

SEC Registration Number

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Company Name

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

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Form Type

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Department requiring the report

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Secondary License Type, if applicable

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COMPANY INFORMATION

Company's Email Address

mabuhayholdings@yahoo.com

Company's Number(s)

750-2000

Telephone

Mobile Number

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No. of Stockholders

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Annual Meeting (Month/Day)

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Fiscal Year (Month/Day)

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CONTACT PERSON INFORMATION

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

Name of Contact Person

ARACELI C. MOLINA

Email Address

cely11molina20@yahoo.com

Telephone Number(s)

750-2000

Mobile Number

0918-9855273

Contact Person's Address

35<sup>th</sup> 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  
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the Quarter Ended **September 30, 2016**
2. Commission Identification Number: **150014**
3. BIR Tax Identification Number: **047-000-473-206**
4. Exact Name of issuer as specified in its charter: **MABUHAY HOLDINGS CORPORATION**
5. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of Principal Office: **35/F Rufino Pacific Tower, Ayala Avenue, Makati City**
8. Issuer's Telephone Number, Including Area Code: **(632) 750-2000**
9. Former Name, former address, former fiscal year, if changed from last report:
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

<b>Common shares</b>	<b>1,200,000,000</b>
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11. Are any or all of these securities are listed on the Philippine Stock Exchange.

Yes [ / ] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

**Philippine Stock Exchange Common stock**

12. Indicate by check mark whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 to 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period 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 [ ]

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**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**  
**PART I – ITEM 1 - FINANCIAL STATEMENTS**

**CONSOLIDATED BALANCE SHEETS**  
**AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015**  
**(All amounts in Philippine Peso)**

	Notes	Sept 30, 2016*	Dec 31, 2015 **
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash on hand and in banks	2	56,772,113	11,690,375
Financial assets at fair value through profit or loss	3	1,911,875	1,905,389
Notes and other receivables	4	178,817,145	384,793,108
Prepayments		1,838,000	1,568,264
Total current assets		239,339,133	399,957,136
<b>NON-CURRENT ASSETS</b>			
Investments in associates - net	5	1,081,727,785	1,050,521,973
Property and equipment - net	6	3,019,903	4,285,997
Investment properties - net	7	302,858,000	302,858,000
Other non-current assets		720,551	750,432
Total non-current assets		1,388,326,239	1,358,416,402
Total assets		1,627,665,372	1,758,373,538
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Borrowings	8	134,127,660	296,605,830
Accounts payable and other liabilities	9	109,688,153	99,934,260
Due to related parties	13	9,191,851	9,294,916
Deposits on future shares subscriptions	10	194,695,274	194,695,274
Total current liabilities		447,702,938	600,530,280
<b>NON-CURRENT LIABILITY</b>			
Deferred income tax liabilities, net		81,294,552	81,294,552
Total liabilities		528,997,490	681,824,832
<b>EQUITY</b>			
Capital attributable to Parent Company's equityholders	11		
Share capital		975,534,053	975,534,053
Treasury shares		(58,627,864)	(58,627,864)
Retained earnings		60,306,892	36,931,827
Non-controlling interest		977,213,081	953,838,016
		121,454,801	122,710,690
		1,098,667,882	1,076,548,706
		1,627,665,372	1,758,373,538

\* Unaudited      \*\* Audited

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2016 AND 2015**  
**(All amounts in Philippine Peso)**

		<b>U N A U D I T E D</b>			
		<b>Quarter Ending</b>		<b>Year-To-Date</b>	
		<b>July 1 - Sept 30</b>		<b>January 1 – Sept 30</b>	
	<b>Note</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>					
Rental	14	1,797,343	1,767,024	5,357,378	5,248,247
<b>EXPENSES</b>					
Salaries and employee benefits	15	959,266	879,552	3,197,974	2,688,201
Depreciation		421,659	435,850	1,266,094	1,303,981
Professional fees		597,468	584,621	2,077,625	1,182,345
Others	16	1,130,807	1,407,400	4,249,987	4,780,379
		3,109,200	3,307,423	10,791,680	9,954,906
<b>LOSS FROM OPERATIONS</b>		<b>(1,311,857)</b>	<b>(1,540,399)</b>	<b>(5,434,302)</b>	<b>(4,706,659)</b>
<b>OTHER INCOME (EXPENSES)</b>					
Finance income, net		3,018,568	(37,474,677)	8,031,182	(38,291,001)
Fair value losses					
Share in net earnings (losses) of associates	5	23,205,155	23,059,997	23,222,633	23,127,481
Foreign exchange gains (losses)		(3,783,095)	(15,539,325)	(3,193,142)	(20,592,975)
Gain (loss) on disposal of assets					59,693
Unrealized gain (loss) on securities		(47,365)	(145,044)	6,486	(377,060)
Others		236	5,064	19,600	17,433
		22,393,499	(30,093,985)	28,086,759	(36,056,429)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>		<b>21,081,642</b>	<b>(31,634,384)</b>	<b>22,652,457</b>	<b>(40,763,088)</b>
<b>PROVISION FOR INCOME TAX</b>		<b>202,596</b>	<b>161,572</b>	<b>533,281</b>	<b>530,072</b>
<b>NET INCOME (LOSS)</b>		<b>20,879,046</b>	<b>(31,795,956)</b>	<b>22,119,176</b>	<b>(41,293,160)</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>20,879,046</b>	<b>(31,795,956)</b>	<b>22,119,176</b>	<b>(41,293,160)</b>
<b>NET INCOME/TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>					
<b>Equityholders of the Parent Company</b>		21,089,045	(28,724,209)	23,375,065	(36,418,158)
<b>Non-controlling interest</b>		(209,999)	(3,071,747)	(1,255,889)	(4,875,002)
		20,879,046	(31,795,956)	22,119,176	(41,293,160)
Earnings (loss) per share - basic and diluted	12	.0216	(.0294)	.024	(.0373)

