COVER SHEET

SEC Registration Number

3	9	6	5	2						

Company Name

MEDCO HOLDINGS, INC. AND SUBSIDIARY

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

31st FLOOR RUFINO PACIFIC TOWER 6784 AYALA AVENUE MAKATI CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
FORM 17-A		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
	(02) 811-0465	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
		12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. Dionisio E. Carpio, Jr.	denniscarpio@medco.com.ph	(02) 811-0465	

Contact Person's Address

31st Floor Rufino Pacific Tower 6784 Ayala Avenue, Makati City

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

SECURITIES AND EXCHANGE COMMISSION
Metro Manila, Philippines

FORM 17- A
ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

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1. For the year ended **December 31, 2017**

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. Former name, former address, and former fiscal year, if changed since last report. **Not applicable.**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec 4 and 8 of the RSA

Title of each class	Number of shares of common stock outstanding and amount of debt outstanding
Common	**700,000,000 shares (₱1.00 par value per share)**

11. Are any or all of these securities listed on a Stock Exchange. Yes [/] No [ ]

Philippine Stock Exchange (PSE)	Common
Name of Stock Exchange	Class of securities listed therein

12. Check whether the registrant: (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 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 [ ]

13. As at December 31, 2017, the aggregate market value of the voting stock held by non-affiliates of the registrant was P226,580,462 (based on the closing price of ₱0.60 per share on December 29, 2017).

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

(2). Business of Issuer

Medco Holdings, Inc. ("MHI" or "MED" or the "Corporation") is an investment holding company listed on the Philippine Stock Exchange ("PSE"). It was incorporated in the Philippines on October 23, 1969 as the Mindanao Exploration & Development Corporation and adopted its current name in 1995.

In May 1995, the Lippo Group through Citivest Asia Limited ("Citivest") acquired approximately 67% of the outstanding capital stock of the Corporation. In 1997, Citivest purchased additional MED shares which increased its equity stake to 70.67%. The Lippo Group is a major Asia Pacific business conglomerate principally involved in investment holding, property investment, property development, hotel operation, food business, property management, project management, mineral exploration, extraction and processing, fund management, underwriting, corporate finance, securities broking, securities investment, treasury investment, money lending, banking and other related financial services. It has operating units and representative offices in major Asian countries. Citivest is a corporation organized under the laws of the British Virgin Islands and is a wholly-owned subsidiary of Lippo China Resources Limited ("LCR"), an investment holding company listed on The Stock Exchange of Hong Kong Limited. LCR's subsidiaries and associates are mainly engaged in investment holding, property investment, property development, food business, property management, mineral exploration, extraction and processing, securities investment, treasury investment and money lending.

Prior to the Lippo Group's acquisition of a majority interest in the Corporation, MHI was engaged in mineral exploration and development. With the entry of the Lippo Group in the middle of fiscal 1995, the Corporation embarked on a major corporate shift that resulted in its transformation into an investment holding company. In line with the change in its primary business purpose, the Corporation had previously sold all its rights, titles, interests including all liabilities and obligations in its mining lease contracts and operating agreements to South Seas Oil & Mineral Exploration Development Co., Inc.

Thereafter, the Corporation has been engaged in investment holding activities. It does not produce or sell any product, or render any service. At present, its investment portfolio is composed of holdings in companies involved in financial services and trade development (operation of exhibition halls and conference facilities).

In December 2005, Citivest divested a portion of its shareholdings in the Corporation thereby reducing its equity stake to approximately 46%.

Details of the affiliated companies and their activities as at December 31, 2017 are as follows:

Name	Place of incorporation	Fully paid-up common share capital	Percentage of direct equity ownership of MHI	Principal Activities
Export & Industry Bank, Inc (In receivership)	Philippines	₱4,734,452,540	2.45%	Commercial banking
Manila Exposition Complex, Inc.	Philippines	₱165,000,000	18.18%	Exhibition hall operation

From March 29, 2000 up to April 27, 2017, Medco Asia Investment Corporation ("MAIC"), was a 64.54%-owned principal subsidiary of the Corporation. However, on April 27, 2017, the Corporation sold all of its investment holdings in MAIC to a third party.

Export & Industry Bank, Inc. ("Exportbank") (In receivership)

Exportbank was engaged in the business of commercial banking and of trust and funds management, and exercised all the powers of a commercial bank, trust company, and a corporation in general, as provided for under the General Banking Act, as amended, the rules and regulations of the Bangko Sentral ng Pilipinas, the Corporation Code of the Philippines and other applicable laws.

On April 26, 2012, the Monetary Board in its Resolution No. 686 decided to prohibit Export and Industry Bank, Inc. from doing business in the Philippines and to place its assets and affairs under receivership pursuant to Section 30 of the Republic Act (R.A) No. 7653 (the New Central Bank Act). The Philippine Deposit Insurance Corporation was designated as Receiver of the said commercial bank.

Last year, the Corporation beneficially-owned 10.31% of Exportbank which included the 7.86% equity investment in Exportbank then held by its former subsidiary MAIC. In view of the aforementioned divestment of its shareholdings in MAIC, the Corporation's ownership in the bank has been reduced to its direct equity stake of 2.45%.

Other Affiliate

Manila Exposition Complex, Inc. is not a significant affiliate of the Corporation.

Percentage of Sales or Revenues and Net Income Contributed by Foreign Sales

During the year under review, there were no sales or revenues and net income contributed by foreign sale.

Distribution Methods of the Products or Services

Being just an investment holding company, the Corporation, does not produce or sell any product, or offer any service.

Status of any publicly-announced new products or service

None.

Competition

None.

Sources and Availability of Raw Materials and Names of Principal Suppliers.

The Corporation is not into manufacturing and has no need of raw materials for its businesses.

Dependence on Single Customer

None.

Transactions with Related Parties

The Corporation borrows funds occasionally for its working capital requirements. Apart from these borrowings, there are no other transactions with related parties.

Expiration of Patents, Trademarks, Copyrights, Licenses, Franchise, Concessions and Royalty Agreements.

The Corporation has not entered into agreements related to patents, trademarks, copyrights, licenses, franchise, concessions and royalty.

Need for Government Approvals of Principal Products or Services.

None.

Effects of Existing or Probable Governmental Regulations

The Corporation is subject to the rules and regulations of the SEC and the PSE. It is complying with existing government regulations which have been beneficial to its business. The Corporation is not aware of any probable government regulation that could have any adverse effect on its business.

Cost on Development Activities

None.

Cost and Effects of Compliance with Environmental Laws

None.

Total Number of Employees and Number of Full –Time Employees.

As of December 31, 2017, the Corporation had three (3) employees. One is a clerical employee, the other one is the company driver, and the third is an administrative personnel. The Corporation does not anticipate any increase in the number of its employees within the ensuing twelve (12) months. There were no employees covered by a Collective Bargaining Agreement. There are no supplemental benefits or incentive arrangements. The Corporation's employees are not on strike and have never gone on strike in the past. .

Item 2. Properties

As at the end of 2017, the Corporation did not own any real property. It is leasing office space in a condominium unit at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City, Metro Manila, owned by Capital Place International Limited.

Item 3. Legal Proceedings

As at December 31, 2017 and as far as the management of the Corporation is aware, there are no pending material legal proceedings to which the Corporation is a party or of which any of its property is the subject.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

Market Information

The Corporation's common shares are listed and traded on the PSE.

The high and low price of such common shares for the first quarter of 2018 were as follows:

1st Quarter	
High	Low
P0.70	P0.52

The high and low prices for each quarter of 2017 were as follows:

1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
High	Low	High	Low	High	Low	High	Low
P0.87	P0.56	P0.83	P0.64	P0.79	P0.68	P0.71	P0.55

The high and low prices for each quarter of 2016 were as follows:

1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
High	Low	High	Low	High	Low	High	Low
P0.65	P0.40	P0.68	P0.53	P1.30	P0.54	P1.03	P0.55

Recent Sales of Unregistered Securities. -- NONE

Holders, Dividends and Sale of Unregistered Securities

Based on the records of the Corporation's stock transfer office, Philippine Stock Transfer, Inc., as at December 31, 2017, there were 673 holders of the common stock of the Corporation.

The following are the Company's top 20 registered common stockholders holding listed and unlisted shares as of December 31, 2017:

	Name	**No. of Shares Held**	**% of Total**
1.	Citivest Asia Limited	322,314,874	46.0450%
2.	PCD Nominee Corp.	339,808,156	48.5440%
3.	Suncentury Asia Limited	34,500,000	4.9286%
4.	Gatchalian, Rexlon	1,000,000	0.1429%
5.	Rodrigo, Raul	1,000,000	0.1429%
6.	Lo, Eduardo	394,000	0.0563%
7.	Ibardolaza, Marita	100,000	0.0143%
8.	Chong, Lilian	50,000	0.0071%
9.	Bautista, Emmanuel T. &/or Bernardita P. Bautista	40,000	0.0057%
10.	Uy, Arturo &/or Arnel Uy	40,000	0.0057%
11.	Guevara, Anna Georgina	23,000	0.0033%
12.	Cua, Henry	20,000	0.0029%
13.	Libertad Development Corp.	20,000	0.0029%

14.	Ong, Lyn	20,000	0.0029%
15.	Ramos, Angela	20,000	0.0029%
16.	Avis, Jose T.	19,000	0.0027%
17.	Cua, Bernice Yang	10,011	0.0014%
18.	Banda, Jovita L.	10,000	0.0014%
19.	Dy, Aurora	10,000	0.0014%
20.	Gili, Guillermo Jr.	10,000	0.0014%

As at December 31, 2017, the number of shares held by the public was 377,634,103 shares and the public ownership level of the Company is at 53.9477%.

No cash dividends have been declared by the Corporation on its common stock for the last 10 years. The Corporation Code of the Philippines provides that dividends may only be declared out of unrestricted retained earnings. The directors will consider dividend payments after taking into account such factors as the Corporation's cash flow, future expansion plans and prevailing bank interest rates.

There were no sales of any unregistered securities of the Corporation within the past three years.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with Item 1 of this report and the Audited Financial Statements and the related Notes to Financial Statements in Exhibit A of this Report.

Plan of Operation

The Corporation incurred net losses in previous years which resulted in a capital deficiency of P83,484,211 and P176,605,563 as at December 31, 2017 and 2016, respectively. The Corporation also reported deficits of P807,746,058 and P867,407,223 as of December 31, 2017 and 2016, respectively. Despite having incurred such deficits, management believes that the Corporation will be able to turnaround and achieve positive operations in future years.

As at December 31, 2017, the equity attributable to the stockholders of the parent Corporation, as stated in the balance sheets, has resulted to a capital deficiency amounting to P83,484,211.

To remedy the said capital deficiency, the management has proposed the following recapitalization plan, which was approved by the Corporation's Board of Directors and its stockholders on May 31, 2017 and November 24, 2017, respectively, and will be implemented as soon as it is approved by the SEC:

(a) decrease in the authorized capital stock from P700,000,000 to P35,000,000 through a reduction in the par value per share from P1.00 to P0.05;

(b) the use of the additional paid-in capital thereby created, in addition to the current additional paid-in capital balance, to reduce the outstanding deficit;

(c) increase in authorized capital stock from P35,000,000 to P470,000,000; and,

(d) private placement transactions covering the subscription by Bonham Strand Investments Ltd. and Mr. Xu Han Jiang to a total of P2,459,292,441 common shares issued out of the

increase in authorized capital stock which shall be paid through the assignment of debts amounting to P122,964,622.

The Corporation is in the process of filing the necessary documents with SEC. As of December 31, 2017, the documents initially submitted by the Company are still being subjected to the evaluation of SEC. Certain requirements are still being completed subsequent to the end of the reporting period.

The Corporation is confident that it can satisfy its cash requirements not only in the next twelve (12) months but also on a long- term basis. Its liquid assets as at December 31, 2017 consisted of P11.3 million of cash and cash equivalents In case the Corporation has any unforeseen cash requirement that cannot be met by its internal sources, its external sources of liquidity would consist of, among others, advances from its affiliate companies and/or major shareholders.

As of December 31, 2017, there were three (3) employees of the Corporation. One is a clerical employee, the other one is the company driver, and the third is an administrative personnel. The Company does not anticipate any increase in the number of its employees within the ensuing twelve (12) months.

Results of Operations for the years ended December 31, 2017, 2016 and 2015

2017

Total consolidated revenues for the year ended 2017 includes the results of operations of the Parent Company (MHI) for the year and the results of operations of MAIC from January 1, 2017 to April 27, 2017. It is noteworthy that there is an increase in consolidated revenues by 668% compared to the previous year. Consolidated revenues for this year consisted mainly of gain on deconsolidation of subsidiary (91%), dividend income (8.70%) and interest income from short-term placement and bank deposits (.30%).

