

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

1	7	-	Q
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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 Telephone Number(s)

750-2000

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

GLORIA GEORGIA G. GARCIA

Email Address

ghiegarcia71@yahoo.com

Telephone Number(s)

750-2000

Mobile Number

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Contact Person's Address

35 th Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City
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Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**SECURITIES AND EXCHANGE COMMISSION
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, 2018**
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

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

Yes	[<input checked="" type="checkbox"/>]	No	[<input type="checkbox"/>]
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If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange	Common stock
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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	[<input checked="" type="checkbox"/>]	No	[<input type="checkbox"/>]
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- (b) has been subject to such filing requirements for the past 90 days

Yes	[<input checked="" type="checkbox"/>]	No	[<input type="checkbox"/>]
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PART I – ITEM 1 - FINANCIAL STATEMENTS

MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017
(All amounts in Philippine Peso)

	Unaudited September 30, 2018	Audited December 31, 2017
ASSETS		
Current Assets		
Cash	₱203,018,386	₱5,620,579
Financial assets at fair value through profit or loss	398,212,233	1,982,245
Notes and other receivables, net	109,460,973	196,021,880
Prepayments and other current assets	2,840,904	2,668,114
Total current assets	713,532,496	206,292,818
Non-Current Assets		
Investment in an associate	-	₱1,143,852,981
Property and equipment, net	2,674,577	1,329,008
Investment properties	393,307,500	335,607,545
Other non-current assets	64,191	87,031
Total non-current assets	396,046,268	1,480,876,565
TOTAL ASSETS	₱1,109,578,764	₱1,687,169,383
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	₱49,065,230	₱92,213,650
Borrowings	13,624,642	135,054,491
Advances from related parties	8,621,187	17,439,760
Deposit for future share subscriptions	194,695,274	194,695,274
Total current liabilities	266,006,333	439,403,175
Non-Current Liability		
Deferred income tax liabilities, net	108,907,258	89,209,729
Total Liabilities	374,913,591	528,612,904
EQUITY		
Attributable to shareholders of the Parent company		
Share capital	₱975,534,053	₱975,534,053
Treasury shares	(58,627,864)	(58,627,864)
Retained earnings (deficit)	(331,731,934)	103,404,207
	585,174,255	1,020,310,396
Non-controlling interest	149,490,918	138,246,083
Total equity	734,665,173	1,158,556,479
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₱1,109,578,764	₱1,687,169,383

See accompanying notes to consolidated financial statements.

MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF TOTAL COMPREHENSIVE INCOME
FOR THE QUARTERS ENDED SEPTEMBER 30, 2018 AND 2017

(All amounts in Philippine Peso)

Unaudited

	Quarters Ended		Year to-Date	
	July 1 - September 30 2018	2017	January 1 - September 30 2018	2017
INCOME				
Rental	₱1,886,864	₱1,840,881	₱5,597,280	₱5,468,060
Unrealized gain on revaluation of securities	155,121,050	-	194,036,011	314,541
Gain on fair value change in investment properties	57,699,955	-	57,699,955	-
Gain on sale of investments	325,767	-	30,852,937	-
Others	283	283	10,271	10,287
	215,033,919	1,841,164	288,196,454	5,792,888
EXPENSES				
Salaries and employee benefits	1,391,933	889,398	3,469,796	3,969,711
Depreciation	343,268	238,310	844,611	1,093,513
Professional fees	198,912	204,887	613,879	634,485
Other operating expenses	2,206,175	1,823,456	9,121,559	5,700,932
	4,140,288	3,156,051	14,049,845	11,398,641
INCOME (LOSS) FROM OPERATIONS	210,893,631	(1,314,887)	274,146,609	(5,605,753)
FINANCE INCOME (COST)				
Finance income (cost) - net	4,238,694	3,741,159	(5,121,730)	10,726,661
Foreign exchange gains (losses), net	72,628	(1,596,721)	(5,258,821)	(2,486,693)
	4,311,322	2,144,438	(10,380,551)	8,239,968
Share in net earnings of an associate	-	22,786,611	-	26,107,445
INCOME BEFORE INCOME TAX	215,204,953	23,616,162	263,766,058	28,741,660
PROVISION FOR INCOME TAX	9,964,582	214,081	20,233,736	827,232
NET INCOME	205,240,371	23,402,081	243,532,322	27,914,428
OTHER COMPREHENSIVE INCOME (LOSS)	(3,703)	(19,749)	(22,834)	9,875
TOTAL COMPREHENSIVE INCOME	₱205,236,668	₱23,382,332	₱243,509,488	₱27,924,303
NET INCOME ATTRIBUTABLE TO:				
Shareholders of the Parent Company	₱193,088,385	₱23,446,835	₱232,264,653	₱28,584,841
Non-controlling interest	12,151,986	(44,753)	11,267,669	(670,413)
	₱205,240,371	₱23,402,082	₱243,532,322	₱27,914,428
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Shareholders of the Parent Company	₱193,088,385	₱23,446,835	₱232,264,653	₱28,584,841
Non-controlling interest	12,148,283	(64,502)	11,244,835	(660,538)
	₱205,236,668	₱23,382,333	₱243,509,488	₱27,924,303
Basic and diluted earnings per share attributable to shareholders of the Parent Company				
	0.19793	0.02403	0.23809	0.02930

