MACAY HOLDINGS INCORPORATED

OPTIMUM PERFORMANCE MAXIMUM EFFICIENCY

2015 ANNUAL REPORT

OPTIMUM PERFORMANCE, MAXIMUM EFFICIENCY

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CORPORATE STATEMENTS

Vision

To be a dominant company in consumer products and services in the Philippines and in other Asian countries.

Mission

We are in the business of building a portfolio of consumer products and services that enable us to provide superior value for our customers in the Philippines and other Asian countries.

We provide opportunities for growth and enrichment to our employees and contribute to the success of our business partners in the communities where we operate, and realize financial gains for our shareholders.

We strive for honesty, fairness and integrity in all our dealings under high standards of corporate governance.

ABOUT THE COMPANY

Macay Holdings, Inc. ("Macay" or the "Company"), an investment holding company, serves as the parent company of ARC Refreshments Corporation ("ARC") which produces, bottles, markets and distributes a wide range of carbonated beverages, including the popular RC Cola and its variant RC Free as well as other soft drinks, namely: Fruit Soda Orange, Juicy Lemon, Arcy's Rootbeer and Seetrus. In 2015, Macay acquired control of ARC Holdings, Inc., the entity holding the concentrate supply and trademark licensing agreements with Royal Crown Cola International, owner of the RC Cola brand outside North America and Mexico. Macay and its subsidiaries are collectively referred to as the "Group".

Macay is registered with the Securities and Exchange Commission and listed on the Philippine Stock Exchange ("PSE"). The shares of the Company are listed and traded as "MACAY" on the PSE starting 2014.

Over the years, the Group has carved out a niche in the Philippine soft drinks market. It significantly grew its footprint to a total of nine (9) bottling facilities, which it owns and/or operates. These bottling plants are situated in various strategic locations nationwide, in close proximity to our customers and dealers. The Group's mass market distribution network covers both the traditional trade (sari-sari stores and carinderias) and modern trade (supermarkets, groceries and convenience stores) channels throughout the country.

Macay was formerly known as Maybank ATR Kim Eng Financial Corporation ("MAKE"). The shareholders of MAKE undertook a re-organization which resulted in the sale of all of its operating subsidiaries. Upon completion of this re-organization, the majority ownership of MAKE was acquired on 25 October 2013 by an investor group led by Alfredo M. Yao, to serve as the vehicle for the consolidation of various businesses engaged in soft drinks bottling, distribution and sales and eventually other consumer focused businesses to be identified in the future.

The Company and its senior management team continues to expand the presence and market share of the Group, as it prudently plans its entry into the manufacture, distribution, and sale of other consumer-focused products in the Philippines and in the Asian region.

FINANCIAL HIGHLIGHTS

Alfredo M. Yao - **Chairman**

Antonio I. Panajon - **President**

JOINT MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

To our fellow Macay Shareholders

In 2015, the Philippines once again posted a robust annual GDP growth of 5.8%, one of the fastest among the ASEAN economies. Although lower compared to that of last year and against government projections, the growth defied market expectations dampened by external headwinds, onset of El Niño and slow government disbursements in the first semester.

Private household consumption continued to drive our USD-292-billion-dollar economy fueled by a young and growing population, steady OFW remittances, expanding BPO sector, and benign interest and inflation rates. In 2015, OFW remittances coursed through banks reached a historic high of USD 25.8 billion for a year-on-year (yoy) increase of 4.6% despite slowdown in oil-producing countries and tightening of bank rules governing remittance transfers. Moreover, inflation remained at low levels averaging 1.4% for the year. As a result, household consumption grew 6.2% yoy accounting for 69.3% of the country's economic output. Our very own segment, food and non-alcoholic beverages, which constituted 41.4% of the total household consumption, likewise grew but at a slightly slower pace of 5.9%.

Our Performance

Supported by the country's strong economy, our company, Macay Holdings, Inc., delivered healthy results for the fiscal year 2015. Our net revenues reached Php11.3 billion, 8.8% higher than

JOINT MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

Consistent with our vision to be a dominant consumer goods company, we intend to expand our product offering and geographical footprint within the Philippines and gain inroads in foreign markets.

35.3% 2015 margins for gross profit

the Php10.4 billion reported the previous year. Macay benefitted from the newly-installed production lines and the price adjustments made during the summer season.

However, the company saw some of its main cost items increase, including prices of inputs such as sugar and concentrates, marketing costs due to intensified promotional activities, and depreciation and amortization charges emanating from its investments in new lines, trucks and bottles.

As a result, gross profit climbed to Php4.0 billion in 2015, improving by 8.6% yoy but for a two-year CAGR of 45.0%. On the other hand, net income after tax (NIAT) reached Php1.8 billion for yoy increase of 3.1% but for a two-year CAGR of 60.2%. But our earnings before interest, taxes, depreciation and amortization or EBITDA was Php3.4 billion in 2015, an 11.4% jump from 2014.

Overall, our measures of profitability were still above industry as our 2015 margins for gross profit stabilized at 35.3%, EBITDA at 30.6% and NIAT at 16.1%. Moreover, our return on equity and return on assets remained impressive reaching 44.7% and 24.4%, respectively.

As a clear testament to our robust growth in the previous years, our company declared and paid dividends in the second quarter of 2015, amounting to Php1.45 per share for an aggregate amount of Php1.5 billion. Subsequently, we adopted an official dividend policy that would provide a framework in declaring dividends taking into account laws or regulations, retained earnings, and corporate plans.

We believe that this step would further strengthen the financial standing of our company as it takes on new initiatives moving forward.

Our Milestones

Our company embarked on a number of corporate initiatives designed to further consolidate and expand our soft drinks business. In 2015, new production lines in Kaybiga, Pampanga and Isabela started operations, contributing positively to our top line. We also launched Seetrus, an internally developed, lemon-lime flavored soft drink, beefing up our portfolio of non-cola flavors.

In the area of corporate structuring, we acquired full control of ARC Holdings, Inc., the entity holding the concentrate supply and trademark licensing agreements with Royal Crown Cola International. This step effectively completed our efforts to consolidate our soft drinks business, which began in 2014 when our wholly-owned subsidiary ARC Refreshments Corporation acquired the operating assets of both Mega Asia Bottling Corporation and Asiawide Refreshments Corporation.

Moving Forward

Consistent with our vision to be a dominant consumer goods company, we intend to expand our product offering and geographical footprint within the Philippines and gain inroads in foreign markets. We plan to achieve this through a combination of in-house product development, capacity upgrades, establishment of new plants, forging joint ventures and corporate acquisitions. Internal processes shall likewise be strengthened through process review and improvement, and talent acquisition.

As we grow our business together, we would like to recognize the invaluable contribution of our fellow shareholders, directors, principals, partners, suppliers, dealers, officers and employees. It is through your trust and support that enable us to aim high, strive hard and achieve success.

Thank you very much.

Alfredo M. Yao
Chairman

Antonio I. Panajon
President

CORPORATE MILESTONES

September 2013

Mazy's Capital, Inc. ("Mazy's") and Maybank Kim Eng Holdings ("MKEH") concluded a share purchase agreement for MKEH's sale of its 89.75% shareholding in locally-listed firm Maybank ATR Kim Eng Financial Corporation ("MAKE").

October 2013

Mazy's acquired 89.75% interest in MAKE for Php 3.19 billion.

MAKE sold its entire equity stakes in AsianLife and General Assurance Corporation and ATR KE Land to Maybank ATR KE Capital.

December 2013

MAKE formally incorporated and capitalized ARC Refreshments Corporation ("ARC") as a wholly-owned subsidiary.

January 2014

The SEC approved the change in MAKE's corporate name to Macay Holdings, Inc. ("Macay").

ARC acquired the operating assets of Mega Asia Bottling Corporation and Asiawide Refreshments Corporation under an asset purchase agreement.

February 2014

The PSE advised the change in Macay's stock symbol from "MAKE" to "MACAY".

ARC commenced commercial operations.

May 2015

ARC launched its latest flavor. The thirst quenching lemon-lime Seetrus.

August 2015

Macay acquired 100% ownership of ARC Holdings, Inc. (“ARCHI”).

ARCHI holds the Concentrate Supply Agreement and the Trademark Licensing Agreement with Royal Crown Cola International.

July 2015

ARC introduced another product innovation – the first 250 ml. canned cola drink called RC Click.