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2016 AND 2015**  
**(All amounts in Philippine Peso)**  
**Unaudited**

	Equity Holders of the Company				
	Share capital (Note 11)	Treasury shares (Note 11)	Retained Earnings	Non-controlling interest	Total
Audited Balances at December 31, 2014	975,534,053	(58,627,864)	44,245,614	92,207,171	1,053,358,974
Comprehensive loss					
Net income (loss) for the period	-	-	(36,418,158)	(4,875,002)	(41,293,160)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	(36,418,158)	(4,875,002)	(41,293,160)
Unaudited Balances at September 30, 2015	975,534,053	(58,627,864)	7,827,456	87,332,169	1,012,065,814
Audited Balances at December 31, 2015	975,534,053	(58,627,864)	36,931,827	122,710,690	1,076,548,706
Comprehensive loss					
Net income (loss) for the period	-	-	23,375,065	(1,255,889)	22,119,176
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	23,375,065	(1,255,889)	22,119,176
Unaudited Balances at September 30, 2016	975,534,053	(58,627,864)	60,306,892	121,454,801	1,098,667,882

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIOD ENDED JANUARY 1 - SEPTEMBER 30, 2016 AND 2015**  
**(All amounts in Philippine Peso)**

	Notes	Sept 30, 2016	Sept 30, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before tax		22,119,176	(40,763,088)
Adjustments for:			
Share in net losses (earnings) of associates	8	(23,222,633)	(23,127,480)
Unrealized loss (gain) on securities		(6,486)	377,061
Depreciation		1,266,094	1,303,981
Unrealized foreign exchange loss (gain)		(4,204,777)	20,732,304
Interest expense		13,552,423	69,879,327
Interest income		120,621,007	78,850,048
Loss (gain) on sale of assets			(59,693)
Operating profit (loss) before working capital changes		130,124,804	107,192,460
Decrease (increase) in:			
Notes and other receivables		227,559,568	98,845,345
Prepaid expenses		(269,736)	(246,196)
Other non-current assets		29,881	37,287
Increase (decrease) in:			
Accrued expenses and other payables		12,602,436	(150,436,877)
Due to related parties		(103,065)	(465,164)
Cash used in operating activities		369,943,888	54,926,855
Interest received		(142,204,612)	(110,438,375)
Income taxes paid		(108,442)	(530,072)
Net cash generated from (used in) operating activities		227,630,834	(56,041,592)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additional investment in associates		(7,983,179)	
Acquisitions of property and equipment			(53,540)
Proceeds from disposal of investments, net of acquisition			281,694
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		(7,983,179)	228,154
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of borrowings		(157,405,172)	
Interest paid		(17,160,745)	57,620,504
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		(174,565,917)	57,620,504
<b>NET INCREASE (DECREASE) IN CASH ON HAND AND IN BANKS</b>		45,081,738	1,807,066
<b>CASH ON HAND AND IN BANKS</b>			
January 1		11,690,375	15,474,363
September 30		56,772,113	17,281,429

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES  
CONSOLIDATED AGING OF NOTES AND OTHER RECEIVABLES  
AS OF SEPTEMBER 30, 2016**

	<b>TOTAL</b>	<b>1-30 DAYS</b>	<b>31-60 DAYS</b>	<b>OVER 61 DAYS</b>
IRC Properties, Inc.	176,454,172	2,092,125	2,195,830	172,166,217
Sta. Mesa Heights Holdings Corp.	574,872			574,872
Carag Zaballero San Pablo	1,600,000			1,600,000
Castillo Laman Tan Pantaleon	130,000	15,000		115,000
Others	58,101	19,632	2,743	35,726
Totals	<u>178,817,145</u>	<u>2,126,757</u>	<u>2,198,573</u>	<u>174,491,815</u>



## **Mabuhay Holdings Corporation and Subsidiaries**

Notes to Financial Statements

(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

### **Note 1 - General information**

Mabuhay Holdings Corporation (the Company or Parent Company) was incorporated in the Philippines on April 6, 1988 primarily to engage in the acquisition of and disposal of investments in marketable securities, shares of stock and real estate properties. The Parent Company is 20.05% owned by Prokey Investments Limited, a 100% Filipino-owned company registered in the British Virgin Islands and licensed by the Securities and Exchange Commission (SEC) on March 15, 2011 to operate a representative office in the Philippines. The remaining 79.95% is owned by various individuals and corporations. The Parent Company's common shares were listed in the Philippine Stock Exchange (PSE) in 1990. Other than its share listing in 1990, there were no other share offerings subsequent thereto.

The Company and its subsidiaries (the "Group") have no significant commercial operations as at June 30, 2016 and December 31, 2015. The subsidiaries' operations consist mainly of preservation and maintenance of existing investment properties.

The Company's main focus is to support the ongoing property developments of its associate, IRC Properties, Inc. (IRC) (Note 5), in relation to the latter's agreement with a third party for the development of a portion of its property in Binangonan, Rizal. IRC owns more than 2,000 hectares of land in Binangonan, Rizal.

The Company's registered office and principal place of business of the Company is at 35th Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

The Parent Company has 8 employees as at September 30, 2016..

### **Note 2 - Cash on hand and in banks**

The account at September 30 and December 31 consists of:

	Sept 30, 2016	Dec 31, 2015
Cash in banks	56,757,113	11,675,375
Cash on hand	15,000	15,000
	<u>56,772,113</u>	<u>11,690,375</u>

Cash in banks earn interest at the prevailing bank deposit rates.

The carrying values of cash in banks represent maximum exposure to credit risk.

### **Note 3 - Financial assets at fair value through profit or loss**

The account as at September 30, 2016 and December 31, 2015 consists of listed equity shares with fair value based on current bid prices in an active market (level 1 valuation).