See accompanying notes to consolidated financial statements.

MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE QUARTERS ENDED SEPTEMBER 30, 2018 AND 2017

(All amounts in Philippine Peso)

Unaudited

	Equity Holders of the Company			Non- controlling Interest	Total
	Share Capital (Note 11)	Treasury Shares (Note 11)	Retained Earnings (Deficit)		
Balances at December 31, 2016	₱975,534,053	(₱58,627,864)	₱83,829,881	₱134,149,528	₱1,134,885,598
Comprehensive Income (Loss)					
Net income (loss) for the period			28,584,841	(670,413)	27,914,428
Other comprehensive income				9,875	9,875
Total comprehensive income (loss) for the period	-	-	28,584,841	(660,538)	27,924,303
Balances at September 30, 2017	₱975,534,053	(₱58,627,864)	₱112,414,722	₱133,488,990	₱1,162,809,901
Balances at December 31, 2017	₱975,534,053	(₱58,627,864)	₱103,404,207	₱138,246,083	₱1,158,556,479
Comprehensive Income (Loss)					
Net income (loss) for the period			232,264,653	11,267,669	243,532,322
Other comprehensive income (loss)				(22,834)	(22,834)
Derecognition of share in net earnings of an associate			(667,400,794)		(667,400,794)
Total comprehensive income (loss) for the period	-	-	(435,136,141)	11,244,835	(423,891,306)
Balances at September 30, 2018	₱975,534,053	(₱58,627,864)	(₱331,731,934)	₱149,490,918	₱734,665,173

See accompanying notes to consolidated financial statements.

MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTERS ENDED SEPTEMBER 30, 2018 AND 2017
(All amounts in Philippine Peso)
Unaudited

	January 1 - September 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
INCOME BEFORE INCOME TAX	₱263,766,058	₱28,741,660
Adjustments for:		
Unrealized gain on revaluation of securities	(194,036,011)	(314,541)
Gain on fair value change in investment properties	(57,699,955)	
Gain on sale of investments	(30,852,937)	-
Depreciation	844,611	1,093,513
Share in net earnings of an associate	-	(26,107,445)
Unrealized foreign exchange loss	-	2,610,309
Interest expense	20,845,055	7,426,778
Interest income	(15,723,325)	(18,153,439)
Operating profit (loss) before working capital changes	(12,856,504)	(4,703,165)
Decrease (increase) in:		
Notes and other receivables	(2,715,768)	(5,359,900)
Prepayments and other current assets	(172,790)	379,491
Increase (decrease) in:		
Accounts payable and other current liabilities	(59,754,481)	1,186,658
Advances from related parties	(8,818,573)	(455,750)
Cash provided by (used in) operating activities	(84,318,116)	(8,952,666)
Collection of notes receivable	60,033,495	
Income taxes paid		(1,308,177)
Interest received	44,966,505	(22,288)
Net cash generated from (used in) operating activities	20,681,884	(10,283,131)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	310,798,283	-
Additions to property and equipment	(2,190,180)	(53,481)
Additional investment in securities	(5,570,480)	(2,010)
Additional investment in associate	-	(12,158,054)
Net cash provided by (used in) investing activities	303,037,623	(12,213,545)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of borrowings	(126,321,700)	-
Net cash used in financing activities	(126,321,700)	-
NET INCREASE (DECREASE) IN CASH	197,397,807	(22,496,676)
Cash at January 1	5,620,579	30,049,875
Cash at September 30	₱203,018,386	₱7,553,199

See accompanying notes to consolidated financial statements.