The new packaging design allows consumers to enjoy the beverage in just the right amount that is fit for personal consumption.

ARCHI has an existing joint venture agreement with Kalbe International Pte. Ltd of Indonesia to market the latter’s “extra joss” products.

CORPORATE SOCIAL RESPONSIBILITY

Macay Holdings, Inc. through its subsidiary, ARC Refreshment Corporation ("ARC"), continues to plant the seeds of leadership among the Filipino youth with its annual corporate social responsibility program ARC Young Leaders Camp ("ARCYLC" or the "Camp"). The Camp which began in 2012 aims to uphold the values that forged the foundation of ARC namely: hard work, dedication and leadership.

Every year, more than 200 underprivileged Filipino students from public and private colleges/universities vie to participate in the Camp. These student hopefuls go through a rigorous screening process and those short-listed face a panel interview conducted by executives of ARC. Only 40 deserving students and scholars from private colleges are selected to participate in the life-changing opportunity to attend the three-day workshop. Through a series

Underprivileged Filipino students from public and private colleges/ universities vie to participate in the Camp every year

200

of seminars and dialogue with resource speakers the selected youth can discover, craft and hone their leadership potential. The ARCLYC activities are planned to enjoin students to create, inspire, and lead in their own communities and eventually, in society and the nation.

The Camp invites modern heroes and change-makers from various fields to serve as guest speakers and role models for the youth participants, such as 2009 CNN Hero of the Year and 2012 International Children's Peace Prize awardee Efren Peñaflorida, MicroVentures, Inc. co-founder Senator Bam Aquino, environmentalist Anna Oposa, ABS-CBN news anchor and correspondent Karen Davila, and Rags2Riches founder Reese Fernandez, Club 8586 founder Bonn Manalaysay, International Children's Peace Prize awardee Kesz Valdez and Sustainable Alternative Lighting Technology co-founder and chief executive officer Aisa Mijeno among many others.

BOARD OF DIRECTORS

Alfredo M. Yao
Chairman

Antonio I. Panajon
President

Jeffrey S. Yao
Vice President

Fernando R. Balatbat
Treasurer

Roberto A. Atendido
Director

Mary Grace S. Yao
Director


Gerardo T. Garcia
Director


Roberto F. Anonas
Independent Director


Rinaldi C. Aves
Director


Armando M. Yao
Director


Carolyn S. Yao
Director


Albert S. Toribio
Director


Jesus G. Gallegos, Jr.
Independent Director

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Macay Holdings, Inc.
137 Yakal Street, San Antonio Village
Makati City

We have audited the accompanying consolidated financial statements of Macay Holdings, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Macay Holdings, Inc. and Subsidiaries as at December 31, 2015 and 2014, and their financial performance and cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

John T. Villa

John T. Villa
Partner
CPA Certificate No. 94065
SEC Accreditation No. 0783-AR-2 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 901-617-005
BIR Accreditation No. 08-001998-76-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5321708, January 4, 2016, Makati City

April 8, 2016

MACAY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	December 30	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**P1,053,174,904**	P1,494,406,358
Short-term investments (Note 4)	**–**	20,000,000
Trade and other receivables (Note 5)	**370,397,142**	375,863,004
Inventories (Note 6)	**1,918,847,810**	1,581,183,837
Other current assets (Note 7)	**56,224,674**	136,751,324
Total Current Assets	**3,398,644,530**	3,608,204,523
Noncurrent Assets		
Property, plant and equipment (Note 8)	**1,182,113,654**	1,057,834,280
Deferred pallets and containers (Note 9)	**2,025,164,137**	1,608,008,739
Interest in a joint venture (Note 10)	**41,619,164**	40,147,227
Deferred income tax assets - net (Note 21)	**33,971,008**	40,690,584
Other noncurrent assets (Note 7)	**724,906,295**	651,873,143
Total Noncurrent Assets	**4,007,774,258**	3,398,553,973
TOTAL ASSETS	**P7,406,418,788**	P7,006,758,496
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	**P2,581,782,886**	P2,683,766,415
Stock acquisition payable (Note 1)	**17,000,000**	–
Short-term loans payable (Note 12)	**497,439,728**	103,291,516
Dividends payable (Note 13)	**22,192,003**	–
Income tax payable	**149,521,108**	286,443,945
Total Current Liabilities	**3,267,935,725**	3,073,501,876
Noncurrent Liability		
Retirement benefits liability (Note 20)	**93,321,161**	89,587,068
Total Liabilities	**3,361,256,886**	3,163,088,944
Equity		
Capital stock - P1 par value (Note 13)	**1,068,393,223**	1,068,393,223
Additional paid-in capital	**1,153,568,289**	1,153,568,289
Equity reserve (Note 2)	**–**	17,000,000
Other comprehensive loss (Note 20)	**(26,445,349)**	(26,473,732)
Retained earnings (Note 13)	**1,849,645,739**	1,631,181,772
Total Equity	**4,045,161,902**	3,843,669,552
TOTAL LIABILITIES AND EQUITY	**P7,406,418,788**	P7,006,758,496

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Years Ended December 31		
	2015	2014	2013
REVENUES			
Sale of goods	**P11,258,644,628**	P10,346,618,774	P7,047,081,394
Tolling revenues [Note 18(g)]	**4,288,700**	5,528,354	7,587,972
	11,262,933,328	10,352,147,128	7,054,669,366
COST OF SALES AND SERVICES (Note 14)	**7,285,035,987**	6,689,985,641	5,163,374,237
GROSS PROFIT	**3,977,897,341**	3,662,161,487	1,891,295,129
EXPENSES			
Selling and marketing (Note 15)	**1,082,689,223**	945,048,542	588,273,182
General and administrative (Note 16)	**350,208,218**	310,894,767	294,790,575
	1,432,897,441	1,255,943,309	883,063,757
OTHER INCOME (CHARGES)			
Interest income (Note 4)	**8,105,630**	36,819,374	21,418,719
Share in net income (loss) of joint venture (Note 10)	**1,471,937**	233,633	(7,050,834)
Interest expense	**(7,139,269)**	(7,213,060)	(3,624,520)
Foreign exchange gain (loss) - net	**(4,427,043)**	4,518,738	(4,769,776)
Others - net (Note 17)	**46,335,297**	19,799,323	(8,611,108)
	44,346,552	54,158,008	(2,637,519)
INCOME BEFORE INCOME TAX	**2,589,346,452**	2,460,376,186	1,005,593,853
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)			
Current	**773,348,874**	738,637,080	300,611,384
Deferred	**6,707,411**	(32,687,391)	78,284
	780,056,285	705,949,689	300,689,668
NET INCOME	**1,809,290,167**	1,754,426,497	704,904,185
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Remeasurement income (losses) on retirementbenefits, net of tax (Note 20)	**28,383**	(18,674,116)	(7,799,616)
TOTAL COMPREHENSIVE INCOME	**P1,809,318,550**	P1,735,752,381	P697,104,569
EARNINGS PER SHARE			
Basic/Diluted Earnings Per Share (Note 24)	**P1.69**	P1.64	P0.66

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

	Capital Stock	Additional Paid-in Capital	Equity Reserve (Note 2)	Other Comprehensive Loss	Retained Earnings	Total
Balances at January 1, 2013	**P1,068,393,223**	**P1,153,568,289**	**(P1,851,211,512)**	**P–**	**P495,305,359**	**P866,055,359**
Net income	–	–	–	–	704,904,185	704,904,185
Other comprehensive loss	–	–	–	(7,799,616)	–	(7,799,616)
Total comprehensive income (loss)	–	–	–	(7,799,616)	704,904,185	697,104,569
Net assets of the Parent Company upon obtaining control (Note 2)	–	–	3,663,410,048	–	–	3,663,410,048
Balances at December 31, 2013	**1,068,393,223**	**1,153,568,289**	**1,812,198,536**	**(7,799,616)**	**1,200,209,544**	**5,226,569,976**
Net income for the year	–	–	–	–	1,754,426,497	1,754,426,497
Other comprehensive loss	–	–	–	(18,674,116)	–	(18,674,116)
Total comprehensive income (loss)	–	–	–	(18,674,116)	1,754,426,497	1,735,752,381
Distribution to owners of Asiawide and Mega Asia (Note 2)	–	–	(353,750,001)	–	(1,322,571,953)	(1,676,321,954)
Dividends declared (Note 13)	–	–	(1,441,448,535)	–	(882,316)	(1,442,330,851)
Balances at December 31, 2014	**1,068,393,223**	**1,153,568,289**	**17,000,000**	**(26,473,732)**	**1,631,181,772**	**3,843,669,552**
Net income	–	–	–	–	1,809,290,167	1,809,290,167
Other comprehensive income	–	–	–	28,383	–	28,383
Total comprehensive income	–	–	–	28,383	1,809,290,167	1,809,318,550
Distribution to previous stockholders of ARCHI (Notes 1 and 13)	–	–	(17,000,000)	–	(41,656,025)	(58,656,025)
Dividends declared (Note 13)	–	–	–	–	(1,549,170,175)	(1,549,170,175)
Balances at December 31, 2015	**P1,068,393,223**	**P1,153,568,289**	**P–**	**(P26,445,349)**	**P1,849,645,739**	**P4,045,161,902**