Changes in fair values of financial assets at fair value through profit or loss are recorded in unrealized gain (loss) on securities in profit or loss.

### **Note 4 - Notes and other receivables**

The account at September 30 and December 31 consists of:

	Note	Sept 30, 2016	Dec 31, 2015
Notes receivable	15	179,759,774	384,616,599
Due from related parties	15	969,397	859,497
Advances and other receivables		3,524,475	4,753,513
		184,253,646	390,229,609
Allowance for impairment losses		(5,436,501)	(5,436,501)
		178,817,145	384,793,108

Notes receivable represents loans granted to IRC with no definite payment terms and bears annual interest rates ranging from 12% to 18%. The account also includes accrued interest receivable. These loans are due and demandable at reporting dates.

The loans were used by IRC for the site clearance, retitling and development costs of its vast Binangonan property.

Due from related parties arise from transactions with non-consolidated entities.

Allowance for impairment loss pertains to the loans granted to IRC amounting to P5.4 million.

#### **Note 5 - Investment in associates**

Details of the account at September 30 and December 31 follow:

	Sept 30, 2016	Dec 31, 2015
Acquisition cost		
Balance, beg	607,590,573	607,812,573
Share acquisitions	7,983,179	
Disposals		(222,000)
Balance, end	615,573,752	607,590,573
Accumulated share in net income (losses) of associate		
Balance, beg.	442,931,400	433,404,390
Share in net earnings (losses) of associate	23,222,633	9,527,010
Balance, end	466,154,033	442,931,400
<b>Total</b>	<b>1,081,727,785</b>	<b>1,050,521,973</b>

The Group's effective ownership interest in shares of stock of IRC as at September 30, 2016 is 33.72% (December 31, 2015 - 33.72%).

The fair value of the Group's investment in shares of stock of IRC as at September 30, 2016 is 448.52 million: P1.18/share (December 31, 2015 - P420.80 million: P1.13/share).

There are no significant restrictions on the ability of the associate to transfer cash assets, pay dividend or pay advances to the Parent Company and between subsidiaries. Since most of the subsidiaries are not operational, the Parent Company provides financial support to the Group.

The summarized financial information of IRC as at and for the years ended December 31 follows:

	Sept 30, 2016	Dec 31, 2015
	(in billions of Peso)	
Total assets	3,362	3,294
Total liabilities	1,803	1,811
Total equity	1,559	1,483
Revenue	153	90
Net income (loss)	69	29

**Note 6 - Property and equipment**

Details of property and equipment as at and for the years ended September 30, 2016 and December 31, 2015 follow:

	Sept 30, 2016	Dec 31, 2015
<b>COST</b>		
Furniture & fixtures	1,662,116	1,662,116
Office equipment	886,743	886,743
Communication and other equipment	177,157	177,157
Office condominium	13,746,305	13,746,305
Building improvements	3,859,242	3,859,242
Transportation equipment	5,246,131	5,246,131
	25,577,694	25,577,694
<b>ACCUMULATED DEPRECIATION</b>		
Furniture & fixtures	1,662,116	1,662,116
Office equipment	773,840	744,438
Communication and other equipment	177,139	176,023
Office condominium	12,389,236	12,007,554
Building improvements	2,995,151	2,710,453
Transportation equipment	4,560,309	3,991,113
	22,557,791	21,291,697
<b>NET BOOK VALUE</b>		
Furniture & fixtures		
Office equipment	112,903	142,305
Communication and other equipment	18	1,134
Office condominium	1,357,069	1,738,751
Building improvements	864,091	1,148,789
Transportation equipment	685,822	1,255,018
	3,019,903	4,285,997

**Note 7 - Investment properties**

The Group's investment properties include several parcels of land and condominium units held for lease. Land includes properties of MHC, TTCI and TPHC held for appreciation purposes, including those strategically located and potentially high value land in Tagaytay City and Batangas with a total land area of 29 hectares. The condominium units, which are located in Makati with a total floor area of 888 square meters, are being leased out to third parties.

**Note 8 - Borrowings**

Borrowings at September 30 and December 31 consist of unsecured short-term interest-bearing loans obtained from the following:

	Sept 30, 2016	Dec 31, 2015
Asia Alliance Holdings Co., Ltd.	89,392,518	282,981,188
Hongkong creditors	31,110,500	
insic Value Management Ltd. (Phils.) Co., a related party	13,624,642	13,624,642
	134,127,660	296,605,830

**Note 9 – Accounts payable and other liabilities**

The account at September 30 and December 31 consists of:

	Note	Sept 30, 2016	Dec 31, 2015
Accounts payable and other accrued expenses		14,386,445	14,894,776
Accrued interest		45,280,313	34,493,524
Provisions	17	47,770,052	47,770,052
Others		2,251,343	2,775,908
		109,688,153	99,934,260

Accrued expenses represent accruals for professional fees, utilities and other recurring expenses. Provisions pertain to liabilities related to guarantees arising from acquisition of an asset of a previous related party which is currently under legal proceedings.

#### **Note 10 - Deposits for future share subscriptions**

In 1997, the Group received from certain shareholders deposits on future stock subscriptions amounting to P241.62 million. Movements of P46.93 million in 2008 pertain to cancellation of subscription with the amount previously received as deposits applied against the Group's advances to concerned shareholders. There were no movements in the account since 2009.

It is the intention of the shareholders that these balances represent deposits for future capital subscription. However, the plan of the Company's management has been put on hold and such has been presented as liability only for the purpose of complying with Financial Reporting Bulletin No. 6 issued by SEC. The management considers issuing equities upon development of concrete plans on the improvement of the operations of the Company.

#### **Note 11 - Equity**

##### *(a) Share capital*

Share capital at September 30, 2016 and December 31, 2015 consists of:

Common shares – P1 par value	
Authorized	4,000,000,000
Subscribed and issued	1,200,000,000
Subscriptions receivable	(224,465,947)
Paid, issued and outstanding	975,534,053
Treasury shares	(58,627,864)
	916,906,189

##### *(b) Treasury shares*

Treasury shares represent investment of MAC, a subsidiary, to the Parent Company's shares.