The recognition of gain on deconsolidation of subsidiary in the 2017 consolidated statement of comprehensive income was the result of the Corporation’s sale of all its investment holdings in MAIC to a third party on April 27, 2017. The difference between the consideration received and the net asset value as of disposal date of MAIC amounting to P63,033,564 was recognized and presented therein as gain on deconsolidation of subsidiary. As MAIC was in a capital deficiency position, its disposal resulted in the derecognition of accumulated losses in the consolidated figures equivalent to the recognition of gain on deconsolidation. It is noteworthy that such gain does not pertain to any actual earnings being realized by the Corporation but is rather just a result of compliance with the requirements of accounting standards.

On the other hand, total consolidated expenses decreased by approximately 21% compared to the prior year. The expenses for this year were composed of employee benefits (42%), professional fees (13%), membership fees and dues (11%), occupancy (7%), taxes and licenses (7%), representation (5%) and other expenses (15%).

The decrease in the 2017 consolidated expenses relative to 2016 was due mainly to the non-consolidation MAIC’s salaries, employee benefits and representation expenses after the date of sale of the subsidiary.

Other components of expenses, such as occupancy, communication and foreign exchange losses, also posted a decrease in the year under review.

2016

Consolidated revenues for the year ended December 31, 2016 increased by 50% compared to the prior year's figure. During the year under review, revenues consisted of dividend income (99.95%), and interest income from short-term placements (.05%).

The increase in consolidated revenues was mainly due to the 50% increase in dividend income from Manila Exposition Complex, Inc. Interest income contracted because of the reduction in deposit placements due to withdrawals for the Corporation's working capital requirements.

On the other hand, there was a slight increase in total consolidated expenses compared to the prior year. The expenses for this year were composed of employee benefits (58%), occupancy (12%), professional fees (8%), representation (5%), membership fees and dues (3%) and other expenses (14%).

The slight increase in the 2016 consolidated expenses was mainly due to the foreign exchange losses in the Corporation's dollar denominated liability due to a higher exchange rate conversion from dollar to peso as at December 31, 2016. Finance cost also posted an increase this year.

2015

Total consolidated revenues for the year ended 2015 increased by approximately 96% compared to the previous year. Consolidated revenues for this year consisted mainly of dividend income (99.76%), interest income from short-term placement and bank deposits (0.20%) and foreign exchange gain (0.04%).

The increase in consolidated revenues was mainly due to the increase in dividend income. Interest income contracted because of the substantial reduction in deposit placements due to withdrawals for the Corporation's working capital requirements.

On the other hand, total consolidated expenses decreased by approximately by 7% compared to the prior year. The expenses for this year were composed of employee benefits (57%), occupancy (12%), professional fees (8%), representation (5%), and other expenses (18%).

The decrease in the 2015 consolidated expenses relative to 2014 was mainly due to the lower membership fees & dues and utilities expenses paid by the Corporation's subsidiary, MAIC, as a result of the agreement between MAIC and its lessor, CPIL, that the monthly lease rate effective on July 1, 2015 up to May 31, 2016 shall be inclusive of the said charges. In previous years, these charges were being charged to MAIC.

Other components of expenses, such as representation, communication, taxes & licenses, employee benefits as well as other expenses posted a decrease in the year under review. This was the result of the Corporation's continuing cost-cutting measures.

Financial Condition and Changes in Financial Condition as of December 31, 2017, 2016 and 2015

2017

The consolidated statement of financial position as of December 31, 2017 pertains solely to the balances of the Parent Company.

Referring to the balance sheet as at the end of this year, total assets increased by 111% compared to the previous year. Total assets were mainly composed of available-for-sale investments (70%), cash and cash equivalents (25%), and due from related parties and receivables (5%).

The increase in the cash and cash equivalents account was due to the cash payment made by MAIC for the advances it owed prior to its being sold thereby also decreasing the due from related parties account on the liabilities side. The derecognition of the intercompany payable of former subsidiary MAIC also contributed to the decrease in the due to related parties account.

As at December 31, 2017, the total shareholders' fund of the Corporation resulted in a capital deficiency of P83.5 million.

2016

With respect to the balance sheet as at the end of 2016, there was an 11% increase in total assets as compared to the previous year. Total assets for this year were composed mainly of available-for-sale investments (78%), cash and cash equivalents (13%), due from related parties and receivables (7%) and other assets (2%).

As discussed in the foregoing results of operations for 2016, the increase in the total assets was mainly due to the 50% increase in the cash dividend received from Manila Exposition Complex, Inc. this year as compared with that of last year's dividend.

On the other hand, the increase in the accounts payable and other liabilities, as well as the due to related parties account, was due to the advances obtained for working capital requirements.

As at December 31, 2016, the total shareholders' fund of the Corporation on a consolidated basis resulted in a capital deficiency of P143.5 million.

2015

As to the balance sheet as at the end of this year, total assets decreased by 11% compared to the previous year. Total assets were composed of available-for-sale investments (87%), cash and cash equivalents (5%), due from related parties and receivables (7%), and other assets (1%).

The decline in the cash and cash equivalents account was due to the withdrawals in the deposit placement that were used for the Corporation's working capital requirements and the payment of certain liabilities such as the withholding taxes and other payables.

On the liabilities side, there was no significant change as compared to the prior year. The increase in the due to related parties account was due to the advances obtained for working capital requirements and purposes.

As at December 31, 2015, the total shareholders' fund of the Corporation on a consolidated basis resulted in a capital deficiency of P142.2 million.

Prospects for 2018

The year 2018 will likely be a good year as growth in the country's economy this year is expected to be at par or better than the GDP growth achieved last year. Likewise, local business sentiment as well as foreign investors' interest in the Philippines as an investment venue is expected to remain favorable. Given such positive outlook in the local investment environment, the Corporation has proceeded to implement its recapitalization plan and expects to complete it within this year.

Key Variable and Other Qualitative and Quantitative Factors

The Corporation is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. There are also no material commitments for capital expenditure or any significant elements of income or loss from continuing operations. The Corporation does not also anticipate any liquidity problem within the next twelve (12) months. The Corporation 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 Corporation's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at December 31, 2017 consisted of P11.30 million of cash and cash equivalents. Its external sources of liquidity would consist of advances from its affiliate companies and/or major shareholders.

There are no events that will trigger direct or contingent obligation that is material to the Corporation, including any default or acceleration of an obligation.

There are also no material off-balance sheets transactions, arrangements, obligations (including contingent obligation), and other relationships of the Corporation with unconsolidated entities or other persons created during the period.

Furthermore, there were no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. Aside from those already mentioned above, the Corporation is also not aware of any events that will cause a material change in the relationship between the costs and revenues.

The top five (5) performance indicators of the Corporation and its subsidiary, MAIC, for the past three (3) fiscal years are presented below:

a. Revenue Growth- This measures how fast the Corporation's business is expanding. The ratio shows the annualized rate of increase (or decrease) of the Corporation's revenues.

b. Net Income Growth- Similar to revenue growth, this ratio is an indicator of the rate of growth of the Corporation's bottom line figure.

c. Return on Equity- For an investor who wants to have an indication of his investment returns, this ratio provides such a measure.

d. Current Ratio- This ratio measures the Corporation's ability to pay its currently maturing obligations.

e. Debt-to-Equity Ratio- This ratio offers a method of assessing the Corporation's financial health and gauging the balance sheet durability.

Top Five (5) Performance Indicators

December 31, 2017, 2016 and 2015

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Principal Subsidiary)	
		2017	2016	2015	2016	2015
1. Revenue Growth	Revenue Y1-Y0 / Revenue Y0	668%	50%	96%	763.75%	-31.20%
2. Net Income Growth*	Net Loss Y1-Y0 / Net Loss Y0	NA	NA	NA	NA	NA
3. Return on Equity**	Net Income / Ave. Stockholders' Equity	NA	NA	NA	NA	NA
4. Current Ratio	Current Assets / Current Liabilities	0.10x	0.04x	0.02x	0.02x	0.02x
5. Debt-to-Equity- Ratio**	Total Liabilities / Stockholders' Equity	NA	NA	NA	NA	NA

* Losses

** Capital Deficiency in 2017, 2016 and 2015

Note:

Y1= Current year

Y0= Previous year

Item 7. Financial Statements

The consolidated Financial Statements and related Notes to Financial Statements of MHI for the past 3 years ended 31 December 2017 appear on the Index to Financial Statements and Supplementary Schedules page of this Report.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

NONE

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

(A) (1) Directors and Positions Held/Business Experience for the Last Five (5) Years

The members of the Corporation's Board of Directors as at December 31, 2017 together with a brief description of their other positions held and business experience for the last five years are enumerated as follows:

BOBBY CHENG SAI CHONG, British, aged sixty-nine (69), has been a director of the Corporation since September 18, 2006 and has been appointed as the Chairman of the Board of Directors on July 23, 2009. He has more than thirty (30) years experience in banking and finance. He attended the Barnard College in Hongkong and took up a course in Commerce and Finance.

DIONISIO E. CARPIO, JR., Filipino, aged seventy-one (71), has been a director of the Corporation since 1998 and its President from September 2006 up to present. He was the treasurer of the Corporation from 1998 to 2006. He is currently also a director of Manila Exposition Complex, Inc. He was the senior vice president, treasurer and director of Medco Asia Investment Corporation (MAIC) from September 1, 1997 to April 27, 2017. Before joining MAIC in 1995, he was connected with Far East Bank and Trust Company. Mr. Carpio holds a Bachelor of Science degree in Mechanical Engineering from the De La Salle University and a Masters degree in Business Management from the Asian Institute of Management. He has more than forty (40) years experience in commercial, investment and trust banking, as well as line management.

CALY D. ANG, Filipino, aged seventy (70), has been a director of the Corporation and of MAIC since 1995. She has been an independent director of the Corporation since 2006 and of MAIC from 2006 to April 27, 2017. She is the president and general manager of Multi-World Philippines International, Inc. from 1989 up to the present and a director and president of Concord World Properties, Inc. from 1991 to the present. She graduated from Adamson University, Manila obtaining a Bachelor of Science degree in Commerce in 1969 and a MBA from the same institution in 1971.

SOLOMON R. B. CASTRO, Filipino, aged forty-nine (49), has been a director of the Corporation since 1998 to the present. He has been an independent director since 2002. He was the corporate secretary and vice president-legal counsel of MAIC from May 1997 to August 1998. He is the managing director and senior advisor of CFP Strategic Transaction Advisors, Inc. since 2010. He is also an infrastructure transaction specialist for the International Finance Corporation, the private sector arm of the World Bank Group, since 2008. Mr. Castro is a member of the Philippine bar. He holds a Bachelor of Science degree in Business Administration and a Bachelor of Laws degree from the University of the Philippines. He also has a Master of Laws degree from Cornell University, New York. His practice areas include public-private partnerships, project finance, banking, securities regulation, mergers and acquisitions, and general corporate law.

EDNA D. REYES, Filipino, aged seventy (70), has been a director of the Corporation since 2000 and was its Treasurer between 2006 and 2007. She was also the Chairperson of the Board of MAIC until April 27, 2017. She has more than forty (40) years of experience in banking, particularly in international and correspondent banking as well as foreign operations. She has a Bachelor of Science degree in Commerce from the University of Santo Tomas.

PAULINE C. TAN, Filipino, aged forty-eight (48), has been a director of the Corporation since 2009. She has been the treasurer and compliance officer of the Corporation since September 20, 2007. She worked in The HongKong Chinese Bank Limited in 1994. She was a director of Lippo Securities, Inc. and of MAIC from 1995 to 1999 and of Manila Exposition Complex, Inc. from 1995 to 2000 and from 2012 to the present. She was also the Managing Director of Sun

Hung Kai Securities Philippines, Inc. from 1999 to June 2000. She has a Bachelor of Arts degree in Mass Communication from St. Scholastica's College.

Executive Officers

The following are the principal officers of the Corporation:

Chairman of the Board	-	Bobby Chong Sai Cheng
President/Corporate Information Officer	-	Dionisio E. Carpio, Jr.
Corporate Secretary	-	Jonas S. Khaw
Treasurer/Assistant Corporate Secretary	-	Pauline C. Tan

In addition to those already shown above, the following is description of the other positions held by the remaining principal officers and their business experience for the last five years:

JONAS S. KHAW, Filipino, aged thirty-eight (38), is the corporate secretary of the Corporation. He has been the corporate secretary since 15 December 2017 up to the present. He is a member of the Philippine Bar and a partner in the law firm Picazo Buyco Tan Fider & Santos. Atty. Khaw holds a Juris Doctor and Bachelor of Science in Management Engineering degrees both from the Ateneo de Manila University. He is also the Assistant Corporate Secretary of Bloomberry Resorts Corporation, a publicly listed company.

(2) Significant Employees

There are no other employees who are expected by the Corporation to make a significant contribution to its business. Moreover, the business of the Corporation is not highly dependent on the services of key personnel.

(3) Family Relationship

None.