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**P2,589,346,452**	P2,460,376,186	P1,005,593,853
Adjustments for:			
Depreciation and amortization (Notes 14, 15 and 16)	**902,452,023**	688,441,416	687,826,612
Retirement expense (Note 20)	**36,823,603**	32,014,967	22,117,519
Loss from (reversal of) write-off of CWTs (Note 17)	**(9,736,529)**	9,736,529	–
Interest expense	**7,139,269**	7,213,060	3,624,520
Unrealized foreign exchange loss (gain) - net	**4,427,043**	(1,252,482)	(2,095,490)
Provisions for impairment losses on:			
Trade and other receivables (Note 5)	**732,160**	2,169,999	1,152,816
Inventories (Notes 6, 14 and 15)	**–**	11,562,092	–
Interest income (Note 4)	**(8,105,630)**	(36,819,374)	(21,418,719)
Share in net loss (income) of joint venture (Note 10)	**(1,471,937)**	(233,633)	7,050,834
Write-off of input VAT (Note 17)	**–**	–	4,899,248
Write-off of uncollectible account	**–**	–	4,409,591
Operating income before working capital changes	**3,521,606,454**	3,173,208,760	1,713,160,784
Decrease (increase) in:			
Trade and other receivables	**4,733,702**	(336,412,145)	(49,668,987)
Inventories	**(337,663,973)**	(286,830,054)	(742,082,282)
Other current assets	**90,263,179**	(143,242,176)	(52,100,934)
Increase (decrease) in:			
Trade and other payables	**(101,983,529)**	847,376,843	1,619,111,021
Trade loans payable	**(55,851,787)**	(192,822,955)	357,184,742
Net cash generated from operations	**3,121,104,046**	3,061,278,273	2,845,604,344
Interest received	**8,105,630**	35,504,745	16,867,706
Interest paid	**(7,139,269)**	(7,213,060)	(3,624,520)
Contributions paid to plan assets	**(33,048,963)**	(24,752,906)	(24,445,887)
Income taxes paid	**(910,271,711)**	(406,469,419)	(250,633,073)
Net cash flows from operating activities	**2,178,749,733**	2,658,347,633	2,583,768,570
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in short-term investments (Note 4)	**20,000,000**	(20,000,000)	–
Additions to:			
Deferred pallets and containers expense (Note 9)	**(1,057,007,451)**	(1,129,875,422)	(974,937,556)
Property, plant and equipment (Note 8)	**(386,879,344)**	(420,133,301)	(722,895,820)
Increase (decrease) in other noncurrent assets	**(73,033,152)**	(542,883,267)	(93,139,197)
Payment for net assets purchased (Notes 1 and 2)	**–**	(1,570,519,360)	–
Proceeds from sale/disposal of:			
Deferred pallets and containers	**–**	–	20,085,945
Property, plant and equipment	**–**	–	5,729,317
Investment in joint venture	**–**	–	(16,861,548)
Acquisition of an associate	**–**	–	(74,999,800)
Net cash flows used in investing activities	**(1,496,919,947)**	(3,683,411,350)	(1,857,018,659)

(Forward)

MACAY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid (Note 13)	**(P1,549,170,175)**	(P1,442,330,851)	P–
Distribution to previous owners of ARCHI (Note 13)	**(19,464,022)**	–	–
Payment of short-term loan (Note 12)	**(50,000,000)**	–	–
Proceeds from availment of loans (Note 12)	**500,000,000**	–	50,000,000
Net cash flows from (used in) financing activities	**(1,118,634,197)**	(1,442,330,851)	50,000,000
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(4,427,043)**	1,252,483	3,511,266
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(441,231,454)**	(2,466,142,085)	780,261,177
CASH AND CASH EQUIVALENTS OF THE PARENT COMPANY UPON OBTAINING CONTROL (Notes 1 and 23)	**–**	–	3,653,466,738
CASH AND CASH EQUIVALENTS EXCLUDED IN NET ASSETS PURCHASED (Note 23)	**–**	(794,171,315)	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,494,406,358**	4,754,719,758	320,991,843
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**P1,053,174,904**	P1,494,406,358	P4,754,719,758

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

Macay Holdings, Inc. (the Parent Company or MHI) is a company incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on October 16, 1930 primarily to reflect the business of a holding company. Under its amended Articles of Incorporation, the corporate life of the Parent Company was extended for another 50 years up to October 16, 2030. The shares of stock of Macay Holdings, Inc. are listed and traded as "MACAY" on the Philippine Stock Exchange (PSE) starting 2013. The Parent Company owns 100% interest and operates as the holding company of ARC Refreshments Corporation (ARC Refreshments), a beverage company and ARC Holdings, Inc. (ARCHI), a holding company.

The registered office address and principal place of business of the Parent Company is 137 Yakal Street, San Antonio Village, Makati City.

The Parent Company and its subsidiaries are collectively referred to in the notes to the consolidated financial statements as the "Group".

<u>Change in Ownership</u>
On September 24, 2013, Mazy's Capital, Inc. (MCI, a Filipino corporation) and Maybank Kim Eng Holdings Limited (MKEHL) signed a Share Purchase Agreement (the Agreement), wherein MCI purchased all of the issued common shares held by MKEHL totaling to 958,923,466 shares, representing an 89.75% stake in the Parent Company (the Sale Shares), for the purchase price of P3.3298 per share (with the purchase transaction referred to as the Acquisition). Among the conditions for such acquisition was the sale for cash of substantially all of the assets of the Parent Company to Maybank ATR KE Capital, which assets included the Parent Company's shareholdings in its subsidiaries, AsianLife and General Assurance Corporation and ATR KE Land. Consequently, these subsidiaries, which made up the former businesses of the Parent Company, were sold to Maybank ATR KE Capital. Total consideration for the Acquisition amounted to P3.19 billion. The transaction was executed in the PSE on October 25, 2013 (start of common control). As a result, the Parent Company retained mostly only cash and receivables as its assets, with the latter consisting almost entirely of amounts due from the sale.

MCI is 42.86% owned by Mega Asia Bottling Corporation (Mega Asia) and 57.14% owned by Zest-O Corporation (Zest-O). Mega Asia is an entity under common control while Zest-O is the ultimate parent company of the Group.

On December 3, 2013, the Board of Directors (BOD) approved the change of the trading symbol of the Parent Company's shares in the PSE from "MAKE" to "MACAY". On the same date, the shareholders of the Parent Company approved the change in its corporate name from Maybank ATR Kim Eng Financial Corporation to Macay Holdings, Inc. The SEC approved the amended articles of incorporation for the Parent Company's change in corporate name on January 27, 2014.

<u>Investment in New Business</u>
On November 18, 2013, the Parent Company, through its BOD, approved the investment in a food and beverage company. On December 3, 2013, the SEC approved the incorporation of ARC Refreshments, of which the Parent Company has 100.00% ownership.

ARC Refreshments is primarily engaged in the business of trading of goods such as beverages on wholesale bases and to operate, conduct, and maintain the business of manufacturing, importing, buying, selling, handling, bottling, distribution, trading, or otherwise dealing in, at wholesale and, to the extent allowed by law, drinks and other containers or dispensers and other related goods of whatever nature, and any and all materials, supplies, and other goods used or employed in or related to the manufacture of such finished products.