#### **Note 12 - Basic and diluted earnings per share**

The computation of basic earnings per share for the period ended September 30 and December 31 follows:

	2016	2015
Net income (loss) attributable to the equity holders of Parent Co.	23,375,065	(7,313,787)
Divided by the average no. of outstanding common shares	975,534,053	975,534,053
Basic (loss) earnings per share	.02396	(0.0075)

Basic and diluted earnings per share are the same due to the absence of dilutive potential common shares.

**Note 13- Related party transactions**

The Group's transactions with related parties include those with associates and other related parties described below:

## a) Due from related parties

Details of the account at September 30 and December 31 follow:

	Sept 30, 2016	Dec 31, 2015
Intrinsic Value Management Ltd. (Phils.) Co., Inc. ("IVM")	171,702	171,627
IRC Properties, Inc.	306,053	258,155
Phil. Strategic	159,404	143,541
South China Sea Holdings Corporation	332,238	286,174
	969,397	859,497

Other outstanding receivables from related parties are presented as Due from related parties under Notes and other receivables account in the statements of financial position (see Note 4).

## b) Due to related parties

This account is composed of advances from the following related parties which were obtained for working capital purposes:

	Sept 30, 2016	Dec 31, 2015
IVM	9,106,192	9,209,210
Others	85,659	85,706
	9,191,851	9,294,916

The above advances are non-interest bearing and are payable on demand thus, considered current.

**Note 14 - Leases**

In 2009, the Company occupied a portion of its investment in condominium units and converted it into an office space. The portion which is owner-occupied is properly reclassified as property and equipment (Notes 6 and 7). The remaining portion is leased to other parties.

**Note 15 - Salaries and employee benefits**

The balance of employee benefits at September 30 consists of:

	Sept 30, 2016	Sept 30, 2015
Salaries and wages	2,272,900	2,087,710
SSS, Philhealth and HDMF	103,894	100,783
Others	821,180	499,708
	3,197,974	2,688,201

**Note 16 – Other Operating expenses**

Other operating expenses for the period ended Jan to June 30, 2016 and 2015 consist of:

	Sept 30, 2016	Sept 30, 2015
Taxes and licenses	944,067	923,419
Transportation and travel	979,273	832,335
Communication, light and water	452,060	465,909
Other fees	197,033	268,623
Miscellaneous	1,677,554	2,290,093
	4,249,987	4,780,379

## **Note 17- Contingencies**

In the normal course of business, the Group is a defendant of a case which is pending with the Court of Appeals. The case arose from a demand for payment of minimum guaranteed return on investment by corporation which was formerly a co-shareholder of the Parent Company. Details of this pending case follow:

The plaintiff (one of the co-shareholders) violated a number of the terms as stipulated under the agreement, including a direct purchase of the shares of the other shareholder without the consent of the Group. The agreement also contains a provision about guaranteed return.

In 1999, the plaintiff demanded full payment of the guaranteed return on its investment after audits of the fast craft business revealed a significant amount of loss, which demand was denied by the Group.

After divergent decisions by the arbitrator and regional trial court, the case was transferred to Court of Appeals for further proceedings. In 2013, a final decision has been rendered by the Court of Appeals, instructing the Company to pay the agreed guaranteed returns and arbitration costs including 12% interest calculated from the date of initial ruling amounting to P47,770,052 as shown in the statement of financial position under accounts payable and other liabilities (Note 9).

## **Note 18 - Financial risk and capital management**

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Management, under the direction of the Board of Directors of the Group is responsible for the management of financial risks. Its objective is to minimize the adverse impacts on the Group's financial performance due to the unpredictability of financial markets.

### **18.1 Market risk**

#### *(a) Foreign exchange risk*

The foreign exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The reasonably possible movement in foreign currency exchange rates is based on projection by the Company using five year moving average historical experience.

#### *(b) Price risk*

The Group's exposure on price risk is minimal and limited only to investments classified as at fair value through profit or loss (Note 3), available-for-sale securities and investment properties (Note 7). Changes in market prices of these investments are not expected to impact significantly the financial position or results of operations of the Group.

#### *(c) Interest rate risk*

Interest rate risk refers to risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's interest-bearing financial instruments include notes receivable (Note 4) and borrowings (Note 8). These financial instruments are not exposed to fair value interest rate risk as they are carried at amortized cost. Likewise, these instruments are not exposed to variability in cash flows as they carry fixed interest rates.

### **18.2 Credit risk**

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Group by failing to discharge an obligation.

#### *Maximum exposure to credit risk*

The Group's exposure to credit risk primarily relates to cash in banks and financial receivables.

### **18.3 Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding through advances from related parties within the Group, extending payment terms for due to related parties, and an efficient collection of its notes receivables from third parties. The Group likewise regularly evaluates other financing instruments to broaden the Group's range of financing resources. Substantial component of expected cash inflows in 2015 and foreseeable future is the expected receipts from related party notes receivables and expected cash inflows from positive results of IRC's operations, an associate.

### **18.4 Fair value of financial assets and liabilities**

The carrying amounts of financial assets and liabilities approximate fair values at reporting dates due to the short-term nature of financial assets and liabilities.

### **18.5 Fair value hierarchy**

The Group follows the fair value measurement hierarchy to disclose the fair values of its financial assets and liabilities. At September 30, 2016 and December 31, 2015, the Group's financial assets at fair value through profit or loss are classified under Level 1 while investment properties are classified under Level 2 category.

The investment properties of the Group are classified under Level 2 category which uses the Market approach. The value of the investment properties was based on sales and listings of comparable property registered within the vicinity premised on the factors of time, unit area/size, unit location, unit improvements, building location, building feature/amenities, bargaining allowance and others.