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED AGING OF NOTES AND OTHER RECEIVABLES
AS OF SEPTEMBER 30, 2018**

	TOTAL	1-30 DAYS	31-60 DAYS	OVER 61 DAYS
IRC Properties, Inc.	103,450,631	1,396,303	1,413,497	100,640,831
Sta. Mesa Heights Holdings Corp.	574,872			574,872
Eduardo V. de Mesa	600,000			600,000
Castillo Laman Tan Pantaleon	121,117		20,000	101,117
Others	4,714,353	4,173,252		541,101
Totals	<u>₱109,460,973</u>	<u>₱5,569,555</u>	<u>₱1,433,497</u>	<u>₱102,457,921</u>

Mabuhay Holdings Corporation and Subsidiaries

Notes to Consolidated Financial Statements

As at September 30, 2018 and December 31, 2017

(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 29.85% owned by Asia Development Capital Co. Ltd., a company incorporated and registered in Tokyo, Japan on February 7, 1922 to engage in the sale, development, brokerage and leasing of real estate properties. 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 Parent Company is considered a public company under Rule 3.1 of the Implementing Rules and regulations of the Securities Regulation Code when it listed its shares in the PSE in 1990.

The Company and its subsidiaries (the "Group") have no significant commercial operations as at September 30, 2018 and December 31, 2017. The subsidiaries' operations consist mainly of preservation and maintenance of existing investment properties.

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

The Parent Company has 7 employees as at September 30, 2018 (December 31, 2017 - 8).

Note 2 - Cash

The account at September 30 and December 31 consists of:

	Sept 30, 2018	Dec 31, 2017
Cash in banks	203,003,386	5,605,579
Cash on hand	15,000	15,000
	203,018,386	5,620,579

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

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

	Sept 30, 2018	Dec 31, 2017
Balance as at January 1	1,982,245	2,268,490
Gain (loss) on fair value change	194,036,011	(211,755)
Additions	204,272,669	2,010
Disposals	(2,078,692)	(76,500)
	398,212,233	1,982,245

The account as at September 30, 2018 and December 31, 2017 consists of listed equity shares with fair value based on current bid prices in an active market (level 1 valuation).

The Group's investments in shares of stocks of IRC was reclassified from Investments in an Associate to Financial Assets at Fair Value Through Profit or Loss as a result of the decrease in its effective ownership interest (Note 5).

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

Note 4 - Notes and other receivables

The account at September 30 and December 31 consists of:

	Note	Sept 30, 2018	Dec 31, 2017
Notes receivable, including interest	13	99,954,441	189,351,013
Rent receivable		2,934,745	3,815,168
Due from related parties	13	829,754	1,158,576
Advances and other receivables		5,742,033	1,697,123
		109,460,973	196,021,880

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.

In 2017, IRC issued an additional promissory note amounting to P3 million with a 15% interest rate per annum. In 2018, IRC paid a portion of the notes receivable amounting to P105 million of which P60.03 million pertains to payment of principal.

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

Note 5 - Investment in an associate

Details of the account as at September 30 and December 31 which pertain to the investment in shares of stock of IRC as follows:

	Sept 30, 2018	Dec 31, 2017
Investment in an associate	-	1,143,852,981

In April 2018, the Group sold part of its investment in shares of stocks of IRC which resulted in the decrease in the Group's effective ownership interest in IRC shares from 29.62% as of December 31, 2017 to 11.4% as of September 30, 2018. The resulting gain on the disposal of the shares are recognized in the Statements of Total Comprehensive Income.

As a result, the remaining ownership interest in IRC shares is reclassified to Financial Assets at Fair Value Through Profit or Loss (Note 3) in the Statements of Financial Position. The resulting unrealized gain on revaluation of securities as of September 30, 2018 are reflected in the Statements of Total Comprehensive Income.

The fair value of the Group's investment in shares of stock of IRC as of December 31, 2017 amounted to P278.38 million: P0.72/share.

The summarized financial information of IRC as at and for the period ended December 31, 2017 follows:

(in millions of Peso)	
Total assets	3,730
Total liabilities	1,868
Total equity	1,862
Revenue	196
Net income	23

Note 6 - Property and equipment

Details of property and equipment as at and for the periods ended September 30, 2018 and December 31, 2017 follow:

	Furniture and fixtures	Office equipment	Communication and other equipment	Office condominium	Transportation equipment	Building improvements	Total
COST							
Balances as at December 31, 2017	1,662,116	760,592	185,182	13,746,305	5,339,911	3,859,242	25,553,348
Additions	-	-	-	-	2,190,180	-	2,190,180
Disposals	-	-	-	-	-	-	-
Balances as at Sept 30, 2018	1,662,116	760,592	185,182	13,746,305	7,530,091	3,859,242	27,743,528
ACCUMULATED DEPRECIATION							
Balances as at December 31, 2017	1,662,116	671,075	171,427	13,110,190	5,288,052	3,321,480	24,224,340
Additions	-	20,675	2,211	381,682	155,346	284,697	844,611
Disposals	-	-	-	-	-	-	-
Balances as at Sept 30, 2018	1,662,116	691,750	173,638	13,491,872	5,443,398	3,606,177	25,068,951
NET BOOK VALUES							
December 31, 2017	-	89,517	13,755	636,115	51,859	537,762	1,329,008
September 30, 2018	-	68,842	11,544	254,433	2,086,693	253,065	2,674,577

Depreciation expense of P844,611 is charged to expenses. There were no disposals during the period.

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 unit, which is located in Makati with a total floor area of 675.95 square meters, is being leased out to third parties by the Parent Company.

Note 8 – Accounts payable and other current liabilities

Accounts payable and other current liabilities represent provision for litigation claims and accruals for professional fees, utilities and other recurring expenses.

Note 9 - Borrowings

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

	Sept 30, 2018	Dec 31, 2017
Related party	13,624,642	13,624,642
Third party	-	121,429,849
	13,624,642	135,054,491

As of September 30, 2018, the Group has fully paid its loans from third party.

Note 10 - Deposits for future share subscriptions

In 1997, the Parent Company 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 equivalent equity ownership 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, 2018 and December 31, 2017 consist 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 Mindanao Appreciation Corporation (MAC), a subsidiary, in 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:

	2018	2017
Net income attributable to shareholders of the Parent Company	₱232,264,653	₱19,481,795
Divided by the average no. of outstanding common shares	975,534,053	975,534,053
Basic earnings per share	0.23809	0.0200

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 follow:

a) Due from related parties

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

	Sept 30, 2018	Dec 31, 2017
Entities under common control		
Intrinsic Value Management (IVM)		
Phil. Strategic International Holdings Inc. (PSIHI)		
South China Sea Holdings Corporation (SCHC)	268,309	686,622
Affiliate		
IRC Properties, Inc.	561,445	471,954

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, 2018	Dec 31, 2017
Borrowings from		
Entity under common control		
Intrinsic Value Management (IVM)	13,624,642	13,624,642
Advances from		
Entity under common control		
Intrinsic Value Management (IVM)		
Phil. Strategic International Holdings Inc. (PSIHI)	8,621,187	17,439,760

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 property 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

Salaries and employee benefits for the period January 1 to September 30, 2018 and 2017 consist of:

	2018	2017
Salaries and wages	2,539,262	2,238,262
SSS, Philhealth and HDMF	86,238	81,286
Others	844,296	1,650,163
	3,469,796	3,969,711

Note 16 – Other Operating expenses

Other operating expenses for the period January 1 to September 30, 2018 and 2017 consist of:

	2018	2017
Taxes and licenses	3,043,820	858,015
Transportation and travel	1,292,898	684,641
Communication, light and water	410,745	406,947
Other fees	279,464	272,143
Miscellaneous	4,094,632	3,479,186
	9,121,559	5,700,932

Note 17- Contingency

In the normal course of business, the Parent Company has a contingency arising from claim which is presently being contested. Based on management's assessment, the disposition of this contingency will have no significant impact on its financial statements. The details of this claim have not been disclosed as this might be prejudicial to the position of the Parent Company.

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 9). 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.

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, 2018 and December 31, 2017, 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 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, 2018 and December 31, 2017.

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 amounted to P393.31 in 2017 and P335.61 million in 2018. Where the estimated market value differs by 10% from management's estimates, the carrying amount of investment properties would have been P39.33 million and P33.56 million higher or lower, respectively.

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.

If the loans and receivables that are past due but not impaired were provided an allowance, the Company would incur an additional expense of P109.46 million in its 2018 financial statements (2017 - P196.02 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

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 P0.434 million in 2017 (2016 - P4.33 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)

As of December 31, 2017, 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 500 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 P1,100 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 2016 amounting to P280 million are being utilized to support ongoing development.
- 4) In 2015, IRC entered into a joint development agreement with a third party to clear and develop social housing units of a total land area of 3.93 hectares.
- 5) In 2016, IRC signed a sale agreement with a leading local real estate developer relative to the acquisition of a portion of the 2,200-hectare Binangonan lot with a total contract price of P24.97 million. The Parent Company believes that the entry of this leading local real estate developer will jumpstart the development of a new mixed-use community south of Metro Manila. Clearing and retitling is ongoing for the remaining large portion of the land to make it ready for future developments.
- 6) IRC has 1,700 hectares more in its landbank that is potentially a revenue stream that would allow repayment.