On December 27, 2013, the BOD of ARC Refreshments approved (a) the acquisition of substantially the operating assets of Mega Asia consisting of machinery and equipment used in its bottling operations and (b) the acquisition of substantially all of the operating assets of Asiawide Refreshments Corporation (Asiawide) consisting of machinery and equipment, bottles, inventories, receivables and other assets and the assumption of some liabilities incurred in the normal course of business.

On January 31, 2014, ARC Refreshments executed the Asset Purchase Agreements (APAs) with Mega Asia and Asiawide. The carrying values of the net assets transferred as of January 31, 2014 amounted to P1.0 billion and P0.57 billion from Asiawide and Mega Asia, respectively. Total consideration amounted to P1.57 billion which was settled on July 13, 2014 (see Note 2).

On June 26, 2014, the Parent Company through its BOD, approved the additional investment in ARC Refreshments amounting to 190 million shares at P10 per share for a total investment of P1,900 million.

On August 13, 2015, the Parent Company executed a Share Purchase Agreement with all shareholders of ARCHI. ARCHI is the holder of the trademark of Royal Crown Cola, Inc. (RCCI), owner of the RC Cola brand. The purpose of the acquisition is to consolidate all the licensing, trademark and related rights on the RC Cola brand. All issued and outstanding common shares totaling 1.70 million shares shall be purchased by the Parent Company at P10 per share for a total consideration of P17.00 million. As of December 31, 2015, the consideration remains unpaid.

The accompanying consolidated financial statements of the Group as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, were approved and authorized for issue by the BOD on April 8, 2016.

2. **Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

Basis of Preparation
The consolidated financial statements have been prepared under the historical cost basis. The consolidated financial statements are presented in Philippine peso (P), which is the functional currency of the Parent Company and the subsidiaries. All amounts are rounded off to the nearest P, except when otherwise indicated.

Acquisition of Operating Assets of Asiawide and Mega Asia
On January 31, 2014, ARC Refreshments completed the acquisition of the operating assets of Asiawide and Mega Asia through a cash transaction (see Note 1). For accounting purposes, the transaction was accounted for similar to a reverse acquisition following Philippine Financial Reporting Standard (PFRS) 3, *Business Combination*. Asiawide was deemed to be the accounting acquirer under the principles of PFRS 3. In a reverse acquisition, the legal acquirer is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal acquiree is adjudged to be the entity that gained control over the legal acquirer. Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of consolidated financial statements of Asiawide and Mega Asia. The comparative December 31, 2013 information presented in the consolidated financial statements are those of Asiawide and Mega Asia and not those originally presented in the previous 2013 consolidated financial statements of the Parent Company (accounting acquiree) with its old businesses.

Because the consolidated financial statements represent a continuation of the consolidated financial statements of Asiawide and Mega Asia, except for their capital structure, the consolidation will reflect the following:

Before the asset purchase transaction (as at and for the year ended December 31, 2013)

a) the assets and liabilities of Asiawide and Mega Asia recognized and measured at their carrying amounts, not at their acquisition-date fair values, plus the assets and liabilities of Parent Company and ARC Refreshments;

b) the retained earnings and other equity balances of Asiawide and Mega Asia (i.e. not those of the Parent Company) plus the retained earnings and other equity balances of Parent Company and ARC Refreshments from the date the common control was established;

c) the total equity is that of Asiawide and Mega Asia but the legal capital (common shares) would be that of Parent Company;

d) the resulting equity reserve represents (1) the legal capital of Asiawide and Mega Asia; and (2) the retained earnings and other equity balances (other than the legal capital) of Parent Company before common control; and

e) the consolidated statement of comprehensive income reflects that of Asiawide and Mega Asia for the full period; that of ARC Refreshment from the date of incorporation; and that of the Parent Company from the date common control was established.

After the asset purchase transaction (as at and for the year ended December 31, 2014)

a) the transferred assets and liabilities of Asiawide and Mega Asia recognized and measured at their pre-combination carrying amounts, not at their acquisition-date fair values;

b) legal capital of the Parent Company;

c) the retained earnings and other equity balances (other than the legal capital) of the Parent Company and ARC Refreshments;

d) the consolidated statement of comprehensive income reflected that of Asiawide and Mega Asia for one-month period (i.e. from January 1, 2014 up to the date of asset purchase transactions), and that of ARC Refreshment and Parent Company for the full period.

Impact of the asset purchase agreement which was executed on January 31, 2014 to the consolidated financial statements

In January 2014, the effect of the execution of the asset purchase agreement and the exclusion of certain assets and liabilities of Asiawide and Mega Asia from the combined net assets were reflected in the consolidated financial statements as movement in equity, as follows:

Retained earnings of Asiawide and Mega Asia	P1,322,571,953
Equity reserve	353,750,001
	P1,676,321,954

The reduction in equity represents the cash payment to the owners of Asiawide and Mega Asia amounting to P1,570.52 million and the net assets of Asiawide and Mega Asia not included in the asset purchase transaction amounting to P105.8 million as of January 31, 2014.

Details of the net assets excluded from the asset purchased are as follows:

Cash and cash equivalents	P794,171,315
Net noncash assets and liabilities (Notes 10 and 23)	(688,368,721)
	P105,802,594

Acquisition of ARCHI
As indicated in Note 1, on August13, 2015, the Parent Company purchased all of the issued shares of ARCHI totaling to 1.70 million shares. For accounting purposes, since ARCHI is an entity under common control since its inception, the financial information in the consolidated financial statements is presented as though the combination of entities under common control occurred at the beginning of the earliest comparative period. Therefore, the consolidation reflected the financial information of ARCHI starting January 1, 2013, restating the 2013 comparatives presented in the consolidation statements for 2015.

The P17.00 million movement in equity reserve in 2015 represents the consideration of the transaction.

Equity Reserve
As at December 31, 2013, equity reserve account as a result of the application of pooling-of-interest method represents the difference between the legal capital of Asiawide and Mega Asia as against the legal capital of the Parent Company plus the legal capital of ARCHI.

The net assets of the Parent Company were consolidated starting October 25, 2013 upon obtaining control. This represents the movement of equity reserve from January 1, 2013 to December 31, 2013 under the consolidated statement of changes in equity.

The accounting similar to a reverse acquisition applies only to the consolidated financial statements. The Parent Company financial statements will continue to represent Macay Holdings, Inc. as a stand-alone entity.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in accordance with PFRS. The separate financial statements of the subsidiaries are prepared using the same reporting date and reporting period as those of the Parent Company, using consistent accounting policies.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries.

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

Specifically, the Group controls an investee if, and only, if the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:
- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

<u>Changes in Accounting Policies and Disclosures</u>

New and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2015
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended standard and improved PFRS which the Group has adopted starting January 1, 2015. Unless otherwise indicated, the adoption did not have any significant impact on the financial statements of the Group.

Amendments to Philippine Accounting Standards (PAS) 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

Improvements to PFRS
The *Annual Improvements to PFRS* contains non-urgent but necessary amendments to the following standards:

2010-2012 Cycle
- **PFRS 2, *Share-based Payment - Definition of Vesting Condition***
- **PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination***
- **PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets***
- **PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization***
- **PAS 24, *Related Party Disclosures - Key Management Personnel***

2011-2013 Cycle
- **PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements***
- **PFRS 13, *Fair Value Measurement - Portfolio Exception***
- **PAS 40, *Investment Property***

New Accounting Standards, Interpretations and Amendments Effective Subsequent toDecember 31, 2015
The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new, revised and amended standards and new Philippine Interpretation from International Financila Reporting Interpretations Committee (IFRIC) to have a significant impact on its financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Effective in 2016:
- **Amendments to PAS 16,** ***Property, Plant and Equipment*****, and PAS 38,** ***Intangible Assets Clarification of Acceptable Methods of Depreciation and Amortization***
- **Amendments to PAS 16,** ***Property, Plant and Equipment*****, and PAS 41,** ***Agriculture - Bearer Plants***
- **Amendments to PAS 27,** ***Separate Financial Statements - Equity Method in Separate Financial Statements***
- **PFRS 10,** ***Consolidated Financial Statements*** **and PAS 28,** ***Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***
- **Amendments to PFRS 11,** ***Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations***
- **PFRS 14,** ***Regulatory Deferral Accounts***

Improvements to PFRS
The *Annual Improvements to PFRSs* contains non-urgent necessary amendments to the following standards:

2012-2014 Cycle
- **PFRS 5,** ***Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal***
- **PFRS 7,** ***Financial Instruments: Disclosures - Servicing Contracts***
- **PFRS 7,** ***Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements***
- **PAS 19,** ***Employee Benefits - Regional Market Issue Regarding Discount Rate***
- **PAS 34,** ***Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'***

Effective in 2018:
- **PFRS 9,** ***Financial Instruments*** **(2014 or final version)**

In addition, the International Accounting Standards Board has issued the following new standards that have not yet been adopted locally by the SEC and Financial Reporting Standards Committee (FRSC). The Group is currently assessing the impact of these new standards and plans to adopt them on their required effective dates once adopted locally.