### **18.6 Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to support the property development plans of IRC and to maintain an optimal capital structure to reduce the cost of capital. For this purpose, capital is represented by total equity as shown in the consolidated statement of financial position, as well as deposit for future share subscriptions presented under liabilities.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

Given the absence of development activities undertaken by the Group, it does not require intensive capitalization as at September 30, 2016 and December 31, 2015. The Group's main objective is to ensure it has adequate funds moving forward to support the ongoing development plans of IRC. As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of ten percent (10%) of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Group has fully complied with this requirement.

There are no external minimum capitalization requirements imposed to the Group.

## **Note 19 - Critical accounting estimate and judgment**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgments 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.

### **19.1 Critical accounting estimate**

#### *Estimate of fair value of investment properties (Note 7)*

The following are the significant assumptions used by the independent appraiser to calculate the investment properties of the Group.

- current prices in an active market for properties of similar nature, condition or location, adjusted to reflect possible differences; and
- recent prices of similar properties in less active markets, with adjustments to reflect any changes in

economic conditions since the date of the transactions that occurred at those prices.

Investment properties in 2016 and 2015 amounted to P302.86 million (2014 - P231.48 million). Where the estimated market value differs by 10% from management's estimates, the carrying amount of investment properties would have been P30.29 million higher or lower (2014 - P23.15 million higher or lower).

## **19.2 Critical accounting judgments**

### *(a) Recoverability of loans and receivables (Note 4)*

The provision for impairment of notes and other receivables is based on the Group's assessment of the collectibility of payments from related party based on status of notes and other receivables, past collection experience and other factors that may affect collectibility. This assessment required judgment regarding the outcome of disputes and the ability of the related party to pay the amount to the Group. The amount of allowance for impairment loss is disclosed in Note 4.

If the loans and receivables that are past due but not impaired were provided an allowance, the Company would incur an additional expense of P390.23 million in its 2015 financial statements (2014 - P419.21 million). However, management believes that the carrying amount of loans and receivables at reporting dates is collectible given the ongoing development prospects of IRC and other factors discussed in (c) below.

### *(b) Recognition of deferred income tax assets (Note 13)*

Management reviews at each reporting date the carrying amounts of deferred income tax assets. The carrying amount of deferred income tax assets is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the related tax assets can be utilized. Management believes that the non-recognition of deferred income tax assets of P11.07 million (2014 - P4.08 million) is appropriate due to the Company's limited capacity to generate sufficient taxable income during relevant years given current development activities.

### *(c) Recoverability of investment in subsidiaries and IRC (Note 5)*

Management believes that the carrying amount of its investment in IRC is fully recoverable due to a number of factors, which include among others, the following:

- 1) IRC has 296.32 hectares of land held for development and capital appreciation in Binangonan Rizal. Portion of the property is currently being cleared/developed with the resulting fair value expected to generate repayment funds. Currently, the property is valued at P1,000 per square meter.
- 2) IRC is in process of constructing a residential project over a 29 hectare property under the joint development agreement with a local developer.
- 3) IRC's P399 million proceeds from stock rights offering in 2010 and recent issuance in 2015 amounting to P178 million are being utilized to support ongoing development.
- 4) Clearing and retitling is ongoing for the remaining large portion of the land to make it ready for future developments.
- 5) The Company has 1,500 hectares more in its landbank that is potentially a revenue stream that would allow repayment.

The Company's investment in subsidiaries is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable.

Management believes that the carrying amount of its investment in IRC as at June 30, 2016 and December 31, 2015 is recoverable.

### *(d) Entities in which the Group holds less than 50% interest (Note 20.3)*

Management consider that the Company has de facto control over MAC, TICI and TPHC even though it has less than 50% of the voting rights. There is no history of other shareholders forming a group to



exercise their votes collectively. Based on the absolute size of the Company's shareholding and the relative size of the other shareholdings, management have concluded that the Company has sufficiently dominant voting interest to have the power to direct the relevant activities of these entities. Consistent with PFRS 10, the entities have been fully consolidated into the Group's consolidated financial statements.

Management has assessed the level of influence that the Group has on IRC and determined that it has significant influence with an ownership of 33.61% in March 2016 and 33.03% in 2015 (2014 - 37.24%) and control has not been established. Consequently, this investment has been classified as an associate.

*(e) Impairment of investment properties (Note 7)*

The Company's investment properties were tested for impairment where the recoverable amount was determined using the market approach. The value of the investment properties was based on sales and listings of comparable property registered within the vicinity premised on the factors of time, unit area/size, unit location, unit improvements, building location, building feature/amenities, bargaining allowance and others which management believes are reasonable.

The carrying amount of investment properties amounted to P302.86 million as at December 31, 2015 (2014 - P231.48 million). No impairment loss was recognized on investment properties for the years ended December 31, 2015 and 2014.

**Note 20 - Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**20.1 Basis of preparation**

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippines Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, investment properties and available-for-sale investments.

The preparation of consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements as disclosed in Note 19.

**20.2 Changes in accounting policy and disclosures**

*(a) New and amended standards adopted by the Group*

There are no new standards, amendments to existing standards and interpretations effective for the financial year beginning on January 1, 2016, which would have a significant impact or is considered relevant to the Group's consolidated financial statements.

*(b) New standards, amendments and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015, and have not been applied in preparing these consolidated financial statements. None of these standards is expected to have significant effect on the separate financial statements of the Group, while the more relevant ones are set out below:

PFRS 9, '*Financial instruments*', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of PFRS 9 was issued in July 2014. It replaces the guidance in PAS 39 that relates to the classification and measurement of financial instruments. PFRS 9 retains but simplifies the mixed measurement model and establishes three

primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in PAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. PFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under PAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018; early adoption is permitted. The Group expects possible reclassification relevant to its adoption of PFRS 9.