(4) Involvement in Certain Legal Proceedings

Based on their individual responses after due inquiry as of December 31, 2017, none of the following events occurred with respect to any of the foregoing nominees and executive officers during the past five (5) years that would be material to an evaluation of their ability or integrity to act as directors or executive officers of the Corporation, except as otherwise provided below:

(a) Any bankruptcy petition filed by or against any business of which the nominee was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time.

(b) Any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(c) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the nominee's involvement in any type of business, securities, commodities or banking activities; and

(d) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Item 10. Executive Compensation

(1) Annual Compensation of the Top Executive Officers of the Corporation

Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**
Dionisio E. Carpio, Jr. (President)	2016	None	None	P45,000
	2017	None	None	P55,000
	2018 (Estimated)	None	None	P45,000
Pauline C. Tan (Treasurer and Compliance Officer)	2016	P2,340,000	None	P45,000
	2017	P2,340,000	None	P55,000
	2018 (Estimated)	P2,340,000	None	P45,000
All Top Executive Officers and Directors as a group	2016	P2,340,000	None	P315,000
	2017	P2,340,000	None	P334,000
	2018 (Estimated)	P2,340,000	None	P319,000

Notes:
1. The aforementioned Other Annual Compensation consists only *per diems* given to directors.
2. Each Director receives *per diems* of P2,000 for each board meeting.
3. The Corporate Secretary does not receive a salary but his law firm is paid a professional retainer fee.

(2) Compensation of Directors

Since the dates of their election, except for *per diems,* the Directors have served without compensation. Except for *per diems,* the Directors did not receive any other amount or form of compensation for committee participation or special assignments.

The Amended By-laws of the Corporation does not provide for compensation for the directors. As of the date of this Information Statement, no standard arrangements have been made in respect of director compensation. For the ensuing year, the Corporation does not foresee payment of compensation for directors, except reasonable *per diems* annually for each director. The Corporation, however, does not discount the possibility that director compensation other than reasonable *per diems* may be given in the future.

(3) Pursuant to Article VI, Section 8 of the Amended By-Laws of the Corporation, such compensation may be fixed by the directors with the approval of a majority of the stockholders and will in no case exceed 10% of the net income before income tax of the Corporation for the preceding year.

(a) Employment Contracts

There are no formal employment contracts between the Corporation and its executive officers and other officers. The terms and conditions of their employment are governed by applicable laws.

(b) Compensatory Plan or Arrangement

There are formal compensatory plans or arrangements between the Corporation and its executive officers and other officers.

(d) Warrants and Options Outstanding

There are no outstanding warrants and options held by the Corporation's directors, executive officers and other officers.

Item 11. Security Ownership of Certain Beneficial Owners and Management-

Security Ownership of Certain Record and Beneficial Owners of more than 5% of the Corporation's Outstanding Stock as of December 31, 2017:

Title of class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of class
Common	Citivest Asia Limited C/o Room 2301, Tower One, Lippo Centre, 89 Queensway Hong Kong (Parent Company of the Issuer)	Citivest Asia Limited C/o Room 2301, Tower One, Lippo Centre, 89 Queensway Hong Kong (Parent Company of the Issuer)	Foreign	322,314,874	46.0450%
Common	PCD Nominee Corp. Makati Stock Exchange Bldg., Ayala Avenue Makati City (No Relationship with Issuer)	Various beneficial owners	Filipino/Others	339,808,156[1]	48.5440%

[1] Among the PCD participants, COL Financial Group, Inc. owns 73,922,222 shares, representing 10.5603% of the Company's outstanding capital stock.

Security Ownership of Management

To the extent known to the Board of Directors, as of December 31, 2017, there is no security beneficial ownership of Management, other than the shares held for their own account by the following directors:

Title of Class	**Name of Beneficial Owner**	**Amount and Nature of Beneficial Ownership**		**Citizenship**	**Percent of Ownership**
Common Stock	Dionisio E. Carpio, Jr.	1,000	(direct)	Filipino	Nil
Common Stock	Edna D. Reyes	50,000	(indirect)	Filipino	Nil
	TOTAL	51,000			

Aside from the above, Mr. Carpio and other directors hold qualifying shares in the Corporation. Such shares are held by them as nominees for and on behalf of Citivest Asia Limited, details of which are as follows: Mr. Carpio holds 8 of such shares; Mr. Solomon R.B. Castro holds 11 shares; and Ms. Pauline C. Tan, Ms. Caly D. Ang, Mr. Pedro Cadavida, Jr. and Mr. Bobby Cheng Sai Chong individually hold 1 share each.

Voting Trust Holders of 5% or More - None

Changes in Control - None

Item 12. Certain Relationships and Related Transactions (See Note 14 of the Notes to the Financial Statements)

The Corporation in the ordinary course of business, grants and obtains advances to and from related parties as well as non-related third parties.

Item 13. Corporate Governance

a. Evaluation System established by the Corporation to measure or determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance.

   The Corporation has accomplished and submitted its Corporate Governance Self-Rating Form ("CG-SRF") to the SEC. The Corporation reviews the specific policies and regulations on the CG-SRF and determines whether it fully complies with it. Any deviation is immediately discussed among the members of the management. As of this date, the Corporation has sufficiently complied with its Manual on Corporate Governance. There has been no deviation from the Manual on Corporate Governance. At the end of each fiscal year, the Corporation submits a certification of the attendance of its directors in meetings of the Board of Directors with such attendance having consistently complied with regulatory requirements.

b. Measures being undertaken by the Corporation to fully comply with the adopted leading practices on good corporate governance.

   To strictly observe and implement the provisions of its Manual of Corporate Governance, the following penalties are imposed, after notice and hearing, on the Corporation's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of the Manual of Corporate Governance:

   - In case of first violation, the subject person shall be reprimanded.
   - Suspension from office shall be imposed in case of second violation.
   - The duration of the suspension shall depend on the gravity of the violation.
   - For third violation, the maximum penalty of removal from office shall be imposed.

   The commission of a third violation of the Manual of Corporate Governance by any member of the board of the Corporation or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.

   The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

c. Any deviation from the Corporation's Manual of Corporate Governance. Including a disclosure of the name and position of the persons involved and sanctions imposed on said individual.

   As of this date, the Corporation has sufficiently complied with its Manual on Corporate Governance. There has been no deviation from the Manual on Corporate Governance.

d. Any plan to improve corporate governance of the Corporation.

   The Corporation accomplishes and submits its Corporate Governance Self-Rating Form ("CG-SRF") to the SEC annually. The Corporation reviews the specific policies and regulations on the CG-SRF and determines whether it fully complies with it. Any deviation is immediately discussed among the members of the management.

PART IV - EXHIBITS AND SCHEDULES

		Page/Incorporation by Reference
(1)	Financial Statements Consolidated Balance Sheets Consolidated Statements of Income Consolidated Statements of Cash Flow Notes to Financial Statements	Please see accompanying Index to Financial Statements and Supplementary Schedules
(2)	Plan of Acquisition	not applicable
(3)	Instruments Defining the Rights of Securities Holders	not applicable
(4)	Voting Trust Agreement	not applicable
(5)	Annual Report to Security Holders	not applicable
(6)	Change in Certifying Accountant	not applicable
(7)	Report furnished to Security Holders	not applicable
(8)	Subsidiaries of the Registrant	1
(9)	Published Report Regarding Matter Submitted to Vote of Security Holders	not applicable
(10)	Consents of Experts and Independent Counsel	not applicable
(11)	Power of Attorney	not applicable

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this Report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 13, 2018.

Signature	Capacity
Sai Chong Cheng	Chairman of the Board
Dionisio E. Carpio, Jr.	President
Pauline C. Tan	Treasurer

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY) S.S.

SUBSCRIBED AND SWORN to before me this APR 13 2018, affiants exhibiting to me their Passport/SSS Numbers as follow:

NAMES	SSS / PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Sai Chong Cheng	752019881	July 9, 2008	United Kingdom of Great Britain and Northern Ireland
Dionisio E. Carpio, Jr	03-1710841-7		Manila
Pauline C. Tan	33-0293610-9		Manila

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Page No. ; 37
Book No. ; xix
Series of 2018

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Until December 31, 2018
IBP No. 656155-Lifetime Member
MCLE Compliance No. V-0006934
Appointment No. M-104 (2017-2018)
PTR No. 6607879 Jan. 3, 2018
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio Del Pilar, Makati City

Medco Holdings, Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Medco Holdings, Inc. and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan and Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

Sai Chong Cheng
Chairman of the Board
TIN 911-812-692

Dionisio E. Carpio, Jr.
President
TIN 115-321-387

Pauline C. Tan
Treasurer
TIN 100-666-150

Signed this 5th day of April 2018

APR 1 3 2018 CITY OF MAKATI

SUBSCRIBED AND SWORN to before me this _____day of_________at____________, affiants exhibiting to me their SSS /Passport Numbers as follow:

Sai Chong Cheng	752019881	July 9, 2008/United Kingdom of Great Britain and Northern Ireland
Dionisio E. Carpio, Jr.	03-1710841-7	Manila, Philippines
Pauline C. Tan	33-0293610-9	Manila, Philippines

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Until December 31, 2018
IBP No. 656155-Lifetime Member
MCLE Compliance No. V-0006234
Appointment No. M-184 (2017-2018)
PTR No. 6607879 Jan. 3, 2018
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio Del Pilar, Makati City

Doc. No. 178
Page No. 37
Book No. XIX
Series of 2018

31/F Rufino Pacific Tower, 6784 Ayala Avenue, Makati City, 1229, Philippines
Tels.: (632) 811-04-65 to 67 Fax (632) 811-0521

P&A
Grant Thornton

An instinct for growth™

Financial Statements and Independent Auditors' Report

Medco Holdings, Inc. and Subsidiaries

December 31, 2017, 2016 and 2015

P&A
Grant Thornton
An instinct for growth™

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288

Report of Independent Auditors

The Board of Directors and the Stockholders
Medco Holdings, Inc. and Subsidiaries
31st Floor, Rufino Pacific Tower
6784 Ayala Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medco Holdings, Inc. and Subsidiaries (the Group), and of Medco Holdings, Inc. (the Parent Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in capital deficiency and statements of cash flows for the three years in the period ended December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1.2 to the financial statements, which indicates that the Group incurred net losses in previous years which resulted in a consolidated capital deficiency of P83,484,211 and P176,605,563 as at December 31, 2017 and 2016, respectively. In addition, the Parent Company also reported a capital deficiency of P83,484,211 and P82,426,373 as at December 31, 2017 and 2016, respectively. These events or conditions, along with other matters as set forth in Note 1.2 to the financial statements, indicate existence of material uncertainty that may cast significant doubt on the Parent Company and the Group's ability to continue as a going concern. In response to this matter, the Parent Company's management, in coordination with its major stockholders, is finalizing the planned recapitalization as its initial step. In 2017, the Parent Company sold all of its holdings over the subsidiary to a third party. In the meantime, to ensure that the Parent Company will continue as a going concern, its major stockholders have committed to continue providing financial support until its financial condition and performance improves and becomes self-sustaining. We have performed audit procedures to evaluate management's plans as to likelihood of improving the situation and as to feasibility under the circumstances. Accordingly, the Parent Company and the Group's financial statements have been prepared assuming that both the Parent Company and the Group will continue as a going concern entity which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Assessment of Asset Impairment

Description of the Matter

As more fully explained in Note 2.4, the Group's management is required to make an annual assessment to determine whether the values of the financial assets as at December 31, 2017 is impaired. The process for measuring and recognizing impairment under PAS 39, *Financial Instruments: Recognition and Measurement,* is complex and highly judgmental. Additionally, the Group has been continually incurring net losses which indicates existence of material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. We therefore identified impairment reviews as a significant risk requiring special audit consideration.

How the Matter was Addressed in the Audit

Our audit work includes, but was not restricted to, an evaluation of the methodology and assumptions used by management for impairment of the Available-For-Sale (AFS) Financial Assets of the Group.

We compared the methodologies applied and the assumptions used by management with our expectations and emerging market activity. We also focused on the adequacy of allowance for impairment recognized and the disclosures on the sensitivity of the key assumptions used in the impairment assessment and the disclosure that any decline in the fair value of the Group could give rise to an impairment of the above mentioned assets in the future.

The Group's disclosures about AFS Financial Assets are presented in Note 8.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Company's Securities and Exchange Commission (SEC) Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Parent Company and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Parent Company or the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parent Company and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Parent Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Parent Company or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 22 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the 2017 audit resulting in this independent auditors' report is Sheryl G. Llovido.