- **International Financial Reporting Standards (IFRS) 15,** ***Revenue from Contracts with Customers*** **(effective January 1, 2018)**
- **IFRS 16,** ***Leases*** **(effectivity January 1, 2019)**

Deferred Effectivity:

Philippine Interpretation IFRIC 15, ***Agreements for the Construction of Real Estate***

Summary of Significant Accounting and Financial Reporting Policies

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods
Net sales reflected in the statement of comprehensive income pertain to sale of goods. Revenue from the sale of goods is recognized when the risks and rewards of ownership of the goods have passed to the buyer, which is upon delivery of the goods. Revenue recognized is net of trade deals and pick-up discounts.

In 2015, 2014 and 2013, the Group recognized net sales amounting to P11.26 billion, P10.35 billion and P7.05 billion, net of trade and pick-up discounts of P2.53 billion, P2.20 billion and P1.44 billion, respectively.

Tolling Revenues
Revenue from tolling services is recognized when the service has been rendered.

Interest Income
Interest income from bank deposits and short-term investments is recognized as it accrues using the effective interest rate (EIR) method.

Other Income
Other income is recognized when earned. Sale of scrap materials and cullets is recognized as revenue upon delivery of the items and transfer of control to the buyer.

Cost and Expense Recognition
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are generally recognized when the expense arises following the accrual basis of accounting.

Cost of Sales
Cost of sales, which comprise mainly of purchases of raw materials and related production cost, are recognized when goods are sold, simultaneous with the recognition of the related revenue arising from the sale.

Cost of Services
Cost of services which mainly pertain to the cost of tolling services rendered to Asiawide Kalbe Philippines, Inc. (AKPI) is recognized when the cost is incurred.

Selling and Marketing Expenses
Selling and marketing expenses consist of costs associated with the development and execution of marketing promotion activities and all expenses connected with selling, servicing and distributing Group products. Selling and marketing expenses are generally recognized when incurred.

General and Administrative Expenses
General and administrative expenses are incurred in the normal course of business and are generally recognized when the services are used or expenses arise.

<u>Cash and Cash Equivalents</u>
Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of placement and that are subject of an insignificant risk of change in value.

<u>Short-term Investments</u>
Short-term investments generally represent investments in short-term placements and time deposits which have original maturities in excess of three months but less than twelve months.

<u>Financial Instruments</u>
Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting.

Financial instruments are recognized initially at fair value (in the case of an asset) or received (in the case of a liability). The initial measurement of financial instruments, except for those classified as at fair value through profit or loss (FVPL), includes transaction cost.

The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, loans and receivables and AFS financial assets. The Group classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the financial assets were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date. As at December 31, 2015 and 2014, the Group has no AFS financial assets, financial assets at FVPL, HTM financial assets and financial liabilities at FVPL.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

"Day 1" Difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statement of comprehensive income unless it qualifies for the recognition as some other type of asset. In cases where data which is not observable is used, the difference between the transaction price and model value is only recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

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 not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated as at FVPL. This accounting policy relates to the Group's "Cash and cash equivalents", "Short-term investments" and "Trade and other receivables" accounts in the consolidated statement of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the EIR method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is included in interest income under "Interest income" account in the consolidated statement of comprehensive income. The losses arising from impairment of receivables are recognized in the consolidated statement of comprehensive income under "General and administrative expenses" account. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on *Impairment of Financial Assets Carried at Amortized Cost*).

Loans and receivables are classified as current assets when they are expected to be realized within twelve months from the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g. payables, accruals).

The liabilities are recognized initially at fair value and are subsequently carried at amortized cost taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Any effects of restatement of foreign currency-denominated liabilities, if any, are recognized in "Foreign exchange gain - net" account in the consolidated statements of comprehensive income.

Other financial liabilities are classified as current liabilities when they are expected to be settled within twelve months from the reporting date or when the Group has an unconditional right to defer settlement for at least twelve months from reporting date. Otherwise, they are classified as noncurrent liabilities.

This accounting policy applies primarily to the Group's "Trade and other payables", "Short-term loans payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement liability).

Impairment of Financial Assets Carried at Amortized Cost
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has or have occurred after initial recognition of the asset (an incurred "loss event") and that loss has an impact on the estimated future cash flows of the financial asset or the group of financial asset that can be reliably estimated. Objective evidence of impairment may include indications that borrower is experiencing significant financial difficulty, default or delinquency reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as charges in arrear or economic condition that correlate with default.

The Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets 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.

If there is objective evidence that an impairment loss on receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of comprehensive income.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Impaired receivables are derecognized when they are assessed as uncollectible.

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, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derecognition of Financial Instruments

Financial Asset

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

1. the rights to receive cash flows from the asset have expired;
2. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or,
3. the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in consolidated statement of comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amount and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving-average method and includes expenditures incurred in bringing the materials and supplies to their existing location and condition. NRV is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Any write-down of materials, supplies, spare parts and finished goods to NRV is recognized as an expense in consolidated statement of comprehensive income in the year incurred.

Containers (returnable bottles, pallets and shells) included under inventories, are stated at deposit value, which is the estimated salvage value of the containers at the end of the estimated trip life.

Interest in a Joint Venture

A joint venture is a type joint arrangement whereby the parties that have joint control of an arrangement, and have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Under the equity method, the interest is initially recognized at cost. The carrying amount is increased or decreased to recognize the Group's share of the profits and losses of the joint venture after the date of the acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The consolidated statement of income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of the joint venture is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture. If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discontinues its share of further losses.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its interests in joint ventures. At each balance sheet date, the Group determines whether there is objective evidence that the interest in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as 'Share in net earnings/losses of a joint venture' in the consolidated statement of comprehensive income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

<u>Containers Deposit Liability</u>
Container deposit liability consists of cash deposit received by the Group associated with the returnable containers (i.e., beverage bottles) upon sale of product. The cash deposit is paid back to customers upon return of returnable containers.

<u>Deferred Pallets and Containers</u>
The Group purchases returnable containers (i.e. beverage bottles) that are being circulated in the normal course of trade. The containers are initially recorded at cost, net of an estimated value representing the salvage value of the containers at the end of estimated trip life (see accounting policy on Inventories). These containers are presented as "Deferred pallets and containers" in the consolidated statement of financial position, and are carried at cost, net of an estimated salvage value less accumulated amortization and any impairment in value. They are amortized over four years representing the trip life of the containers. Amortization of "Deferred pallets and containers" is included under "Cost of sales and services" account in the consolidated statement of comprehensive income.

Amortization of bottles and shells and pallets commences once they are available for use over the estimated useful life of four years (see Note 3 for the change in estimated useful life of deferred containers in 2014). An allowance is provided for excess, unusable and obsolete returnable bottles and cases based on the specific identification method.

<u>Property, Plant and Equipment</u>
Property, plant and equipment, except land, are carried at cost less accumulated depreciation, depletion and any impairment in value. Land is stated at cost less any impairment in value. The initial cost of property, plant and equipment consists of construction cost, and its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life.

The average estimated useful lives of property, plant and equipment are as follows:

Category	Number of Years
Building	15-20
Machinery and equipment	10
Vehicles	5
Waste water facility	2-5
Leasehold improvements	5 or lease term, whichever is shorter
Laboratory equipment	2
Tools	3
Office and other equipment	2-3

The useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are disposed of, or are permanently withdrawn from use and no future economic benefits are expected from their disposals, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss. Fully depreciated property, plant and equipment are retained in the accounts until these are no longer in use.

Construction in progress, included in property, plant and equipment, is stated at cost. This includes cost of construction, equipment and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and are available for use.