□ *PFRS 15, 'Revenue from contracts with customers'*, deals with revenue recognition and establishes principles for reporting useful information to users of consolidated financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces PAS 18 'Revenue' and PAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Group may expand its disclosures on revenue recognition but does not foresee any significant impact of adopting PFRS 15.

□ *PFRS 16, 'Leases'*, is the new standard for lease accounting that will replace PAS 17, 'Leases'. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the standard's approach to lessor accounting substantially unchanged from PAS 17. The standard is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted, but only in conjunction with PFRS 15, 'Revenue from Contracts with Customers'. In order to facilitate transition, entities can choose a simplified approach that includes certain reliefs related to the measurement of the right-of-use asset and the lease liability, rather than full retrospective application; furthermore, the 'simplified approach' does not require a restatement of comparatives. In addition, as a practical expedient, entities are not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are "grandfathered"). The Group is a lessor on all of its lease agreements. The adoption of the standard will not impact the Group's consolidated financial statement.

### **20.3 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group as at September 30, 2016 and December 31, 2015. The subsidiaries' financial statements are prepared for the same reporting year as the Parent Company. The Group uses uniform accounting policies, any difference between subsidiaries and the Parent Company are adjusted properly.

All subsidiaries are domestic companies registered and doing business in the Philippines and are principally engaged in the business of acquiring and disposing of interests in real and personal properties of any kind or description, marketable securities and shares of stock. The Subsidiaries' registered office and principal place of business is at 35th Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the Parent Company do not differ from the proportion of ordinary shares held.

#### *(a) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The

Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial reporting and operating policies by virtue of de facto control. De facto control may arise in circumstances where the size Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. 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 recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is not accounted for within equity. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

TPHC holds interests in the companies listed above namely: (1) The Angeles Corporation, 57.69%; (2) The Taal Company, Inc., 55.64%; and (3) Mindanao Appreciation Corporation, 53.68%.

*(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions—that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured 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 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 Group 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.

*(d) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received are treated as a reduction to the investment in the period wherein the right to receive such distribution arises. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in profit or loss.

Investment in subsidiaries and associates are derecognized upon disposal. Gains and losses on disposals of these investments are determined by comparing the proceeds with the carrying amount and are included in profit or loss.

**20.4 Cash**

Cash consist of cash on hand and deposits at call with banks. They are stated at face value or nominal amount.

**20.5 Financial instruments**

**20.5.1 Classification**

The Group classifies its financial assets and liabilities according to the categories described below. The classification depends on the purpose for which the financial assets and liabilities were acquired.

Management determines the classification of its financial assets and liabilities at initial recognition.

*(a) Financial assets*

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The Group holds financial assets classified as at fair value through profit or loss, loans and receivables and available-for-sale financial assets as at September 30, 2016 and December 31, 2015.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets if expected to be settled within twelve (12) months; otherwise, they are classified as non-current.

The Company's investment in listed equity shares are classified under this category (Note 3).

*(ii) 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 are included in current assets, except for maturities greater than 12 months after the reporting date, which are then classified as non-current assets.

The Group's loans and receivables comprise cash (Note 20.4), notes and other receivables (Note 20.6) and refundable deposits under other non-current assets in the consolidated statement of financial position.

*(iii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. These are included in non-current assets unless management intends to dispose of the investment within twelve (12) months from the reporting date.

The Group's available-for-sale investments in the consolidated statement of financial position are classified under this category.

*(b) Financial liabilities*

The Company classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value); and financial liabilities at amortized cost.

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost.

The Group's borrowings (Note 20.13), accounts payable and other liabilities (Note 20.12), due to related parties (Note 20.24) and subscription payable (Note 20.17) are classified under other financial liabilities at amortized cost.

## 20.5.2 Recognition and measurement

*(a) Initial recognition and measurement*

Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Group commits to purchase or sell the asset. Financial assets and liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are recognized as expense in profit or loss.

*(b) Subsequent measurement*

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, except, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost. Loans and receivables are carried at amortized cost using the effective interest method. Other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in profit or loss (as "unrealized gain (loss) on securities") in the year in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in profit or loss as “Gains and losses from investment securities”.

Dividends on equity instruments are recognized in profit or loss when the Group’s right to receive payment is established.

#### 20.5.3 Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *(c) Financial assets at fair value through profit and loss and available-for-sale financial assets*

In the case of equity investments classified as financial assets at fair value through profit and loss and available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. Generally, the Company treats 20% or more as ‘significant’ and greater than 12 months as ‘prolonged’. If any of such evidence exists the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in profit or loss.

#### *(d) Loans and receivables*

For loans and receivables category, the Group first assesses whether objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant using the criteria above. If the Group determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset’s 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. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

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 reversal of the previously recognized impairment loss is recognized in profit or loss. Reversals of previously recorded impairment provision are based on the result of management’s update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited against operating expenses in profit or loss.

#### 20.5.4 Derecognition

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when extinguished, i.e., when the obligation is discharged or is cancelled, expires, or paid.

#### 20.5.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

#### 20.6 Notes and other receivables

Notes and other receivables represent claims for which formal instruments of credit are issued as evidence of debt, such as a promissory note. The credit instrument normally requires the debtor to pay interest and extends for time periods.

Relevant accounting policies for classification, recognition, measurement and derecognition of notes receivable are presented in Note 23.5.

#### 20.7 Prepayments

Prepayments are recognized in the event that payment has been made in advance of obtaining right of access to receipt of services and measured at the amount of cash paid, which is equal to its nominal amount. Prepayments are derecognized in the consolidated statement of financial position as these expire with the passage of time or consumed in operations.

Prepayments are included in current assets, except when the related services are expected to be received or rendered for more than twelve months after the end of the reporting period, in which case, these are classified as non-current assets.