PUNONGBAYAN & ARAULLO

By: **Sheryl G. Llovido**
Partner

CPA Reg. No. 0108392
TIN 221-750-103
PTR No. 6616012, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1554-A (until Apr. 14, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-36-2015 (until Nov. 1, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 5, 2018

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

		GROUP		PARENT COMPANY	
	Notes	**2017**	2016	**2017**	2016
A S S E T S					
CASH AND CASH EQUIVALENTS	7	**P 11,266,113**	P 5,351,515	**P 11,266,113**	P 5,139,183
AVAILABLE-FOR-SALE FINANCIAL ASSETS - Net	8	**31,268,750**	31,293,500	**31,268,750**	31,268,750
RECEIVABLES - Net	9	**637,844**	677,166	**637,844**	630,997
DUE FROM RELATED PARTIES	14	**1,352,000**	2,061,527	**1,352,000**	9,002,000
OTHER ASSETS - Net	11	**59**	508,821	**59**	2,759
TOTAL ASSETS		**P 44,524,766**	P 39,892,529	**P 44,524,766**	P 46,043,689
LIABILITIES AND CAPITAL DEFICIENCY					
ACCOUNTS PAYABLE AND OTHER LIABILITIES	12	**P 123,122,641**	P 5,080,003	**P 123,122,641**	P 3,005,726
DUE TO RELATED PARTIES	14	**3,150,000**	207,936,678	**3,150,000**	123,330,426
POST-EMPLOYMENT BENEFIT OBLIGATION	15	**1,736,336**	3,481,411	**1,736,336**	2,133,910
Total Liabilities		**128,008,977**	216,498,092	**128,008,977**	128,470,062
CAPITAL DEFICIENCY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		**(P 83,484,211)**	(143,480,399)	**(83,484,211)**	(82,426,373)
NON-CONTROLLING INTEREST		**-**	(33,125,164)	**-**	-
Total Capital Deficiency	6	**(83,484,211)**	(176,605,563)	**(83,484,211)**	(82,426,373)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY		**P 44,524,766**	P 39,892,529	**P 44,524,766**	P 46,043,689

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	GROUP 2017	GROUP 2016	GROUP 2015	PARENT COMPANY 2017	PARENT COMPANY 2016	PARENT COMPANY 2015
REVENUES							
Gain on deconsolidation of subsidiary	1	P 63,033,564	P -	P -	P -	P -	P -
Dividends	8	6,000,000	9,003,208	6,000,000	6,000,000	9,000,000	6,000,000
Interest income	7	122,445	4,840	11,763	121,619	4,548	11,358
Foreign exchange gains - net		129	-	2,968	129	-	2,968
Gain on sale of subsidiary	1, 10	-	-	-	700,000	-	-
Others		143	-	-	-	-	-
		69,156,281	9,008,048	6,014,731	6,821,748	9,004,548	6,014,326
EXPENSES							
Employee benefits	15	4,274,338	7,392,463	7,144,075	3,033,133	2,945,042	2,956,983
Professional and management fees		1,289,700	1,024,586	1,008,762	1,272,500	655,000	649,750
Membership fees and dues		1,157,860	407,864	427,210	1,157,860	294,050	258,050
Occupancy	14	718,461	1,531,384	1,531,384	312,000	312,000	312,000
Taxes and licenses	22	697,570	33,847	35,270	682,788	17,854	20,469
Representation		457,630	687,317	674,764	328,329	278,773	264,325
Interest expense	15	295,374	247,070	138,819	295,374	192,006	99,970
Transportation		223,183	217,675	224,126	222,223	217,675	224,126
Impairment losses	11	202,433	135,163	136,433	202,433	135,163	136,433
Communication		146,384	231,533	274,452	96,821	30,921	42,919
Foreign exchange losses - net		8,027	258,075	75,835	-	182,533	-
Others	13	657,023	581,443	839,088	645,917	499,215	463,049
		10,127,983	12,748,420	12,510,218	8,249,378	5,760,232	5,428,074
PROFIT (LOSS) BEFORE TAX		59,028,298	(3,740,372)	(6,495,487)	(1,427,630)	3,244,316	586,252
TAX EXPENSE	16	24,306	948	2,329	24,306	890	2,248
NET PROFIT (LOSS)		59,003,992	(3,741,320)	(6,497,816)	(1,451,936)	3,243,426	584,004
OTHER COMPREHENSIVE INCOME (LOSS)							
Item that will not be reclassified subsequently to profit or loss							
Remeasurements of post-employment defined benefit obligation	15	394,098	66,534	80,290	394,098	(29,221)	242,881
Items that will be reclassified subsequently to profit or loss							
Derecognition of fair value gains on available-for-sale financial assets of the subsidiary during the year		(252)	-	-	-	-	-
Total Other Comprehensive Income (Loss)		393,846	66,534	80,290	394,098	(29,221)	242,881
TOTAL COMPREHENSIVE INCOME (LOSS)		P 59,397,838	(P 3,674,786)	(P 6,417,526)	(P 1,057,838)	P 3,214,205	P 826,885
Net Income (Loss) Attributable to:							
Shareholders of the Parent Company		P 59,661,165	(P 1,336,494)	(P 4,019,179)	P -	P -	P -
Non-controlling interest		(657,173)	(2,404,826)	(2,478,637)	-	-	-
		P 59,003,992	(P 3,741,320)	(P 6,497,816)	P -	P -	P -
Total Comprehensive Income (Loss) Attributable to:							
Shareholders of the Parent Company		P 60,055,011	(P 1,263,639)	(P 3,995,796)	P -	P -	P -
Non-controlling interest		(657,173)	(2,411,147)	(2,421,730)	-	-	-
		P 59,397,838	(P 3,674,786)	(P 6,417,526)	P -	P -	P -
Earnings (Loss) Per Share Attributable to the Shareholders of the Parent Company - Basic and Diluted	17	P 0.085	(P 0.002)	(P 0.006)	(P 0.002)	P 0.005	P 0.001

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	GROUP								
	Attributable to the Shareholders of the Parent Company								
			Revaluation Reserves						
	Capital Stock (see Note 6)	Additional Paid-in Capital (see Note 6)	Net Unrealized Gains (Losses) on Available-for-sale Financial Assets (see Note 8)	Accumulated Actuarial Losses (see Note 15)	Total	Deficit	Total Attributable to Shareholders of the Parent Company	Non-controlling Interest	Capital Deficiency
Balance at January 1, 2017	P 700,000,000	P 25,498,912	P 252	(P 1,572,340)	(P 1,572,088)	(P 867,407,223)	(P 143,480,399)	(P 33,125,164)	(P 176,605,563)
Deconsolidation of a subsidiary	-	-	-	(58,823)	(58,823)	-	(58,823)	33,782,337	33,723,514
Total comprehensive income (loss)	-	-	(252)	394,098	393,846	59,661,165	60,055,011	(657,173)	59,397,838
Balance at December 31, 2017	**P 700,000,000**	**P 25,498,912**	**P -**	**(P 1,237,065)**	**(P 1,237,065)**	**(P 807,746,058)**	**(P 83,484,211)**	**P -**	**(P 83,484,211)**
Balance at January 1, 2016	P 700,000,000	P 25,498,912	P 252	(P 1,645,195)	(P 1,644,943)	(P 866,070,729)	(P 142,216,760)	(P 30,714,017)	(P 172,930,777)
Total comprehensive income (loss)	-	-	-	72,855	72,855	(1,336,494)	(1,263,639)	(2,411,147)	(3,674,786)
Balance at December 31, 2016	P 700,000,000	P 25,498,912	P 252	(P 1,572,340)	(P 1,572,088)	(P 867,407,223)	(P 143,480,399)	(P 33,125,164)	(P 176,605,563)
Balance at January 1, 2015	P 700,000,000	P 25,498,912	P 252	(P 1,668,578)	(P 1,668,326)	(P 862,051,550)	(P 138,220,964)	(P 28,292,287)	(P 166,513,251)
Total comprehensive income (loss)	-	-	-	23,383	23,383	(4,019,179)	(3,995,796)	(2,421,730)	(6,417,526)
Balance at December 31, 2015	P 700,000,000	P 25,498,912	P 252	(P 1,645,195)	(P 1,644,943)	(P 866,070,729)	(P 142,216,760)	(P 30,714,017)	(P 172,930,777)

See Notes to Financial Statements.

MEDCO HOLDINGS, INC.
STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	PARENT COMPANY				
	Capital Stock (see Note 6)	Additional Paid-in Capital (see Note 6)	Revaluation Reserves (see Note 15)	Deficit	Capital Deficiency
Balance at January 1, 2017	P 700,000,000	P 25,498,912	(P 1,631,163)	(P 806,294,122)	(P 82,426,373)
Total comprehensive income (loss)	-	-	394,098	(1,451,936)	(1,057,838)
Balance at December 31, 2017	**P 700,000,000**	**P 25,498,912**	**(P 1,237,065)**	**(P 807,746,058)**	**(P 83,484,211)**
Balance at January 1, 2016	P 700,000,000	P 25,498,912	(P 1,601,942)	(P 809,537,548)	(P 85,640,578)
Total comprehensive income (loss)	-	-	(29,221)	3,243,426	3,214,205
Balance at December 31, 2016	P 700,000,000	P 25,498,912	(P 1,631,163)	(P 806,294,122)	(P 82,426,373)
Balance at January 1, 2015	P 700,000,000	P 25,498,912	(P 1,844,823)	(P 810,121,552)	(P 86,467,463)
Total comprehensive income (loss)	-	-	242,881	584,004	826,885
Balance at December 31, 2015	P 700,000,000	P 25,498,912	(P 1,601,942)	(P 809,537,548)	(P 85,640,578)

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	GROUP			PARENT COMPANY		
		2017	2016	2015	**2017**	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit (loss) before tax		P 59,028,298	(P 3,740,372)	(P 6,495,487)	(P 1,427,630)	P 3,244,316	P 586,252
Adjustments for:							
Gain on deconsolidation of subsidiary	1	(63,033,564)	-	-	-	-	-
Gain on sale of subsidiary	1, 10	-	-	-	(700,000)	-	-
Impairment losses	11	202,433	135,163	136,433	202,433	135,163	136,433
Interest income	7	(122,445)	(4,840)	(11,763)	(121,619)	(4,548)	(11,358)
Unrealized foreign exchange losses (gains) - net		8,027	258,075	1,941	(129)	182,533	(2,968)
Operating profit (loss) before working capital changes		(3,917,251)	(3,351,974)	(6,368,876)	(2,046,945)	3,557,464	708,359
Decrease (increase) in receivables		31,880	(168,209)	20,366	(6,847)	(166,447)	425
Decrease (increase) in due from related parties		(3,858,300)	(82,231)	912,898	7,650,000	(4,500,000)	(4,500,000)
Increase in other assets		(193,398)	(166,972)	(135,083)	(199,733)	(133,872)	(135,083)
Decrease in due to related party	14	(105,962,525)	-	-	(120,180,426)	-	-
Increase (decrease) in accounts payable and other liabilities	14	120,087,556	2,556,671	81,716	120,116,915	2,570,586	(42,342)
Increase (decrease) in post-employment benefit obligation		(1,063,476)	316,905	445,808	(3,476)	(37)	294,844
Cash generated from (used in) operations		5,124,486	(895,810)	(5,043,171)	5,329,488	1,327,694	(3,673,797)
Interest received		122,445	4,840	11,763	121,619	4,548	11,358
Cash paid for final taxes		(24,306)	(948)	(2,329)	(24,306)	(890)	(2,248)
Net Cash From (Used in) Operating Activities		5,222,625	(891,918)	(5,033,737)	5,426,801	1,331,352	(3,664,687)
CASH FLOWS FROM AN INVESTING ACTIVITY							
Proceeds from sale of a subsidiary		700,000	-	-	700,000	-	-
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from advances obtained from related parties	14	-	5,279,899	2,450,000	-	2,579,899	-
Repayments of amounts due to related parties	14	-	(479,100)	(1,015,966)	-	-	-
Net Cash From Financing Activities		-	4,800,799	1,434,034	-	2,579,899	-
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		(8,027)	(182,533)	2,968	129	(182,533)	2,968
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		5,914,598	3,726,348	(3,596,735)	6,126,930	3,728,718	(3,661,719)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		5,351,515	1,625,167	5,221,902	5,139,183	1,410,465	5,072,184
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 11,266,113	P 5,351,515	P 1,625,167	P 11,266,113	P 5,139,183	P 1,410,465

See Notes to Financial Statements.

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

1. GENERAL INFORMATION

1.1 Corporate Information

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

	Percentage of Ownership	Notes	Nature of Business
Subsidiaries:			
Medco Asia Investment Corporation (MAIC)	64.54%		Investment house
Safeharbor Holdings, Inc. (SHI)	64.54%	(a)	Investment holding company
Outperform Holdings, Inc. (OHI)	64.54%	(a)	Investment holding company
Associate –			
Export and Industry Bank, Inc. (EIB)	10.31%	(b)	Banking institution

Notes:
(a) Indirectly owned through MAIC; dormant company
(b) Includes direct ownership of 2.45% and indirect ownership through MAIC of 7.86%; under receivership.

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

The consolidated statement of financial position as of December 31, 2017 pertains solely to the balances of the Parent Company. On the other hand, the consolidated statement of comprehensive income for the year then ended includes the results of operations of the Parent Company for the year and the results of operations of MAIC from January 1, 2017 to April 26, 2017.