Impairment of Nonfinancial Assets

Property, plant and equipment and deferred pallets and containers are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or cash generating unit (CGU) is written down to its recoverable amount. The estimated recoverable amount is the higher of fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group used value in use to assess the recoverable amount of an asset.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

Input Value-Added Tax (VAT)

Input VAT represents VAT imposed to the Group by its suppliers for the acquisition of goods and services as required by the Philippine taxation laws and regulations.

Input taxes, which are included under the "Other current assets" account in the consolidated statement of financial position and stated at their estimated net realizable value, will be used to offset against the Group's output VAT liabilities. Output VAT is the amount of VAT calculated and charged on the Group's own sale of goods and services to third parties.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium the difference between the proceeds and the par value is credited to "Additional paid-in capital".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equity Reserve
Equity reserve represents the effect of the application of the pooling-of-interests method as discussed under the Basis of Preparation.

Retained Earnings
Retained earnings represent all accumulated profits or losses of the Group and dividend distributions, if any, to shareholders of the Parent Company and other capital adjustments. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date.

Leases
Determination of Whether an Arrangement Contains a Lease
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specific asset; or,
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Operating Leases - The Group as a Lessee
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Provisions
Provisions are generally recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

Retirement Benefits Liability
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

<u>Foreign Currency-denominated Transactions</u>
Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or reporting date are recognized in the consolidated statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

<u>Income Taxes</u>
Current Income Tax
Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

Deferred Income Tax
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefit of unused tax credits to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Income tax relating to items recognized directly in equity is recognized in equity and as other comprehensive income in the consolidated statement of comprehensive income and not as part of net income.

<u>Contingencies</u>
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

<u>Events After the Reporting Date</u>
Post year-end events that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

<u>Earnings Per Share ("EPS")</u>
Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

<u>Segment Reporting</u>
A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment subject to risks and rewards that are different from those of other segments, which operating results are regularly reviewed by the chief operating decision maker to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available. Financial information on segment reporting is presented in Note 25.

3. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from such estimates.

Judgments
In the process of applying the Group's accounting policies, management has made the judgment below, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements.

Identifying a Business Combination
The Group determines whether a transaction or an event is a purchase of a business or purchase of an asset by applying PFRS 3 which provides the definition of a business.

The Group has determined that the assets acquired and liabilities assumed from the asset purchase transaction entered into on January 31, 2014 constitute a business (see Note 1). The assets acquired are substantially all the operating assets of Asiawide and Mega Asia used in the manufacturing, bottling and distributing operations and the liabilities assumed are those incurred in the normal course of business.

The Parent Company is a shell listed company with only cash and cash equivalents as the primary assets and therefore not comprising a business upon acquisition on October 25, 2013 (see Note 1).

Determining Operating Lease Commitments - The Group as Lessee
The Group has entered into various operating lease agreements as a lessee. The Group has determined that, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all significant risks and rewards of ownership of these properties because the lease agreements do not transfer to the Group the ownership over the assets at the end of the lease term and do not provide the Group with a bargain purchase option over the leased assets and so accounts for the contracts as operating leases. Rent expense charged to current operation amounted to P345.20 million, P321.03 million and P28.33 million in 2015, 2014 and 2013 (see Notes 14 and 15).

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

Estimating Impairment Losses on Inventories
The Group maintains allowance for inventory losses at a level considered adequate to reflect the cost of materials and supplies over its NRV. The Group recognizes materials and supplies at NRV whenever NRV becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. Increase in the NRV of materials and supplies will increase cost of materials and supplies but only to the extent of their original acquisition costs.
As at December 31, 2015 and 2014, the carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to P1,918.85 million and P1,581.18 million, respectively.

Estimating Useful Lives of Property, Plant and Equipment
The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

The Group recognized depreciation expense amounting to P262.60 million, P208.79 million and P153.81 million in 2015, 2014 and 2013, respectively. The carrying amounts of property, plant and equipment amounted to P1,182.11 million and P1,057.83 million as at December 31, 2015 and 2014, respectively (see Note 8).

Estimating Useful Lives of Deferred Pallets and Containers
In accordance with its policy, the Company periodically reviews the estimated useful lives of the deferred pallets and containers based on the containers profile and optimal float analyses. The estimation of useful lives is based on collective assessment of internal technical evaluation and experience with similar assets. A review in 2014 indicated that the actual trip lives of the containers were longer than 2013 estimate. As a result, effective February 1, 2014, in view of the change in the expected pattern of economic benefits from the assets, the Group revised its estimate of the useful lives of its containers from three years to four years. The effect of this change in estimate resulted in the reduction of amortization expense by P186.10 million in 2014. The change was expected to decrease the amortization expense by P165.41 million in 2015, P20.20 million in 2016 and increase the amortization expense by P209.05 million in 2017 and P162.66 million in 2018.

The Group recognized amortization expense amounting to P639.85 million, P479.65 million and P534.02 million in 2015, 2014 and 2013, respectively. The carrying value of deferred pallets and containers as at December 31, 2015 and 2014 amounted to P2,025.16 million and P1,608.01 million, respectively (see Note 9).

Estimating Salvage Value of Deferred Pallets and Containers
In determining the estimated salvage value of deferred pallets and containers, management takes into account the most reliable evidence available at the times the estimates are made. The salvage value is equal to the amount the Group would receive currently if the assets were already of the age and in the condition expected at the end of estimated trip life.

The deposit values of deferred pallets and containers are reviewed periodically and are updated if expectations differ from previous estimates based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information.

Estimating Retirement Benefits Cost
The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. These assumptions are described in Note 20 to the consolidated financial statements.

The Group's retirement liability amounted to P93.32 million and P89.59 million as of December 31, 2015 and 2014, respectively. Net pension cost amounted to P36.82 million, P32.01 million and P22.12 million in 2015, 2014 and 2013, respectively (see Note 20).

Estimating Realizability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available in the future to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on forecasted taxable income. This forecast is based on the Group's past results and future expectations on revenues and expenses.

The Group has deferred income tax assets amounting to P34.02 million and P41.06 million as of December 31, 2014 and 2013, respectively (see Note 21).

4. **Cash and Cash Equivalents and Short-term Investments**

This account consists of:

	2015	2014
Cash on hand and with banks	**P658,548,022**	P541,226,911
Cash equivalents	**394,626,882**	953,179,447
	P1,053,174,904	P1,494,406,358

Cash with banks earn interest at the respective bank deposit rates. Cash equivalents consist of short-term placements which are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term placement rates.

Cash deposits with maturities of more than three months but less than one year are classified as short-term investments in the consolidated statement of financial position.

Interest income on cash, cash equivalents and short-term investments amounted to P8.11 million, P36.82 million and P21.42 million in 2015, 2014 and 2013, respectively.

5. **Trade and Other Receivables**

This account consists of:

	2015	2014
Trade	**P276,873,491**	P239,356,730
Due from related parties (Note 18)	**68,090,870**	108,913,799
Receivables from officers and employees	**12,348,873**	12,576,071
Others	**14,317,218**	17,186,403
	371,630,452	378,033,003
Less allowance for impairment losses on receivables	**1,233,310**	2,169,999
	P370,397,142	P375,863,004

"Trade receivables" are non-interest bearing and are generally on 7 to 60 days term.

"Receivables from officers and employees" represent loans, cash advances and other receivables from employees.

"Others" consist of advances to contractors and external receivables from other companies, among others.

The balances and movements of allowance for probable losses on trade receivables are as follows:

	2015	2014
Balances at beginning of year	**P2,169,999**	P11,569,042
Provisions	**732,160**	2,169,999
Reversals	**–**	(11,569,042)
Write-off against allowance	**(1,668,849)**	–
Balances at end of year	**P1,233,310**	P2,169,999

In 2014, the Group reversed the \OP11.57 million allowance for probable losses to equity reserve as this pertains to receivables that were not part of the acquired operating assets by the Parent Company in January 2014 (see Notes 1 and 2).