#### 20.8 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation, amortization and impairment, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation or amortization is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Furniture and fixtures	3 to 5 years
Office equipment	5 years
Office condominium	25 years
Communication and other equipment	5 years
Building improvements	10 years
Transportation equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use (Note 20.11).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost, appraisal increase and their related accumulated depreciation are removed from the accounts. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are included in profit or loss.

### **20.9 Investment properties**

Investment property is defined as property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the common course of business.

Investment properties principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are recorded in profit or loss as part of other income.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Removal of an item within investment property is triggered by a change in use, by sale or disposal. If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Gain or loss arising on disposal is calculated as the difference between any disposal proceeds and the carrying amount of the related asset. This is recognized in profit or loss.

Properties that are being constructed or developed for future capital appreciation are classified as investment properties.

### **20.10 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. 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. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.



The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

The Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques for non-financial assets are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group's financial assets at fair value through profit or loss and investment properties are classified under Level 1 and Level 2, respectively.

#### **20.11 Impairment of non-financial assets**

Assets that have an indefinite useful life - for example, land - are not subject to amortization and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill for which an impairment loss has been recognized are reviewed for possible reversal of the impairment at each reporting date. An allowance is set-up for any substantial and presumably permanent decline in value of investments.

#### **20.12 Accounts payable and other liabilities**

Accounts payable and other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable and other liabilities are measured at the original invoice amount (as the effect of discounting is immaterial).

Relevant accounting policies for classification, recognition, measurement and derecognition of accounts payable and other liabilities and other financial liabilities are presented in Note 23.5.

#### **20.13 Borrowings and borrowing costs**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve (12) months after the reporting date.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred.

#### **20.14 Employee benefits**

The Company, having less than 10 employees, is not within the scope of RA 7641 Retirement Law. The Company recognizes a liability and an expense for short-term employee benefits which include salaries, social security contributions, paid sick and vacation leaves. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Employee benefits are derecognized once paid.

#### **20.15 Current and deferred income tax**

The income tax expense for the period comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent that 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. The Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred income tax liability arises from the initial recognition of goodwill. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to

control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets and liabilities are derecognized when related bases are realized or when it is no longer realizable.

#### **20.16 Provisions**

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

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. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are derecognized when the obligation is settled, cancelled or has expired.

#### **20.17 Subscription payable**

Subscription payable represents unpaid portion of share capital subscriptions initially measured at fair value and subsequently measured at amortized cost using effective interest method. Subscription payable is derecognized when the obligation has been paid.

#### **20.18 Deposit for future share subscriptions**

Deposit for future share subscriptions represents amounts received from shareholder which will be settled by way of issuance of the Parent Company's own shares on future date.

Deposit for future share subscriptions is derecognized once share has been issued or the shareholder cancels the subscription.

#### **20.19 Share capital**

##### *(a) Common shares*

Share capital consists of common shares, which are stated at par value, that are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

##### *(b) Share premium*

Share premium is recognized for the excess proceeds of subscriptions over the par value of the shares issued.

##### *(c) Treasury shares*

Where any member of the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Parent Company's shareholders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Parent Company's shareholders.

## **20.20 Earnings per share**

Basic earnings per share is calculated by dividing net income attributable to the Parent Company by the weighted average number of common shares in issue during the year. Diluted earnings per share is computed in the same manner as basic earnings per share, however, profit attributable to common shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

## **20.21 Revenue and expense recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is possible that future economic benefits will flow to the Group and specific criteria have been met for each of its activities as described below.

### *(a) Rental income*

Rental income from operating leases (the Group is the lessor) is recognized as income on a straight-line basis over the lease term. When the Group provides incentives to its lessees, the cost of incentives are recognized over the lease term, on a straight-line basis, as a reduction of rental income.

### *(b) Interest income and expense*

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

### *(c) Dividend income*

Dividend income is recognized when the right to receive payment is established.

### *(d) Other income*

Other income is recognized when earned.

### *(e) Expenses*

Expenses are recognized when they are incurred.

## **20.22 Leases**

### *(a) The Group is the lessor*

Properties leased out under operating leases are included in "Investment properties" in the consolidated statement of financial position. Rental income under operating leases is recognized in profit or loss on a straight-line basis over the period of the lease.

*(b) The Group is the lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

When the Group enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Group assesses whether the arrangement is, or contains, a lease. The Group does not have such arrangements.

## **20.23 Foreign currency transactions and translation**

*(a) Functional and presentation currency*

Items included in the Group's consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. Foreign exchange 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.

## **20.24 Related party relationships and transactions**

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

## **20.25 Contingencies**

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are also not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is virtually certain.

## **ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Group's main focus is to support the projects of its large associate, IRC Properties, Inc. (IRC). IRC has three ongoing real estate projects: two residential subdivisions (Sunshine Fiesta and Fiesta Casitas) and Casas Aurora. These projects of IRC are expected to generate significant amount of sustainable income stream and operating cash flows to the Group.

The management of the Company has plans to sell some assets and pursue the development of its investment properties as well as the real properties of its subsidiaries and affiliated companies and to enter into joint ventures if opportune.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Management, under the direction of the Board of Directors of the Group is responsible for the management of financial risks. Its objective is to minimize the adverse impacts on the Group's financial performance due to the unpredictability of financial markets.

The Company's equity position is in compliance with the minimum statutory requirements applicable to public companies. Given the very limited operating activities undertaken by the Group, it does not require intensive capitalization. The Group's main objective is to ensure it has adequate capital moving forward to pursue its land disposal plans at optimum gain. Apart from extending loans to IRC Properties, Inc. for its land clearing costs, the Group does not anticipate heavy requirement for working capital in 2016.