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

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

1.2 Status of Operations

The Group incurred net losses in previous years which resulted in a capital deficiency of P83,484,211 and P176,605,563 as at December 31, 2017 and 2016, respectively. In addition, the Parent Company also reported capital deficiency of P83,484,211 and P82,426,373 as at December 31, 2017 and 2016, respectively.

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

- decrease in the authorized capital stock from P700,000,000 to P35,000,000 through a reduction in the par value per share from P1.00 to P0.05;

- reduction of the outstanding deficit by applying the resulting additional paid-in capital from the above capital restructuring and the current additional paid-in capital balance;

- increase in authorized capital stock from P35,000,000 to P470,000,000; and,

- private placement transactions covering the shares of stock subscription by Bonham Strand Investments Ltd. and Mr. Xu Han Jiang amounting to P2,459,292,441 common shares issued out of the increase in authorized capital stock which shall be paid through the assignment of the Parent Company's debts amounting to P122,964,622.

The Company is in the process of filing the necessary documents with SEC. As of December 31, 2017, the documents initially submitted by the Company are still being subjected to the evaluation by the SEC. Certain requirements are still being completed subsequent to the end of the reporting period. Accordingly, assigned liabilities to Bonham Strand Investments Ltd. and Mr. Xu Hanjiang are presented as Due to Bonham Strand Investments Ltd. and Due to Mr. Xu Hanjiang under the Accounts Payable and Other Liabilities account in the 2017 statement of financial position (see Note 12).

On April 27, 2017, the Parent Company sold its entire investment in MAIC for a consideration of P700,000. The business acquisition was accounted for using the acquisition method of accounting (see Note 2.8). Accordingly, the account balances of MAIC were deconsolidated in the 2017 consolidated financial statements. The difference between the considerations received and net asset values of MAIC as of disposal date amounting to P63,033,564 was recognized and presented as Gain on Deconsolidation of Subsidiary in the 2017 consolidated statement of comprehensive income (see also Note 17).

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

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

1.3 Approval of Financial Statements

The financial statements of the Group and of the Parent Company as at and for the year ended December 31, 2017 (including the comparative financial statements as at December 31, 2016 and for the years ended December 31, 2016 and 2015) were authorized for issue by the Parent Company's BOD on April 5, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

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

The Group presented an unclassified statements of financial position as at December 31, 2017 and 2016. The details of assets and liabilities classified as to current and non-current are presented in Note 21.

(c) *Functional and Presentation Currency*

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

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

2.2 Adoption of New and Amended PFRS

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

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

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

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

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Management has applied these amendments in the current year. A reconciliation between the opening and closing balances of liabilities arising from financing activities is presented in Note 14.4.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has no material impact on the Group's financial statements.

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

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

(c) Effective Subsequent to 2017 but not Adopted Early

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

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

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

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

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures and non-financial risk exposures.

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

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

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

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

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

- On classification and measurement of the Group's financial assets, management expects that Receivables and Due from Related Parties will continue to be accounted for at amortized cost as these are held to hold and collect the associated cash flows.

- The Group's available-for-sale (AFS) financial assets, regardless if quoted or not, will be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition. Under PFRS 9, the cost method of recognizing AFS financial assets is no longer allowed and hence, AFS financial assets need to be measured at fair value.

- Most of the financial liabilities of the Group are measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the amortized cost classification for most of the financial liabilities will be retained.

- The ECL model will apply to the Group's Receivables and Due from Related Parties on which the Group will apply a simplified model of recognizing lifetime expected credit losses as these items do not have a significant financing component.

(ii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(iii) PFRS 15, *Revenue from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management does not expect significant impact of this new standard to the financial statements as it currently does not have revenue transactions from contracts with customers.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this interpretation has no material impact on the Group's financial statements.

(v) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* (effective from January 1, 2018) is relevant to the Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

(vi) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of this amendment on the Group's financial statements.

(vii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of these amendments on the financial statements.

(viii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases.*

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

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

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

(ix) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new interpretation on the financial statements.

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

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PFRS 3 (Amendments), *Business Combinations,* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

2.3 Basis of Consolidation and Investments in Subsidiaries and an Associate

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

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

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

(a) Investments in Subsidiaries

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

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

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

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

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

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

(b) Investment in an Associate

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

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

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

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

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

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

(c) *Transactions with Non-controlling Interests*

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

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

Non-controlling interests in the consolidated statement of financial position represent the interests not held by the Parent Company in MAIC.

2.4 *Financial Assets*

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

(a) *Classification and Measurement of Financial Assets*

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

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

(i) *Loans and Receivables*

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

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

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

(ii) *AFS Financial Assets*

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

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

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

(b) Impairment of Financial Assets

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

(i) Carried at Amortized Cost – Loans and Receivables

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

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

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

(ii) Carried at Fair Value – AFS Financial Assets

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

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

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

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

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

(d) *Derecognition of Financial Assets*

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

2.5 Other Assets

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

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

2.6 Financial Liabilities

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

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

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

2.7 Offsetting Financial Instruments

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

2.8 Business Combinations

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

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.14).

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

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

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

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

2.9 Provisions and Contingencies

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

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

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

2.10 Income and Expense Recognition

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

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

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

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

2.11 Leases - Group as Lessee

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

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

2.12 Foreign Currency Transactions and Translation

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

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

2.13 Segment Reporting

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

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

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

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

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

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

2.14 Impairment of Non-financial Assets

The Group's investment in an associate and goodwill and the Parent Company's investments in a subsidiary and an associate and other non-financial assets are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually (see also Note 2.8). All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

2.15 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, 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 Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

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

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

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

(b) *Defined Benefit Contribution Plans*

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

(c) *Termination Benefits*

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

2.16 Income Taxes

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, provided such tax rates have been enacted or substantively enacted at the end of the reporting period.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

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

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

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

2.17 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Group and its related parties (including transactions between MHI and its subsidiaries), regardless whether a price is charged.

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

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

2.18 Capital Deficiency

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

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

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

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

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

2.19 Earnings (Loss) Per Share

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

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

2.20 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

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

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

Based on management's judgment, despite the 10.31% ownership over EIB as of December 31, 2016, the Company considers EIB as an associate due to the presence of significant influence, but not control, over EIB's operations since two of the Company's BOD are also directors of EIB. As of December 31, 2017, management determined that it no longer have significant influence over EIB. Accordingly, the investment is reclassified as part of Other Assets in the 2017 statement of financial position (see Note 10.2).

(b) *Impairment of AFS Financial Assets*

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

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

(c) Distinction Between Operating and Finance Leases

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

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.9 and relevant disclosures are presented in Note 18.

3.2 Key Sources of Estimation Uncertainty

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

(a) Impairment of Receivables and Due from Related Parties

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

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

(b) Fair Value Measurement of AFS Financial Assets

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

The carrying values of the Group's AFS financial assets are disclosed in Note 8. There were no fair value changes recognized on these assets in 2017 and 2016.

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

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. No deferred tax assets were recognized as of December 31, 2017 and 2016 since the Group's management believes that it will not be able to generate sufficient taxable profit in the coming years against which the assets can be utilized (see Note 16).

(d) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.14). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

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

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

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 15.2.

4. SEGMENT REPORTING

4.1 Business Segments

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

(a) *Investment banking* – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.

(b) *Investment holding* – consists mainly of investment holding activities of the Parent Company.

4.2 Segment Assets and Liabilities

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

4.3 Analysis of Segment Information

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

	Investment Banking	Investment Holding	Total
2017			
Segment revenues	P 969	P 6,821,748	P 6,822,717
Operating expenses	1,878,605	8,249,378	10,127,983
Segment operating loss	**P 1,877,636**	**P 1,427,630**	**P 3,305,266**
Total Segment Assets	**P -**	**P 44,524,766**	**P 44,524,766**
Total Segment Liabilities	**P -**	**P 128,008,977**	**P 128,008,977**
2016			
Segment revenues	P 3,500	P 9,004,548	P 9,008,048
Operating expenses	6,845,274	5,903,146	12,748,420
Segment operating loss (income)	P 6,841,774	(P 3,101,402)	P 3,740,372
Total Segment Assets	P 2,964,824	P 47,587,947	P 50,552,771
Total Segment Liabilities	P 104,688,271	P 128,470,062	P 233,158,333
2015			
Segment revenues	P 405	P 6,014,326	P 6,014,731
Operating expenses	7,056,096	5,454,122	12,510,218
Segment operating loss (income)	P 7,055,691	(P 560,204)	P 6,495,487
Total Segment Assets	P 2,821,002	P 39,136,288	P 41,957,290
Total Segment Liabilities	P 97,684,558	P 123,203,509	P 220,888,067

4.4 Reconciliation

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

	2017	2016	2015
Assets			
Segment assets	**P 44,524,766**	P 50,552,771	P 41,957,290
Elimination of intercompany accounts	-	(10,660,242)	(6,073,358)
Total Assets	**P 44,524,766**	P 39,892,529	P 35,883,932
Liabilities			
Segment liabilities	**P 128,008,977**	P 233,158,334	P 220,888,067
Elimination of intercompany accounts	-	(16,660,242)	(12,073,358)
Total Liabilities	**P 128,008,977**	P 216,498,092	P 208,814,709

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 19. The main types of risks are market risk, credit risk, and liquidity risk. The Group's risk management is coordinated with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

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

5.1 Market Risk

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

(a) Foreign Currency Risk

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

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

As at December 31, 2017, the short-term exposure on foreign currency denominated financial assets, translated into Philippine pesos at the closing rate, follows:

	Group		Parent Company	
	U.S. Dollar	**HK Dollar**	**U.S. Dollar**	**HK Dollar**
Financial assets	P 59,095	P -	P 59,095	P -
Financial liabilities	-	-	-	-
Short-term exposure	**P 59,095**	**P -**	**P 59,095**	**P -**

As at December 31, 2016, the short-term exposure on foreign currency denominated financial assets, translated into Philippine pesos at the closing rate, follows:

	Group		Parent Company	
	U.S. Dollar	HK Dollar	U.S. Dollar	HK Dollar
Financial assets	P 58,735	P -	P 58,735	P -
Financial liabilities	-	(1,445,811)	-	-
Short-term exposure	P 58,735	(P 1,445,811)	P 58,735	P -

The following table illustrates the sensitivity of profit/loss before tax with respect to reasonably possible change in foreign currency exchange rates of 10.8% in 2017 and 12.9% in 2016 for U.S. dollars against the Philippine pesos, and 11.5% in 2017 and 15.6% in 2016 for HK dollars against the Philippine pesos. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	Group		Parent Company	
	2017	2016	**2017**	2016
PHP – U.S. dollars	**P 6,382**	P 7,577	**P 6,382**	P 7,577
PHP – HK dollars	**-**	(225,547)	**-**	-
	P 6,382	(P 217,970)	**P 6,382**	P 7,577

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

(b) Interest Rate Risk

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At December 31, 2017 and 2016, the Group is exposed to changes in market interest rates through its cash and cash equivalents which are subject to variable interest rates (see Note 7). Management believes that the impact of changes in market interest rates is not material to the financial statements. All other financial assets and financial liabilities are noninterest-bearing.

5.2 Credit Risk

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

The Group continuously monitors defaults of customers and other counterparty, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

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

		Group		Parent Company	
	Notes	2017	2016	2017	2016
Cash and cash equivalents	7	**P 11,266,113**	P 5,351,515	**P 11,266,113**	P 5,139,183
Receivables – net	9	**637,844**	677,166	**637,844**	630,997
Due from related parties	14	**1,352,000**	2,061,527	**1,352,000**	9,002,000
Security deposits	11	**-**	181,456	**-**	-
		P 13,255,957	P 8,271,664	**P 13,255,957**	P 14,772,180

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

(a) Cash and Cash Equivalents

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

(b) Receivables and Due from Related Parties

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

The Group's management considers that all the above financial assets that are not impaired as at December 31, 2017 and 2016 are of good credit quality.

5.3 Liquidity Risk

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

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

		Group		Parent Company	
	Notes	2017	2016	2017	2016
Accounts payable and other liabilities	12	**P 123,065,622**	P 4,941,616	**P 123,065,622**	P 2,949,000
Due to related parties	14	**3,150,000**	207,936,678	**3,150,000**	123,330,426
		P 126,215,622	P 212,878,294	**P 126,215,622**	P 126,279,426

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

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

6.1 Capital Management Objectives, Policies and Procedures

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

Relevant information is shown below.

	Group		Parent Company	
	2017	2016	**2017**	2016
Total liabilities	**P 128,008,977**	P 216,498,092	**P 128,008,977**	P 128,470,062
Capital deficiency	**83,484,211**	176,605,563	**83,484,211**	82,426,373

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

6.2 Track Record of Registration of Securities

The Parent Company has a total authorized capital stock of P700,000,000 divided into 700,000,000 common shares with a P1 par value which are issued and outstanding as at December 31, 2017 and 2016.

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

As at December 31, 2017 and 2016, the Parent Company has 476 and 478 stockholders, respectively, owning 100 or more shares each of the Parent Company's capital stock.