The Parent 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 December 31, 2017 is recoverable.

As of September 30, 2018, the investments in IRC shares has been reclassified to Financial Assets at Fair Value through Profit or Loss (Notes 3 and 5) as a result of the decrease in the Group's effective ownership interest in IRC shares from 29.62% as of December 31, 2017 to 11.4% as of September 30, 2018.

(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.

(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 P393.31 million as at September 30, 2018 and P335.61 million as at December 31, 2017. No impairment loss was recognized on investment properties for the periods ended September 30, 2018 and year ended December 31, 2017.

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, 2015, 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, 2018 and December 31, 2017. 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. Unrealized 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, 2018 and December 31, 2017.

(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.

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 current liabilities

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

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.

20.26 Subsequent events (or events after the reporting date)

Post year-end events that provide additional information about the Group’s position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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

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 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 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. The Group does not anticipate heavy requirement for working capital in 2018.

As of September 30, 2018, 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.

Explanation to Accounts with Material Variance (September 2018 vs. December 2017)

Cash

Increase of 3512% or P197 million mainly due to sale of substantial shares of stocks of IRC Properties, Inc. ("IRC") and partial collection of notes receivable from IRC, offset by payment of its loans from third party.

Financial assets at fair value through profit or loss

Increase of 19989% or P396 million mainly due reclassification of investment in shares of stocks of IRC ("Investment in an associate") after the sale of substantial shares and effect of fair value gain on revaluation.

Notes and other receivables

Decrease of 44% or P87 million mainly due to partial collection of notes, interest and rent receivables from IRC.

Prepayments and other current assets

Increase of 6% or P173K due to prepaid taxes.

Investment in an associate

Decrease of 100% or P1.143 billion. The account was reclassified to Financial assets at fair value through profit or loss as a result of the decrease of the Group's effective ownership interest in IRC, from 29.62% as of December 2017 to 11.4% as of September 2018, as a result of the sale of shares of IRC. Resulting adjustments from the reclassification was reflected in the Statements of Total Comprehensive Income and in the Statements of Changes in Equity.

Property and equipment, net

Increase of 101% or P1.3 million mainly due to the net effect of acquisition of transportation equipment and charges for depreciation.

Investment properties

Increase of 17% or P58 million was mainly due to gain on fair value.

Accounts payable and other current liabilities

Decrease of 47% or P43 million was mainly due to payment of interests due on third party borrowings.

Borrowings

Decrease of 90% or P121 million was mainly due to repayment of third party borrowings.

Advances from related parties

Decrease of 51% or P8.8 million was mainly due to repayments of intercompany advances.

Deferred income tax liabilities

Increase of 22% or P19.7 million was mainly due to provision for deferred taxes.

Results of Financial Operations**January to September 2018 compared with January to September 2017**

A comparative review of the Registrant's financial operations for the nine-month period ended September 30, 2018 vis-à-vis the same period of prior year showed the following:

Total revenues increased by P282 million or 4875% mainly due to the recognition of unrealized gain on revaluation of securities, gain on fair value change in investment properties and the gain on sale of investments in IRC shares. Total operating expenses increased by P2.7 million or 23% mainly due to real property taxes paid. During the nine-month period, Total Finance Income (Costs) amounted to (P10.4 million), from a net Finance Income of P8.2 million in the same period of 2017, or an additional finance costs of P18.6 million mainly due to the interest expenses during the current period and foreign exchange losses realized.

July to September 2018 compared with July to September 2017

For the quarter July to September 2018, the main increase in revenue came from the recognition of unrealized gain on revaluation of securities, gain on fair value change in investment properties and the gain on sale of investments in IRC shares. Net Finance Income totalled P4.3 million as compared to P2.1 million in the same period of 2017.

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. 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 of 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:

	<u>Sept 30, 2018</u>	<u>Dec. 31, 2017</u>
Net profit ratio	0.8449	1.0471
Return on assets	0.2195	0.0140
Return on equity	0.3315	0.0203
Current ratio	2.6824	0.4695
Acid test ratio	2.2602	0.4634
Debt to equity	0.5103	0.4563
Debt to asset	0.3379	0.3133
Asset to equity	1.5103	1.4563
Interest coverage	13.1516	3.8545
Earnings per share	0.2381	0.0200

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+ Receivables : 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 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 07, 2018



GLORIA GEORGIA G. GARCIA

Treasurer & Chief Financial Officer

Date: November 07, 2018