	<u>-</u>
	1,853,417	1,757,768
Allowance for impairment	<u>(1,757,709)</u>	<u>(1,757,709)</u>
	<u>P 95,708</u>	<u>P 59</u>

On April 26, 2012, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) placed EIB under receivership pursuant to Section 30 of Republic Act No. 7653, *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 Company provided full allowance for impairment on the investment.

In 2016 and previous years, EIB is considered an associate because the Company has significant influence over EIB as certain members of the Company's BOD are also members of the BOD of EIB. In 2017, following the sale of MAIC, the Company determined that it no longer has significant influence over EIB. Accordingly, the investment is reclassified as part of Other Assets in the 2017 statement of financial position. In 2018, the Company reclassified the investments to Financial Assets at FVOCI (see Note 7).

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

10. ACCRUED EXPENSES AND OTHER LIABILITIES

This account consists of the following:

	<u>2019</u>	<u>2018</u>
Accrued expenses	P -	P 144,200
Withholding tax payable	45,890	72,890
Due to Bonham Strand Investments Ltd	-	-
Due to Mr. Xu Hanjiang	-	-
	<u>P 45,890</u>	<u>P 217,090</u>

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

On May 31, 2017, the Company's due to related parties totalling to P120,180,426, other liabilities of P2,600,000, and accrued interest on these payables of P184,196 for the period of January to May 31, 2017, have been assigned to BSIL and Mr. Xu Hanjiang as a result of the Company's recapitalization plan. In 2018, these liabilities were used as subscription to the Company's application for increase in authorized capital stock. Following the approval of the SEC of the increase and the issuance of the related shares, the balances were reclassified to Capital Stock account in the 2018 statement of financial position (see Note 5.2).

11. RELATED PARTY TRANSACTIONS

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

11.1 Lease of Office Space

The Company leases its office space from Capital Place International Limited – Philippine Branch, a related party under common ownership of Lippo Company in Hong Kong, for a period of one year, renewable upon mutual agreement of the parties. Total rent charged to operations are presented as Occupancy in the statements of comprehensive income. The Company does not have any outstanding liabilities arising from these transactions as at June 30, 2019 and 2018 as the payments are made every month.

11.2 Due from Related Parties

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

This account consists of the following as of June 30, 2019 and December 31, 2018:

	<u>2019</u>		<u>2018</u>
CTC Entrepreneurs Corp.	P 1,000	P	1,000
Keytrend Technologies Phils., Inc.	1,000		1,000
Capital Place International Ltd.	<u>-</u>		<u>-</u>
	<u>P 2,000</u>	P	<u>2,000</u>

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

The movements in this account follow:

	<u>2019</u>		<u>2018</u>
Balance at the beginning of the year	P 2,000	P	1,352,000
Additions	-		-
Collections	<u>(-)</u>		<u>(1,350,000)</u>
Balance	<u>P 2,000</u>	P	<u>2,000</u>

11.3 Due to Related Parties

Due to related parties pertain to noninterest-bearing, unsecured cash advances from related parties for working capital requirements and other purposes. The advances are generally payable in cash upon demand. In 2017, certain liabilities were assigned to third parties (see Note 10).

As of June 30, 2019 and 2018, this account consists of due to Lippo Securities, Inc. amounting to P3,150,000. Management plans to pay the liability in 2019.

The movements in this account follow:

	<u>2019</u>		<u>2018</u>
Balance at the beginning of the year	P 3,150,000	P	3,150,000
Reclassification to other liabilities	<u>-</u>		<u>-</u>
Balance at end of year	<u>P 3,150,000</u>	P	<u>3,150,000</u>

11.4 Key Management Personnel Compensation

The compensation and benefits provided to key management personnel generally consist of short-term employee benefits. These are presented as part of Employee Benefits in the statements of comprehensive income (see Note 12).

11.5 Transactions with the Retirement Fund

The retirement fund for the defined benefit post-employment plan is administered and managed by a trustee bank. The fair value and the composition of the plan assets as of June 30, 2019 and December 31, 2018 are presented in Note 12.2.

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

The details of the contributions of the Company to the plan are presented in Note 12.2.

12. EMPLOYEE BENEFITS

12.1 Employee Benefits Expense

Details of salaries and employee benefits are presented below.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Short-term employee benefits	P 1,217,339	P 1,262,334	P 1,258,628
Post-employment defined benefit	<u>-</u>	<u>-</u>	<u>-</u>
	<u>P 1,217,339</u>	<u>P 1,262,334</u>	<u>P 1,258,628</u>

12.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

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

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

(b) Explanation of Amounts Presented in the Financial Statements

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

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

	<u>2019</u>	<u>2018</u>
Present value of obligation	P 3,029,980	P 3,029,980
Fair value of the plan assets	(1,255,475)	(1,255,475)
Balance at end of year	<u>P 1,774,505</u>	<u>P 1,774,505</u>

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

13. CURRENT AND DEFERRED TAXES

The breakdown of the Company's NOLCO as at June 30, 2019 and December 31, 2018, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

<u>Year</u>	<u>Original Amount</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2018	P 6,040,305	P -	P 6,040,305	2021
2017	7,896,164	-	7,896,164	2020
2016	5,213,225	-	5,213,225	2019
2015	<u>4,848,777</u>	<u>4,848,777</u>	<u>-</u>	
	<u>P 23,998,471</u>	<u>P 4,848,777</u>	<u>P 19,149,694</u>	

The Company is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations, or RCIT whichever is higher. There was no MCIT and RCIT incurred in 2018 and 2017 as the Company is in a gross and taxable loss position in both years.

In June 30, 2019, 2018 and 2017, each entity in the Company opted to claim itemized deductions in computing for its income tax due.

14. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted loss per share for the quarters ended June 30, 2019, 2018 and 2017 is computed as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net profit (loss) attributable to the shareholders of the Company	P891,485	(P 302,057)	P 370,505
Divided by the weighted average number of outstanding shares	<u>3,159,292,441</u>	<u>3,159,292,441</u>	<u>700,000,000</u>
Basic and diluted earnings (loss) per share	<u>P 0.0003</u>	<u>(P 0.0001)</u>	<u>P 0.0005</u>

The Company has no potentially dilutive common shares as at June 30, 2019, 2018 and 2017.

15. COMMITMENTS AND CONTINGENCIES

15.1 Operating Lease Commitments

The Company is a lessee under a non-cancellable lease agreement covering certain office space. The lease is for a period of one year which may be renewed for another year (see Note 11.1). Total rent expense from this operating lease in June 30, 2019, 2018 and 2017 amounted to P156,000.

15.2 Others

There are other commitments and contingencies that arise in the normal course of the Company's operations which are not reflected in the financial statements. As at June 30, 2019 and December 31, 2018, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Company's financial statements.

MEDCO HOLDINGS, INC.
AGING OF ACCOUNTS RECEIVABLE
As of June 30, 2019

	NO OF DAYS OUTSTANDING				
AMOUNT	1 -30 days	31-60 days	61-90 days	91-120 days	Over 120 days
Various					
	P598,326				P598,326