On November 18, 1975, the SEC approved the listing at the PSE of the Parent Company's shares totalling 700,000,000. As at December 31, 2017 and 2016, there are 673 and 675 holders, respectively, of the listed shares equivalent to 100% of the Parent Company's total outstanding shares. Such listed shares closed at P0.60 per share and P0.57 per share as at December 31, 2017 and 2016, respectively. The Parent Company has no other securities being offered for trading in any stock exchange. It did not list any other securities since its first listing of its securities.

7. CASH AND CASH EQUIVALENTS

This account consists of:

	Group		Parent Company	
	2017	2016	**2017**	2016
Cash on hand	**P -**	P 8,000	**P -**	P -
Cash in banks	**2,191,589**	4,343,182	**2,191,589**	4,138,850
Short-term placements	**9,074,524**	1,000,333	**9,074,524**	1,000,333
	P 11,266,113	P 5,351,515	**P 11,266,113**	P 5,139,183

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods between 30 to 35 days and earn annual effective interest ranging from 1.250% to 1.600% in 2017 and 1.150% to 1.250% in 2016.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

The investments in unquoted AFS financial assets of the Group as at December 31, 2017 and 2016 mainly pertains to the Parent Company's investment in Manila Exposition Complex, Inc. (MEC) representing 18.18% ownership interests (P31,268,750) and investment in I-Mart Corporation representing 10% ownership interests (P45,000,000). The Parent Company provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business.

The Parent Company received cash dividends amounting to P6,000,000, P9,000,000 and P6,000,000 in 2017, 2016 and 2015, respectively, from its investment in MEC. Management believes that its investments in MEC is not impaired as of December 31, 2017 and 2016.

9. RECEIVABLES

This account consists of the following:

	Group		Parent Company	
	2017	2016	**2017**	2016
Accounts receivable	**P 40,313,000**	P 40,326,428	**P 40,313,000**	P 40,313,000
Advances to employees	**39,517**	87,241	**39,517**	54,500
Other receivables	**598,327**	576,497	**598,327**	576,497
	40,950,844	40,990,166	**40,950,844**	40,943,997
Allowance for impairment	**(40,313,000)**	(40,313,000)	**(40,313,000)**	(40,313,000)
	P 637,844	P 677,166	**P 637,844**	P 630,997

The accounts receivable of the Parent Company pertains to $1.0 million advances granted to a foreign corporation. These advances, which has a book value of P40,313,000, as of December 31, 2017 and 2016 matured on August 31, 2000. Full allowance for impairment has been provided on this balance as management believes that it may no longer be collectible.

Other receivables pertain to the taxes and licenses paid by the Company in behalf of Classic Tycoon Investment Limited (CTIL) and Fair Navigator Limited (FNL), related parties under common ownership, with registered address at BVI. The outstanding receivables are unsecured, noninterest-bearing and collectible in cash on demand (see Note 14.1).

10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

	% Interest Held	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Associate					
EIB	10.31%	P -	P 860,659,849	P -	P -
	7.86%	-	-	-	478,380,834
Subsidiary					
MAIC	64.54%	-	-	-	199,995,929
		-	860,659,849	-	678,376,763
Allowance for impairment		-	(860,659,849)	-	(678,376,763)
		P -	P -	P -	P -

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

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

10.1 Investment in a Subsidiary

The Parent Company has fully impaired the carrying value of the investment in MAIC as a result of the downturn in its business. In 2017, the Parent Company has sold its interest in MAIC to a third party (see Note 1.2).

10.2 Investment in an Associate

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

In 2016 and previous years, EIB is considered an associate because the Parent Company has significant influence over EIB as certain members of the Parent Company's BOD are also members of the BOD of EIB.

In 2017, following the sale of MAIC, the Parent Company determined that it no longer have significant influence over EIB. Accordingly, the investment is reclassified as part of Other Assets in the 2017 statement of financial position (see Note 11).

11. OTHER ASSETS

This account consists of the following:

	Notes	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Investment	1, 10	**P 478,380,384**	P -	**P 478,380,384**	P -
Input value added tax	22.1(b)	**1,620,532**	1,418,099	**1,620,532**	1,418,099
Goodwill		**-**	4,814,856	**-**	-
Creditable withholding tax		**-**	3,104,911	**-**	-
Advance rentals	14.2	**-**	203,231	**-**	-
Security deposits	14.2	**-**	181,456	**-**	-
Miscellaneous		**59**	124,134	**59**	2,759
		480,000,975	9,846,687	**480,000,975**	1,420,858
Allowance for impairment		**(480,000,916)**	(9,337,866)	**(480,000,916)**	(1,418,099)
		P 59	P 508,821	**P 59**	P 2,759

Goodwill as of December 31, 2016, represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. In relation to the management's decision to fully impair the Parent's Company investment in MAIC, the Group also recognized full valuation allowance on its goodwill [see also Notes 3.2(d) and 10]. The same was derecognized in 2017 following the sale of MAIC.

The Group recognized impairment losses on its creditable withholding tax and input VAT since management believes that the Group will not be able to offset such against any future tax liabilities. The amounts of impairment losses amounting to P0.2 million and P0.1 million in 2017 and 2016, respectively, are presented as Impairment losses in the statements of comprehensive income.

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account consists of the following:

	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Due to Bonham Strand Investments Ltd.	**P 110,058,962**	P -	**P 110,058,962**	P -
Due to Mr. Xu Hanjiang	**12,905,660**	-	**12,905,660**	-
Accrued expenses	**101,000**	612,339	**101,000**	349,000
Withholding tax payable	**57,019**	138,328	**57,019**	56,667
Accounts payable	**-**	4,329,277	**-**	2,600,000
Income tax payable	**-**	59	**-**	59
	P 123,122,641	P 5,080,003	**P 123,122,641**	P 3,005,726

On May 31, 2017, the Company's due to related parties totalling to P120,180,426, accounts payable of P2,600,000, and accrued interest on these payables of P184,196 for the period of January to May 31, 2017, have been assigned to Bonham Strand Investments Ltd. (BSIL) and Mr. Xu Hanjiang as a result of the Company's recapitalization plan (see Note 1.2). BSIL and Mr. Xu Hanjiang are the Parent Company's prospective investors. Pending the completion of the filing of documents with the SEC, these have been presented as Due to Bonham Strand Investments Ltd. and Due to Mr. Xu Hanjiang under the Accounts Payable and Other Liabilities account in the 2017 statement of financial position (see Note 14.4).

Accounts payable include unpaid salaries of the Group's director as of the end of the reporting dates (see Note 14.5).

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

13. OTHER EXPENSES

This account consists of:

	Group			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Directors' fee	**P 279,000**	P 270,000	P 274,000	**P 279,000**	P 270,000	P 274,000
Insurance	**107,314**	59,625	57,644	**106,187**	33,913	36,942
Office supplies	**88,216**	20,879	47,821	**87,476**	20,314	19,772
Training and seminar	**23,200**	24,800	31,900	**23,200**	24,800	31,900
Repairs and maintenance	**18,997**	74,351	65,528	**18,997**	74,351	65,528
Utilities	**-**	-	233,736	**-**	-	-
Miscellaneous	**140,296**	131,788	128,459	**131,057**	75,837	34,907
	P 657,023	P 581,443	P 839,088	**P 645,917**	P 499,215	P 463,049

14. RELATED PARTY TRANSACTIONS

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

14.1 Summary of Related Party Transactions

A summary of the Group's related party transactions as of December 31, 2017 and 2016 are as follows:

		Amounts of Transactions			Outstanding Receivable (Payable)	
	Note	**2017**	2016	2015	**2017**	2016
Parent of major stockholder –						
Cash advances obtained - net	14.4	**P 63,198,480**	(P 29,100)	P -	**P -**	(P 63,198,480)
Related parties under common ownership and with interlocking directors and officers:						
Lease of office space	14.2	**718,461**	1,531,384	1,531,384	**-**	-
Cash advances granted	14.3	**(709,527)**	82,231	60,435	**1,352,000**	2,061,527
Cash advances obtained	14.4	**141,588,198**	4,829,899	6,500,000	**(3,150,000)**	(144,738,198)
Other receivables	9	**21,830**	136,943	-	**598,327**	576,497
Key management personnel –						
Salaries and other benefits	14.5	**3,859,850**	5,900,640	5,323,160	**-**	(1,445,811)

A summary of the Parent Company's related party transactions as of December 31, 2017 and 2016 are as follows:

		Amounts of Transactions			Outstanding Receivable (Payable)	
	Note	**2017**	2016	2015	**2017**	2016
Subsidiary –						
Cash advances granted	14.3	**(P 9,000,000)**	P 4,500,000	P 4,500,000	**P -**	P 9,000,000
Related parties under common ownership and with interlocking directors and officers:						
Lease of office space	14.2	**312,000**	312,000	312,000	**-**	-
Cash advances obtained	14.4	**(120,180,426)**	2,579,899	-	**(3,150,000)**	(123,330,426)
Cash advances granted		**1,350,000**	-	-	**1,352,000**	2,000
Other receivables	9	**21,830**	136,943	-	**598,327**	576,497
Key management personnel –						
Salaries and other benefits	14.5	**2,395,000**	2,385,000	2,340,000	**-**	-

14.2 Lease of Office Space

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party under common ownership of Lippo Group in Hong Kong, for a period of one year, renewable upon mutual agreement of the parties. Total rent charged to operations are presented as Occupancy in the statements of comprehensive income. The Group does not have any outstanding liabilities arising from these transactions as at December 31, 2017 and 2016 as the payments are made through post-dated checks. Security deposits and advance rentals made by MAIC, which shall be applied against the last two months of the lease term, totalling P384,687 are included as part of Security deposits and Advance rentals under Other Assets in the 2016 statement of financial position (see Note 11). These were released to MAIC in 2017 following the termination of the lease.

14.3 Due from Related Parties

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

	Group		Parent Company	
	2017	2016	**2017**	2016
Capital Place International, Ltd.	**P 1,350,000**	P -	**P 1,350,000**	P -
CTC Entrepreneurs Corp.	**1,000**	125,914	**1,000**	1,000
Keytrend Technologies Phils., Inc. (KTPI)	**1,000**	1,000	**1,000**	1,000
Lead Bancfund Corp.	-	578,045	-	-
Apex Bancrights Corp.	-	576,894	-	-
Cardinal Bancresources, Inc.	-	389,928	-	-
Goldwin Bancshares, Inc.	-	389,746	-	-
Medco Asia Investment Corp.	-	-	-	9,000,000
	P 1,352,000	P 2,061,527	**P 1,352,000**	P 9,002,000

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

The movements in this account follow:

	Group		Parent Company	
	2017	2016	**2017**	2016
Balance at beginning of year	**P 2,061,527**	P 1,979,296	**P 9,002,000**	P 4,502,000
Additions	**1,350,000**	82,231	**1,350,000**	4,500,000
Collections	**(2,059,527)**	-	**(9,000,000)**	-
Balance at end of year	**P 1,352,000**	P 2,061,527	**P 1,352,000**	P 9,002,000

14.4 Due to Related Parties

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

As of December 31, this account consists of the following:

	Group		Parent Company	
	2017	2016	**2017**	2016
LSI	**P 3,150,000**	P 3,150,000	**P 3,150,000**	P 3,150,000
CAL	-	121,029,607	-	57,831,127
Classic Tycoon Investment, Ltd. (CTIL)	-	29,884,700	-	29,884,700
Fair Navigator, Ltd. (FNL)	-	29,884,700	-	29,884,700
CPIL	-	21,200,000	-	-
Prowealth Asia Limited (PAL)	-	2,579,899	-	2,579,899
KTPI	-	207,772	-	-
	P 3,150,000	P 207,936,678	**P 3,150,000**	P 123,330,426

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

The movements in this account follow:

	Group		Parent Company	
	2017	2016	**2017**	2016
Balance at beginning of year	**P 207,936,678**	P 203,135,879	**P 123,330,426**	P 120,750,527
Cash changes :				
Additions	-	5,279,899	-	2,579,899
Non-cash changes :				
Repayments	-	(479,100)	-	-
Reclassification to accounts payable	**(120,180,426)**	-	**(120,180,426)**	-
Derecognition of intercompany payable of subsidiary	**(84,606,252)**	-	-	-
Balance at end of year	**P 3,150,000**	P 207,936,678	**P 3,150,000**	P 123,330,426

On May 31, 2017, the balances due to related parties amounting to P120,180,426 were assigned to Bonham Strand Investments Ltd and Mr. Xu Hanjiang, third parties and prospective stockholders. As of December 31, 2017, the debt-to-equity conversion of the Company is yet to be approved by the SEC. Payables to the new assignees are presented as Due to Bonham Strand Investments Ltd and Due to Mr. Xu Hanjiang under Accounts Payable and Other Liabilities account in the 2017 statement of financial position (see Note 12).