As of September 30, 2016, the Registrant holds directly or indirectly substantial investments in several other corporations. Three of these are wholly owned subsidiaries while the rest are investees in which MHC has sizeable claims and interests. For the past five years, operating activities of the Group have been kept to the minimum except for its large associate, IRC Properties, Inc. (IRC). IRC at present has three main projects: Sunshine Fiesta, Fiesta Casitas and Casas Aurora, all located in Binangonan. The Sunshine Fiesta Subdivision project is a joint venture with Dreamhauz Management and Development Corporation (DMDC) signed and executed by the parties on August 5, 2010. The Fiesta Casitas project, although forming part of the Sunshine Fiesta Subdivision, is a partnership entered into by IRC in July 2012 with Dell Equipment & Construction Corp, to turn IRC's 8.72-hectare lot into a residential subdivision. The Casas Aurora Project is the first project of IRC where IRC is the main developer.

These projects of IRC are expected to generate significant amount of sustainable income stream and operating cash flows to the Group.

### **Explanation to Accounts with Material Variance (September 2016 vs. December 2015)**

**Cash**  
Increase of 386% mainly due to collection of loan and interest payments of IRC Properties, Inc. offsetted by Registrant's payment of its loans to foreign creditors.

### **Notes and other receivables**

Decrease of 54% due to the collection of loan and interest payments of IRC Properties, Inc.

### **Prepayments**

Increase of 17% due increase in prepaid taxes and insurance.

### **Investments in associates**

Increase of 3% due to increase in share of net income of IRC Properties, Inc. and acquisition of IRC shares.

### **Property and equipment, net**

Decrease of 30% due to depreciation.

**Borrowings**

Decrease of 55% due to partial payment of loans.

**Accrued expenses and other payables**

Increase of 10% due to accrual of interest on borrowings.

**Results of Financial Operations**

A comparative review of the Registrant's financial operations for the quarter ended September 30, 2016 vis-à-vis the same period last year showed the following:

Total revenues increased by P26k or 1.5% due to increase in rental rate with the entry of our new tenant, Smart Communications, Inc. Total operating expenses decreased by P198k or 20% mainly due to the decrease in Light and Power, Registration and Processing Fees, Meeting Expenses and Association Dues offsetted by increase in Salaries and Wages, Transportation Travel Expenses. Total Other Income (Expenses) increased by 174% mainly due to the reversal of the penalty charges imposed by the creditors and fluctuation in foreign exchange rates.

There is no significant element of income that did not arise from the Registrant's continuing operations. Neither is the Company's operations affected by any seasonality or cyclical trends.

**Discussion of Material Events/Uncertainties Known to Management that would Address the Past and Impact on Future Operations**

The Company does not have any material commitment for capital expenditures, in the short-term, apart from supporting the clearing costs of IRC Properties, Inc. It is not under any pressing obligation to pay its advances to affiliates. The Company has enough resources to cover payment of liabilities through the sale of some of its marketable securities. In the event that the Company will be required to settle its liabilities to third parties, it can do so by selling its listed securities and calling for payment its notes and accounts receivable.

The Company does not have any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships with unconsolidated entities or other persons created during the reporting period.

**ITEM 3 - KEY PERFORMANCE INDICATORS**

The Company's key performance indicators are the following:

(In Percentage)

	<u>Sept 30, 2016</u>	<u>Dec. 31, 2015</u>
Net profit (loss) ratio	412.87	28.03
Return on assets	1.36	1.32
Return on equity	2.01	2.15
Current ratio	53.46	66.60
Acid test	13.11	2.26
Debt to equity	48.15	63.33
Debt to assets	32.50	38.78
Asset to equity	148.15	163.33
Interest coverage	-nil-	222.19
Earnings (loss) per share	.024	(.0075)

Notes:

- 1.) Net profit ratio is computed by getting the ratio of Consolidated Net Income (Loss) to Total Revenues.
- 2.) Return on assets is derived at by dividing Net income by Total Assets.
- 3.) Return on Equity is arrived at by dividing Net income by Total Stockholders' equity.
- 4.) Current Ratio is expressed as Current Assets : Current Liabilities.

- 5.) Acid Test Ratio is expressed as total of Cash on hand and in banks + Financial assets at fair value : Current Liabilities.
- 6.) Debt to equity is computed by dividing Total liabilities by Total stockholders' equity.
- 7.) Debt to assets is expressed as Total liabilities: Total assets
- 8.) Asset to equity is computed by dividing Total assets over Total stockholders' equity.
- 9.) Interest coverage is arrived at by dividing Operating income by Interest expense.
- 10.) Earnings (loss) per share is arrived at by dividing the Consolidated Net Income (Loss) attributable to Equity Holders of the Parent Company over the average no. of the outstanding common shares.

## **PART II – OTHER INFORMATION**

### **ITEM 4 - NON-APPLICABILITY OF OTHER SEC-REQUIRED NOTES**

Notes required to be disclosed but are not applicable to the Registrant are indicated below:

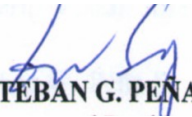
- a. Assets Subject to Lien and Restrictions on Sales of Assets
- b. Changes in Accounting Principles and Practices
- c. Defaults
- d. Preferred Shares
- e. Pension and Retirement Plans
- f. Restrictions which Limit the Availability of Retained Earnings for Dividend Purposes
- g. Significant Changes in Bonds, Mortgages and Similar Debt
- h. Registration with the Board of Investments (BOI)
- i. Foreign Exchange losses Capitalized as part of Property, Plant & Equipment
- j. Deferred Losses Arising from Long-Term Foreign Exchange Liabilities
- k. Segment Reporting
- l. Disclosure not made under SEC Form 17-C: None




## SIGNATURES

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

**MABUHAY HOLDINGS CORPORATION**  
Issuer



**ESTEBAN G. PEÑA SY**  
*President*  
Date: November 8, 2016



**ARACELI C. MOLINA**  
*Treasurer & Chief Financial Officer*  
Date: November 8, 2016