6. **Inventories**

This account consists of:

	2015	2014
Inventories at NRV:		
Containers and pallets	**P1,178,678,374**	P1,031,364,182
Inventories at cost:		
Raw materials	**399,810,788**	331,133,536
Spare parts and supplies	**233,044,823**	154,841,442
Finished goods	**107,313,825**	63,844,677
	P1,918,847,810	P1,581,183,837

The Group provided allowance for inventory losses on unusable containers in circulation that failed to meet the Group's quality standards and excess bottles as determined by management based on the containers profile and optimal float analyses conducted by the Group. The Group provides allowance for inventory losses on finished goods and raw materials whenever utility of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

The cost of containers and pallets amounted to P1,180.94 million and P1,060.82 million as of December 31, 2015 and 2014, respectively.

The allowance for inventory obsolescence amounted P2.26 million as of December 31, 2015 and 2014. The allowance for condemnation amounted to nil and P27.20 million as of December 31, 2015 and 2014, respectively. Provision for inventory obsolescence and condemnation amounted to nil, P11.56 million and nil in 2015, 2014 and 2013, respectively.

The cost of inventories sold recognized in profit or loss amounted to P5,240.87 million, P4,936.32 million and P3,766.11 million for the year ended December 31, 2015, 2014 and 2013, respectively (see Note 14).

7. **Other Assets**

This account consists of:

	2015	2014
Current:		
Prepaid taxes and licenses	**P15,571,060**	P56,322
Prepaid rent	**14,581,718**	16,855,441
Prepaid insurance	**12,220,128**	10,738,269
Supplies	**6,998,261**	4,291,385
Prepaid vehicle registration	**387,243**	188,389
Others	**6,371,573**	5,536,721
	56,129,983	37,666,527
Input VAT	**84,130,524**	187,741,981
Less: Output VAT	**(84,035,833)**	(88,657,184)
	94,691	99,084,797
	P56,224,674	P136,751,324

	2015	2014
Noncurrent:		
Security deposits	**P350,349,197**	P350,349,197
Deposits with suppliers	**250,787,173**	186,752,824
Deferred input VAT	**113,548,371**	93,252,469
Others	**10,221,554**	21,518,653
	P724,906,295	P651,873,143

"Prepaid taxes and licenses" pertains mainly to creditable withholding taxes.

"Prepaid rent" pertains to payments made in advance for rentals of billboard advertisements, staff house and office rental covering a period of not more than one year.

"Prepaid insurance" represents share in the Health Insurance coverage of the regular employees which are amortized over the period of the contract.

"Security deposits" pertain to various rental deposits for the lease of land and building to Mega Asia (lessor) which shall answer for any and all unpaid obligations of the Group to the lessor, as well as for any damage to the leased premises at the end of lease term.

"Deposits with suppliers" pertain to advances to suppliers for acquisition of machinery and equipment by the Group and advances made to brokers for the release of imported goods.

"Deferred input VAT" represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations which are expected to be realized beyond one year from reporting date.

"Others" consist of other prepaid expense, accountable forms and computer supplies.

8. **Property, Plant and Equipment**

The rollforward and movements of this account are as follows:

2015

	Machinery and Equipment	Vehicles	Waste Water Facility	Laboratory Equipment	Tools	Leasehold Improvements	Office and Other Equipment	Construction in progress	Total
Cost:									
Balances at beginning of year	P1,183,106,986	P663,570,516	P21,735,320	P18,271,643	P15,478,873	P23,231,894	P58,671,049	P–	P1,984,066,281
Additions	112,929,950	118,133,446	2,702,373	1,620,599	1,850,657		30,399,589	119,242,730	386,879,344
Balances at end of year	1,296,036,936	781,703,962	24,437,693	19,892,242	17,329,530	23,231,894	89,070,638	119,242,730	2,370,945,625
Accumulated Depreciation:									
Balances at beginning of year	495,247,098	337,172,106	15,470,754	15,570,297	13,281,227	645,728	48,844,791	–	926,232,001
Depreciation	149,623,361	97,474,658	2,130,279	1,875,033	1,680,112	–	9,816,527	–	262,599,970
Balances at end of year	644,870,459	434,646,764	17,601,033	17,445,330	14,961,339	645,728	58,661,318	–	1,188,831,971
Net book values	P651,166,477	P347,057,198	P6,836,660	P2,446,912	P2,368,191	22,586,166	P30,409,320	P119,242,730	P1,182,113,654

2014

	Land	Building	Machinery and Equipment	Vehicles	Waste Water Facility	Laboratory Equipment	Tools	Leasehold Improvements	Office and Other Equipment	Total
Cost:										
Balances at beginning of year	P84,549,711	P132,724,154	P953,040,813	P504,746,866	P21,015,768	P17,296,318	P13,478,588	P28,758,947	P58,735,832	P1,814,346,997
Additions	–	–	230,066,173	158,906,781	719,552	975,325	2,000,285	22,593,278	4,871,907	420,133,301
Disposals	(84,549,711)	(132,724,154)	–	(83,131)	–	–	–	(28,120,331)	(4,936,690)	(250,414,017)
Balances at end of year	–	–	1,183,106,986	663,570,516	21,735,320	18,271,643	15,478,873	23,231,894	58,671,049	1,984,066,281
Accumulated Depreciation:										
Balances at beginning of year	–	97,393,629	376,122,926	262,105,289	13,387,670	13,223,724	11,866,001	19,941,920	45,190,618	839,231,777
Depreciation and amortization	–	835,046	119,124,172	75,066,817	2,083,084	2,346,573	1,415,226	645,728	7,273,816	208,790,462
Disposals	–	(98,228,675)	–	–	–	–	–	(19,941,920)	(3,619,643)	(121,790,238)
Balances at end of year	–	–	495,247,098	337,172,106	15,470,754	15,570,297	13,281,227	645,728	48,844,791	926,232,001
Net Book Values	P–	P–	P687,859,888	P326,398,410	P6,264,566	P2,701,346	P2,197,646	P22,586,166	P9,826,258	P1,057,834,280

Fully depreciated assets with a cost of P611.92 million and P545.22 million as of December 31, 2015 and 2014, respectively, are still being used in the operations.

9. **Deferred Pallets and Containers**

The rollforward and movement of this account are as follows:

2015

	Containers	Pallets	Total
Cost:			
Beginning balances	**P5,270,684,656**	**P8,592,625**	**P5,279,277,281**
Additions	**1,022,766,638**	**34,240,813**	**1,057,007,451**
Ending balances	**6,293,451,294**	**42,833,438**	**6,336,284,732**
Accumulated amortization:			
Beginning balances	**3,669,548,083**	**1,720,459**	**3,671,268,542**
Amortization	**633,918,922**	**5,933,131**	**639,852,053**
Ending balances	**4,303,467,005**	**7,653,590**	**4,311,120,595**
Net book values	**P1,989,984,289**	**P35,179,848**	**P2,025,164,137**

2014

	Containers	Pallets	Total
Cost:			
Beginning balances	P4,145,601,859	P3,800,000	P4,149,401,859
Additions	1,125,082,797	4,792,625	1,129,875,422
Ending balances	5,270,684,656	8,592,625	5,279,277,281
Accumulated amortization:			
Beginning balances	3,190,984,255	633,333	3,191,617,588
Amortization	478,563,828	1,087,126	479,650,954
Ending balances	3,669,548,083	1,720,459	3,671,268,542
Net book values	P1,601,136,573	P6,872,166	P1,608,008,739

Deferred pallets and containers arises from the difference of the containers acquisition cost which is the landed cost that includes the purchased cost plus the incidental cost of importation less deposit value of the container and pallet (see Note 6). Amortization period is based on the estimated trip lives of containers.

10. **Interest in a Joint Venture**

In 2011, ARCHI entered into an agreement with Kalbe International Pte. Ltd, to establish a joint venture entity to implement a project for (a) marketing and sale of energy drink in ready to drink form bearing the "extra joss" mark (the product); (b) appointing a toll manufacturer to produce the product; and (c) appointing a distributor to distribute the product, all within the Philippines.

The Joint Venture entity was incorporated as Asiawide Kalbe Philippines, Inc. (AKPI) which is fifty percent (50%) owned by ARCHI and fifty percent (50%) owned by Kalbe International Pte. Ltd. Both companies will share equal control and management over the operations of the incorporated Joint Venture entity.