14.5 Key Management Personnel Compensation

The compensation and benefits provided to key management personnel generally consist of short-term employee benefits. These are presented as part of Employee Benefits in the statements of comprehensive income (see Note 15). The Group's outstanding liabilities pertains to the unpaid salaries of the Group director as at December 31, 2016 and is presented as part of Accounts Payable and Other Liabilities in the statements of financial position (see Note 12).

14.6 Transactions with the Retirement Fund

The retirement fund for the defined benefit post-employment plan is administered and managed by a trustee bank. The fair value and the composition of the plan assets as of December 31, 2017 and 2016 are presented in Note 15.2.

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

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

15. EMPLOYEE BENEFITS

15.1 Employee Benefits Expense

Details of salaries and employee benefits are presented below.

	Group			Parent Company		
	2017	2016	2015	2017	2016	2015
Short-term employee benefits	P **4,094,147**	P 6,901,386	P 6,837,086	P **2,852,942**	P 2,752,993	P 2,762,109
Post-employment defined benefit	**180,191**	491,077	306,989	**180,191**	192,049	194,874
	P **4,274,338**	P 7,392,463	P 7,144,075	P **3,033,133**	P 2,945,042	P 2,956,983

15.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

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

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

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made periodically or every two years to update the retirement benefit costs and the amount of contributions. All amounts presented 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:

	Group		Parent Company	
	2017	2016	2017	2016
Present value of obligation	P 2,694,965	P 5,241,127	P 2,694,965	P 2,778,578
Fair value of plan assets	(958,629)	(1,759,716)	(958,629)	(644,668)
	P 1,736,336	P 3,481,411	P 1,736,336	P 2,133,910

The movements in the present value of the post-employment benefit obligation recognized in the books follow:

	Group		Parent Company	
	2017	2016	2017	2016
Balance at beginning of year	P 5,241,127	P 4,513,307	P 2,778,578	P 2,457,510
Current service cost	180,191	491,077	180,191	192,049
Interest cost	144,764	236,743	144,764	129,019
Remeasurements:				
Actuarial gains arising from:				
Experience adjustments	(218,988)	-	(218,988)	-
Changes in financial assumptions	(189,580)	-	(189,580)	-
Effect of deconsolidation	(2,462,549)	-	-	-
Balance at end of year	P 2,694,965	P 5,241,127	P 2,694,965	P 2,778,578

The movements in the fair value of plan assets are presented below.

	Group		Parent Company	
	2017	2016	2017	2016
Balance at beginning of year	P 1,759,716	P 1,282,267	P 644,668	P 352,784
Interest income	33,587	78,921	33,587	26,261
Return on plan assets (excluding amounts included in net interest)	(14,470)	66,534	(14,470)	(29,221)
Contributions to the plan	294,844	331,994	294,844	294,844
Effect of deconsolidation	(1,115,048)	-	-	-
Balance at end of year	P 958,629	P 1,759,716	P 958,629	P 644,668

The post-employment obligation and plan assets of MAIC that was consolidated in the prior years were removed as a result of the deconsolidation.

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	Group		Parent Company	
	2017	2016	2017	2016
Cash and cash equivalents	P 365,155	P 541,923	P 365,155	P 346,667
Debt securities:				
UITF	299,859	66,489	299,859	-
Philippine government bonds	291,596	551,136	291,596	296,325
Corporate bonds	-	595,411	-	-
Interest receivable	2,660	6,505	2,660	2,177
Accrued trust fees payable	(641)	(1,748)	(641)	(501)
	P 958,629	P 1,759,716	P 958,629	P 644,668

The fair values of the above debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The Group's return on plan assets amounted to of P19,117 in 2017 and P145,455 in 2016. The Parent Company's plan assets earned a return of P19,117 in 2017 and incurred a negative return of P2,960 in 2016. Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	Group			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Reported in profit or loss:						
Current service cost	**P 180,191**	P 491,077	P 306,989	**P 180,191**	P 192,049	P 194,874
Net interest expense	**111,177**	157,822	138,819	**111,177**	102,758	99,970
	P 291,368	P 648,899	P 445,808	**P 291,368**	P 294,807	P 294,844
Reported in other comprehensive income:						
Actuarial gains (losses) arising from changes in:						
Financial assumptions	**P 189,580**	P -	P 295,911	**P 189,580**	P -	P 155,797
Experience adjustments	**218,988**	-	(208,886)	**218,988**	-	102,255
Return on plan assets (excluding amounts included in net interest expense)	**(14,470)**	66,534	(6,735)	**(14,470)**	(29,221)	(15,171)
	P 394,098	P 66,534	P 80,290	**P 394,098**	(P 29,221)	P 242,881

Current service cost is presented as part of Employee Benefits account in the statements of comprehensive income.

Net interest expense is included in the Interest Expense account in the statements of comprehensive income.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used for the Group and the Parent Company's obligation:

	2017	2016	2015
Discount rates	**5.68%**	4.99%-5.21%	5.24%-5.25%
Expected rate of salary increases	**4.00%**	4.00%	4.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 18 for both males and females.

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.

(c) Risks Associated with the Retirement Plan

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, government and corporate debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding pages.

(i) Sensitivity Analyses

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2017 and 2016:

	Impact on Defined Benefit Obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Group:			
2017			
Discount rate	**100 basis points**	**(P 356,647)**	**P 423,450**
Salary increase rate	**100 basis points**	**425,380**	**(362,343)**
2016			
Discount rate	100 basis points	(P 724,775)	P 869,648
Salary increase rate	100 basis points	884,097	(741,420)
Parent Company:			
2017			
Discount rate	**100 basis points**	**(P 356,647)**	**P 423,450**
Salary increase rate	**100 basis points**	**425,380**	**(362,343)**
2016			
Discount rate	100 basis points	(P 408,284)	P 491,878
Salary increase rate	100 basis points	493,222	(417,038)

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or other debt securities) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

There has been no change in the Group's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P1,736,336 based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 20 years' time when a significant number of current employees is expected to retire.

The Parent Company does not expect to make any contribution to the plan for the next reporting period.

16. CURRENT AND DEFERRED TAXES

Tax expense reported in profit or loss of the Parent Company and the Group for the years ended December 31, 2017, 2016 and 2015 pertains solely to final taxes on interest income earned from cash and cash equivalents.

The reconciliation of tax on pretax loss for 2017, 2016 and 2015 computed at the applicable statutory tax rates to tax expense reported in the profit or loss section of the statements of comprehensive income is presented below.

	Group			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Tax on pretax profit (loss) at 30%	**P 17,708,489**	(P 1,122,112)	(P 1,948,646)	**(P 428,289)**	P 973,295	P 175,876
Adjustment for income subjected to lower tax rates	**(12,180)**	(504)	(1,200)	**(12,180)**	(474)	(1,159)
Tax effects of:						
Unrecognized deferred tax asset (DTA) on temporary differences	**2,323,971**	3,642,999	3,567,788	**2,113,971**	1,671,001	1,566,276
Nontaxable income	**(20,710,069)**	(2,700,962)	(1,800,000)	**(1,800,000)**	(2,700,000)	(1,800,000)
Net loss of MAIC	**563,291**	-	-	**-**	-	-
Nondeductible expenses	**150,804**	179,631	184,387	**150,804**	57,068	61,255
Tax expense	**P 24,306**	P 948	P 2,329	**P 24,306**	P 890	P 2,248

The Group did not recognize net deferred tax assets on net operating loss carry over (NOLCO) and other temporary differences since management believes that the related benefits may not be fully utilized considering the current status of operations of the Group. Details of unrecognized net deferred tax assets are as follows:

	Group			
	2017		2016	
	Amount	**Tax Effect**	Amount	Tax Effect
Allowance for impairment	**P 518,693,834**	**P 155,608,150**	P 632,006,033	P 189,601,810
NOLCO	**17,958,166**	**5,387,450**	35,803,203	10,740,961
Retirement benefit obligation	**1,736,336**	**520,901**	3,481,411	1,044,423
Unamortized past service cost	**451,327**	**135,398**	1,752,325	525,698
Unrealized foreign currency losses - net	**8,027**	**2,408**	258,075	77,423
	P 538,847,690	**P 161,654,307**	P 673,301,047	P 201,990,315

	Parent Company			
	2017		2016	
	Amount	Tax Effect	Amount	Tax Effect
Allowance for impairment	P 518,693,834	P 155,608,150	P 241,727,028	P 72,518,108
NOLCO	17,958,166	5,387,450	15,500,291	4,650,087
Retirement benefit obligation	1,736,336	520,901	2,133,910	640,173
Unamortized past service cost	451,327	135,398	414,783	124,435
Unrealized foreign currency losses (gains) - net	(129)	(39)	182,533	54,760
	P 538,839,534	P 161,651,860	P 259,958,545	P 77,987,563

The breakdown of the Parent Company's NOLCO as at December 31, 2017, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

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

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

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

17. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

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

	Group			Parent Company		
	2017	2016	2015	2017	2016	2015
Net profit (loss) attributable to the shareholders of Parent Company	P 59,661,165	(P 1,336,494)	(P 4,019,179)	(P 1,451,936)	P 3,243,426	P 584,004
Divided by the weighted average number outstanding shares	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000
Basic and diluted earnings (loss) per share	P 0.085	(P 0.002)	(P 0.006)	(P 0.002)	P 0.005	P 0.001

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

The net profit attributable to the shareholders of the Parent Company for the year ended December 31, 2017 that resulted to basic and diluted earnings per share of P0.085 is brought by the recognized gain on deconsolidation of MAIC. MAIC is in capital deficiency position and the disposal of the subsidiary resulted into the derecognition of accumulated losses in the consolidated figures or is equivalent to the recognition of gain on deconsolidation. This gain does not pertain to actual earnings but rather a result of compliance with the requirements of the accounting standards.

18. COMMITMENTS AND CONTINGENCIES

18.1 Operating Lease Commitments

The Group is a lessee under a non-cancellable lease agreement covering certain office space. The lease is for a period of one year which may be renewed for another year. Future minimum lease payments of the Group and of the Parent Company as of December 31, 2017 both amount to P312,000, respectively, and P583,640 and P130,000, respectively, as of December 31, 2016.

18.2 Others

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the financial statements. As at December 31, 2017 and 2016, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's or the Parent Company's financial statements.

19. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

19.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

		Group			
		2017		2016	
	Notes	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Loans and receivables:					
Cash and cash equivalents	7	P 11,266,113	P 11,266,113	P 5,351,515	P 5,351,515
Receivables - net	9	637,844	637,844	677,166	677,166
Due from related parties	14	1,352,000	1,352,000	2,061,527	2,061,527
Security deposits	11	-	-	181,456	181,456
		13,255,957	13,255,957	8,271,664	8,271,664
AFS financial assets - net	8	31,268,750	31,268,750	31,293,500	31,293,500
		P 44,524,707	P 44,524,707	P 39,565,164	P 39,565,164
Financial liabilities at amortized cost					
Accounts payable and other liabilities	12	P 123,065,622	P 123,065,622	P 4,941,616	P 4,941,616
Due to related parties	14	3,150,000	3,150,000	207,936,678	207,936,678
		P 126,215,622	P 126,215,622	P 212,878,294	P 212,878,294

		Parent Company			
		2017		2016	
	Notes	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Loans and receivables:					
Cash and cash equivalents	7	P 11,266,113	P 11,266,113	P 5,139,183	P 5,139,183
Receivables - net	9	637,844	637,844	630,997	630,997
Due from related parties	14	1,352,000	1,352,000	9,002,000	9,002,000
		13,255,957	13,255,957	14,772,180	14,772,180
AFS financial assets - net	8	31,268,750	31,268,750	31,268,750	31,268,750
		P 44,524,707	P 44,524,707	P 46,040,930	P 46,040,930
Financial liabilities at amortized cost					
Accounts payable and other liabilities	12	P 123,065,622	P 123,065,622	P 2,949,000	P 2,949,000
Due to related parties	14	3,150,000	3,150,000	123,330,426	123,330,426
		P 126,215,622	P 126,215,622	P 126,279,426	P 126,279,426

19.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set-off financial instruments and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by the respective BOD and stockholders of both parties or upon instruction by its major stockholders. As such, the Group's outstanding receivables from related parties amounting to P1,352,000 and P2,061,527 can be offset against a portion of outstanding liabilities to related parties of P3,150,000 and P144,738,198 and as of December 31, 2017 and 2016, respectively. In the same manner, the Parent Company's outstanding receivables from related parties amounting to P1,352,000 and P9,002,000 can be offset with the amount of outstanding liabilities to related parties amounting to P3,150,000 and P123,330,426 as of December 31, 2017 and 2016 (see Note 14).

20. FAIR VALUE MEASUREMENT AND DISCLOSURES

20.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement,* the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

20.2 Financial Instruments Measured at Fair Value

As at the end of the reporting periods, financial assets carried at fair value pertain to AFS financial assets held by the Group representing investment in equity securities of publicly-listed companies in the PSE with quoted fair values of P967 as at December 31, 2016 which are categorized as Level 1 (see Note 8). AFS financial assets held by the Parent Company with a carrying value of P31,268,750 as at December 31, 2017 and 2016 are valued based on the expected cash flows of the underlying net asset because the fair value of these investments cannot be reliably determined either by reference to similar financial instruments or through valuation technique, thus, are categorized under Level 3.

The Group has no financial liabilities measured at fair value as of December 31, 2017 and 2016.

20.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below and in the succeeding pages summarizes the fair value hierarchy of financial assets and financial liabilities which are not measured at fair value in the 2017 statement of financial position but for which fair value is disclosed.

	Group			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 11,266,113	P -	P -	P 11,266,113
Receivables - net	-	-	637,844	637,844
Due from related parties	-	-	1,352,000	1,352,000
	P 11,266,113	P -	P 1,989,844	P 13,255,957
Financial liabilities:				
Accounts payable and other liabilities	P -	P -	P 123,065,622	P 123,065,622
Due to related parties	-	-	3,150,000	3,150,000
	P -	P -	P 126,215,622	P 126,215,622

	Parent Company			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Cash and cash equivalents	P 11,266,113	P -	P -	P 11,266,113
Receivables - net	-	-	637,844	637,844
Due from related parties	-	-	1,352,000	1,352,000
	P 11,266,113	**P -**	**P 1,989,844**	**P 13,255,957**
Financial liabilities:				
Accounts payable and other liabilities	P -	P -	P 123,065,622	P 123,065,622
Due to related parties	-	-	3,150,000	3,150,000
	P -	**P -**	**P 126,215,622**	**P 126,215,622**

The table below summarizes the fair value hierarchy of financial assets and financial liabilities which are not measured at fair value in the 2016 statement of financial position but for which fair value is disclosed.

	Group			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 5,351,515	P -	P -	P 5,351,515
Receivables - net	-	-	677,166	677,166
Due from related parties	-	-	2,061,527	2,061,527
Security deposits	-	-	181,456	181,456
	P 5,351,515	P -	P 2,920,149	P 8,271,664
Financial liabilities:				
Accounts payable and other liabilities	P -	P -	P 4,941,616	P 4,941,616
Due to related parties	-	-	207,936,678	207,936,678
	P -	P -	P212,878,294	P 212,878,294

	Parent Company			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 5,139,183	P -	P -	P 5,139,183
Receivables - net	-	-	630,997	630,997
Due from related parties	-	-	9,002,000	9,002,000
	P 5,139,183	P -	P 9,632,997	P 14,772,180
Financial liabilities:				
Accounts payable and other liabilities	P -	P -	P 2,949,000	P 2,949,000
Due to related parties	-	-	123,330,426	123,330,426
	P -	P -	P126,279,426	P 126,279,426

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short-term duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

21. CLASSIFIED STATEMENTS OF FINANCIAL POSITION

Details of assets and liabilities as to current and non-current are presented below.

	Notes	Group		Parent Company	
		2017	2016	**2017**	2016
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	7	**P 11,266,113**	P 5,351,515	**P 11,266,113**	P 5,139,183
Receivables – net	9	**637,844**	677,166	**637,844**	630,997
Due from related parties	14	**1,352,000**	2,061,527	**1,352,000**	9,002,000
Total Current Assets		**13,255,957**	8,090,208	**13,255,957**	14,772,180
NON-CURRENT ASSETS					
Available-for-sale financial assets – net	8	**31,268,750**	31,293,500	**31,268,750**	31,268,750
Other non-current assets – net	11	**59**	508,821	**59**	2,759
Total Non-Current Assets		**31,268,809**	31,802,321	**31,268,809**	31,271,509
TOTAL ASSETS		**P 44,524,766**	P 39,892,529	**P 44,524,766**	P 46,043,689
LIABILITIES					
CURRENT LIABILITES					
Accounts payable and other liabilities	12	**P 123,122,641**	P 5,080,003	**P 123,122,641**	P 3,005,726
Due to related parties	14	**3,150,000**	207,936,678	**3,150,000**	123,330,426
Total Current Liabilities		**126,272,641**	213,016,681	**126,272,641**	126,336,152
NON-CURRENT LIABILITY					
Retirement benefit obligation	15	**1,736,336**	3,481,411	**1,736,336**	2,133,910
TOTAL LIABILITIES		**P 128,008,977**	P 216,498,092	**P 128,008,977**	P 128,470,062

22. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (APPLICABLE TO THE PARENT COMPANY ONLY)

Presented below and in the succeeding pages is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information by the Parent Company is not a required disclosure under PFRS.

22.1 Requirements Under Revenue Regulations (RR) No. 15-2010

The information on taxes, duties and license fees paid or accrued by the Parent Company during the taxable year required under RR No. 15-2010 are as follows:

(a) Output VAT

The Parent Company did not declare output VAT for the year ended December 31, 2017 as it did not have any transactions in 2017 which are subject to output VAT.

(b) Input VAT

The movements of input VAT in 2017 are summarized below.

Balance at beginning of year	P	1,418,099
Current year's domestic purchases of services lodged under administrative expenses		202,433
Balance at end of year	**P**	**1,620,532**

The balance of input VAT is presented under the Other Assets account in the 2017 statement of financial position (see Note 11).

(c) Taxes on Importation

The Parent Company did not import any asset or goods for use in business in 2017.

(d) Excise Tax

The Parent Company did not have excise tax in 2017 since it did not have any transactions which are subject to excise tax.

(e) Documentary Stamp Tax

During 2017, the Parent Company paid documentary stamp tax amounting to P651,694 in relation to the sale of its subsidiary. [see Note 22.1(f)]

(f) *Taxes and Licenses*

Details taxes and licenses of the Parent Company in 2017 are shown below.

Documentary stamp tax	P	651,694
Licenses and permit fees		25,118
Barangay clearance		2,570
Community tax		2,906
Registration		500
	P	682,788

(g) *Withholding Taxes*

The total withholding taxes of the Parent Company for the year ended December 31, 2017 are shown below.

Compensation and benefits	P	718,894
Expanded		102,086
Final		13,750
	P	834,730

(h) *Deficiency Tax Assessments and Tax Cases*

As at December 31, 2017, the Parent Company does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

22.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented in the succeeding page are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2017 statement of comprehensive income.

(a) *Taxable Revenues*

For the year ended December 31, 2017, the Parent Company has no taxable revenues.

(b) *Deductible Costs of Sales and Services*

The Parent Company has no deductible costs of sales and services for the year ended December 31, 2017.

(c) *Taxable Non-operating and Other Income*

The Parent Company has no taxable non-operating and other income for the year ended December 31, 2017.

(d) *Itemized Deductions*

Details itemized deductions under regular tax rate regime for the year ended December 31, 2017 are as follows:

Salaries and employee benefits	P	3,000,065
Professional fees		1,272,500
Membership fees and dues		1,157,860
Taxes and licenses		682,788
Occupancy		312,000
Finance cost		255,240
Transportation		222,223
Foreign exchange losses		182,533
Communication		96,821
Office supplies		87,476
Representation		68,217
Miscellaneous		558,441
	P	**7,896,164**

P&A
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An instinct for growth™

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Report of Independent Auditors on Supplementary Schedules Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

The Board of Directors
Medco Holdings, Inc. and Subsidiaries
31st Floor, Rufino Pacific Tower
6784 Ayala Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Medco Holdings, Inc. and Subsidiaries for the year ended December 31, 2017, on which we have rendered our report dated April 5, 2018. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The following applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, as amended, and are not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Sheryl G. Llovido
Partner

CPA Reg. No. 0108392
TIN 221-750-103
PTR No. 6616012, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1554-A (until Apr. 14, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-36-2015 (until Nov. 1, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31,2018)

April 5, 2018

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2017

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2017
(Amounts in Philippine Pesos)

Name of issuing entity and association of each issue (i)	*Number of shares or principal amount of bonds or notes*	*Amount shown on the balance sheet*		*Valued based on the market quotation at end of reporting period*		*Income received and accrued*	
Manila Exposition Complex, Inc.	300,000	P	31,268,750	P	31,268,750	P	6,000,000
Total Available-for-sale Financial Assets		**P**	**31,268,750**	**P**	**31,268,750**	**P**	**6,000,000**

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2017
(Amounts in Philippine Pesos)

			Deductions		Ending Balance		
Name and designation of debtor	*Balance at beginning of period*	*Additions*	*Amounts collected*	*Amounts written off*	*Current*	*Non-current*	*Balance at end of period*
Amounts Due from Related Parties:	P 2,000	P 1,350,000	-	P -	P 1,352,000	P -	P 1,352,000
Capital Place International Ltd.	-	1,350,000		-	1,350,000	-	1,350,000
CTC Entrepreneurs Corp.	1,000	-		-	1,000	-	1,000
Keytrend Technologies Phils.	1,000	-	-	-	1,000	-	1,000
Advances to Officers and Employees:							
(recorded under the Receivables account)	54,500	83,614	98,597	-	39,517	-	39,517
Grand Total	**P 56,500**	**P 1,433,614**	**P 98,597**	**P -**	**P 1,391,517**	**P -**	**P 1,391,517**

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2017
(Amounts in Philippine Pesos)

			Deductions		*Ending Balance*		
Name and designation of debtor	*Balance at beginning of period*	*Additions*	*Amounts collected*	*Amounts written off*	*Current*	*Not current*	*Balance at end of period*

- nothing to report -

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2017
(Amounts in Philippine Pesos)

Description	*Beginning balance*	*Additions at cost*	*Charged to cost and expenses*	*Charged to other accounts*	*Other changes additions (deductions)*	*Ending balance*

- nothing to report -

Note: The Group has no intangible assets as of December 31, 2017.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2017
(Amounts in Philippine Pesos)

Title of issue and type of obligation	*Amount authorized by indenture*	*Amount shown under caption "Current portion of long-term debt" in related balance sheet*	*Amount shown under caption "Long-Term Debt" in related balance sheet*

- nothing to report -

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2017
(Amounts in Philippine Pesos)

Name of related party	*Balance at beginning of period*	*Balance at end of period*

- nothing to report -

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE G - GUARANTEE OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2017
(Amounts in Philippine Pesos)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	*Title of issue of each class of securities guaranteed*	*Total amount of guaranteed and outstanding*	*Amount owned by person for which statement is filed*	*Nature of guarantee*

- nothing to report -

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2017

Title of Issue	*Number of Shares Authorized*	*Number of Shares Issued and Outstanding under Related Balance Sheet Caption*	*Number of Shares. Reserved for Options, Warrants, Conversions and Other Rights*	*Number or Shares Held By*		
				Related Parties (Parent, Affiliates)	*Directors, Officers and Employees*	*Others*
Common Shares	700,000,000	700,000,000	Not Applicable	322,314,874	51,023	377,634,103

MEDCO HOLDINGS, INC.
31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City

Reconciliation of Deficit
For the Year Ended December 31, 2017

DEFICIT AT BEGINNING OF YEAR	(P	806,294,122)
Net Loss during the Year	(	1,451,936)
DEFICIT AT END OF YEAR	**(P**	**807,746,058)**

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
Map Showing the Relationship Between and Among Related Entities
December 31, 2017

Lippo China Resources Limited (LCR)*
Ultimate Parent

Citivest Asia Limited (CAL)
Immediate Parent
LCR - 100%

Medco Holdings, Inc. (MHI)
Parent Company
CAL - 46.04%

**LCR is a publicly-listed company via Hongkong Stock Exchange*

MEDCO HOLDINGS, INC.
Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* *(effective January 1, 2018)*			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation *(*effective January 1, 2019)*			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, *Financial Instruments*, with PFRS 4, *Insurance Contracts** *(effective January 1, 2018)*			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective when PFRS 9 is first applied)*			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments (2014)* *(effective January 1, 2018)*			✓
	Amendments to PFRS 9: Prepayment Features with Negative Compensation* *(effective January 1, 2019)*			✓
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(effective date deferred indefinitely)*			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation* *(effective January 1, 2019)*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers* *(effective January 1, 2018)*			✓
PFRS 16	Leases* *(effective January 1, 2019)*			✓
PFRS 17	Insurance Contracts* *(effective January 1, 2021)*			✓
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* *(effective January 1, 2019)*			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
	Amendment to PAS 23: Eligibility for Capitalization			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(effective date deferred indefinitely)*			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss* *(effective January 1, 2018)*			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture* *(effective January 1, 2019)*			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property			✓
	Amendment to PAS 40: Reclassification to and from Investment Property (*effective January 1, 2018*)			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, *Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, *Prepayments of a Minimum Funding Requirement and their Interaction***	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies**	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration* (*effective January 1, 2018*)			✓
IFRIC 23	Uncertainty Over Income Tax Treatments* (effective *January 1, 2019*)			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		
SIC-32	Intangible Assets - Web Site Costs			✓

* These standards will be effective for periods subsequent to 2017 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.