The roll-forward analysis of investment in joint venture and accumulated equity in net income (loss) of interest in joint venture follows:

	2015	2014
Acquisition cost	**P83,284,425**	P83,284,425
Accumulated equity in net earnings (loss):		
Balance at beginning of the year	**(43,137,198)**	(43,370,831)
Share in net income	**1,471,937**	233,633
Balance at end of year	**(41,665,261)**	(43,137,198)
	P41,619,164	P40,147,227

As of December 31, 2015 and 2014, AKPI has assets amounting to P100.23 million and P90.91 million, respectively, and liabilities amounting to P40.72 million and P34.34 million, respectively. Summarized statement of comprehensive income shows sales and operating expenses amounting to P39.33 million and P36.12 million, respectively, in 2015 while P37.13 million and P36.36 million, respectively, in 2014. In 2015 and 014, AKPI has net income of P2.94 million and P0.47 million, respectively.

11. **Trade and Other Payables**

This account consists of:

	2015	2014
Trade payables (Note 18)	**P1,450,553,923**	P1,496,907,228
Containers deposit liability	**509,934,779**	552,668,028
Due to related parties (Note 18)	**393,851,472**	329,209,638
Output VAT payable	**31,154,263**	512,611
Non-trade payables	**12,649,123**	17,589,839
Accrued expenses:		
Contracted services and professional fees	**56,606,865**	62,697,632
Advertising and promotions	**37,801,783**	33,282,029
Rent (see Notes 18 and 19)	**14,805,709**	17,517,597
Withholding taxes	**17,454,153**	6,896,864
Salaries and wages	**P9,777,271**	P14,337,345
Utilities and facilities	**9,576,456**	43,503,139
Employee benefits	**3,942,836**	9,556,710
Travel, meeting and entertainment	**2,121,692**	16,530,897
Others	**31,552,561**	82,556,858
	P2,581,782,886	P2,683,766,415

"Trade payables" pertains to accounts payable to suppliers from purchases of materials and toll packing used in production. These are noninterest-bearing and with payment terms which are dependent on the supplier's credit terms, which is generally 30 to 90 days.

"Non-trade and other payables" pertains to all non-trade liabilities such as freight services and administration expenses, among others.

"Containers deposit liability" pertains to deposits made by its customer which are refundable after return of bottles in good condition.

"Accrued expenses-others" pertain to accrued hauling expenses, accrued freight and handling expenses, among others.

12. **Short-Term Loans Payable**

The Group obtained Letters of Credit (LC) with various banks for its international purchases with terms ranging from 30 days to 6 months and with interest rate of 2.5% per annum. Outstanding loans related to the Group's international purchases amounted to P47.44 million and P103.29 million as of December 31, 2015 and 2014, respectively. Cash flows related to this activity are presented in the statements of cash flows as operating activities.

In 2015, the Group obtained a short-term loan for working capital purposes payable within 6 months and with interest rate of 2.5% per annum amounting to P500.00 million. In 2015, the Company paid P50.00 million of the outstanding balance. These are presented in the statements of cash flows as financing activities.

Total interest expense related to these loans amounted to P7.14 million, P7.21 million and P3.62 million in 2015, 2014 and 2013, respectively.

13. **Equity**

Capital Stock
As of December 31, 2015 and 2014, the details of the Parent Company's capital stock are as follows:

Common stock:	
Authorized - P1 par value	P1,300,000,000
Issued and outstanding	P1,068,393,223
Preferred stock:	
Authorized - P1,000 par value	P200,000,000
Issued and outstanding	P–

There are no movements in the capital stock in 2015, 2014 and 2013.

The following are the salient features of the preferred stock:

a. Cumulative dividend at a rate to be determined solely by the BOD;

b. Nonparticipating in the retained earnings remaining after dividend payments have been made on the preferred shares;

c. Redeemable at such price, within such period, in such manner and under such terms and conditions as may be determined by the BOD; and

d. Non-voting.

As of December 31, 2015 and 2014, the equity holdings of the shareholder groups are as follows:

	2015		2014	
Shareholder Group	**Number of Shares**	**Percentage of Ownership**	Number of Shares	Percentage of Ownership
MCI	**958,941,673**	**89.76%**	958,941,673	89.76%
Public	**109,451,550**	**10.24%**	109,451,550	10.24%
	1,068,393,223	**100.00%**	1,068,393,223	100.00%

Retained Earnings
As of December 31, 2015 and 2014, the Parent Company's retained earnings amounted to P68.48 million and P32.12 million, respectively, which is available for distribution as dividends to shareholders.

Dividends
On April 8, 2015, the Parent Company declared dividends of P1.45 per share for a total amount of P1,549.17 million in favor of stockholders on records as at April 27, 2015. The cash dividend was paid on May 15, 2015.

On June 26, 2014, the Parent Company declared cash dividend of P1.35 per share totaling P1,442.33 million. The cash dividend was paid on July 24, 2014. The dividend declaration reduced to consolidated equity through a charge against equity reserve amounting to P1,441.45 million, representing the retained earnings of the Parent Company as of the date when the entities became under common control.

On May 28, 2015 and August 12, 2015, ARCHI declared cash dividends amounting to P34.01 million and P7.65 million, respectively, payable to shareholders prior to the acquisition of ARCHI by the Parent Company. On August 31, 2015, ARCHI made payment to previous shareholders amounting to P19.46 million. As of December 31, 2015, a balance of P22.19 million remains unpaid to previous shareholders.

Securities Regulation Code Rule (SRC) Disclosures
Incorporation
Pursuant to the Articles of Incorporation ("AOI") in 1930, as reconstructed after the loss of documents during the Second World War, the Parent Company's authorized capital stock was P40,000, divided into 400 shares with par value of P100 per share. Its principal stockholder then was Mariano C. Mercado who owned 96 common shares. Other private stockholders owned 4 common shares.

Parent Company listing
The Parent Company listed its shares, with the stock symbol "PTR" in the Manila Stock Exchange and the Makati Stock Exchange on January 28, 1987 following BOD approval of the listing on November 5, 1986. Upon the merger of the two exchanges into the PSE in 1992, the Parent Company signed a listing agreement with PSE for its shares to be listed and traded on the unified exchange also as PTR.

Amendments to the authorized capital stock
Subsequent to the Parent Company filing its AOI in 1930, the Parent Company made the following amendments on its authorized capital stock:

Year	Authorized Capital Stock	Composition	Par Value
1939 [a]	P200,000	2,000 common shares	P100
1957 [b]	P12,000,000	1,200,000 common shares	P10
1966	P30,000,000	3,000,000 common shares	P10
1973	P60,000,000	6,000,000 common shares	P10
1977	P100,000,000	10,000,000 common shares	P10
1984	P110,000,000	11,000,000 common shares	P10
1987	P200,000,000	20,000,000 common shares; later divided into 12,000,000 Class "A" common shares and 8,000,000 Class "B" common shares	P10
1989	P360,000,000	21,600,000 Class "A" common shares and 14,400,000 Class "B" common shares	P10
1994	P700,000,000 divided into P500,000,000 common capital and P200,000,000 preferred capital [c]	32,400,000 Class "A" common shares and 17,600,000 Class "B" common shares; 200,000 preferred shares	P10 - common; P1,000 - preferred
2001	P250,000,000 divided into P50,000,000 common capital and P200,000,000 preferred capital	32,400,000 Class "A" common shares and 17,600,000 Class "B" common shares; 200,000 preferred shares	P1 - common; P1,000 - preferred
2002	P300,000,000 divided into P100,000,000 common capital and P200,000,000 preferred capital	62,400,000 Class "A" common shares and 37,600,000 Class "B" common shares (later declassified into 100,000,000 authorized common capital); 200,000 preferred shares	P1 - common; P1,000 - preferred
2003	P1,300,000,000 divided into P1,100,000,000 common capital and P200,000,000 preferred capital	1,100,000,000 common shares; 200,000 preferred shares	P1 - common; P1,000 - preferred
2010	P1,500,000,000 divided into P1,300,000,000 common capital and P200,000,000 preferred capital	1,300,000,000 common shares; 200,000 preferred shares	P1 - common; P1,000 - preferred

(a) Based on a reconstruction of records, including the AOI, in 1948
(b) Existing shareholders were issued 150 shares with par value of P10 for each share with par value of P100 they already held through a stock dividend
(c) The creation of the preferred shares of stock was approved by the BOD in its regular meeting on March 18, 1993 and by the shareholders at the annual shareholders' meeting on April 30, 1993. It was subsequently approved by the SEC on January 11, 1994.

Track record of subsequent offerings
Below is a summarized discussion of the Parent Company's track record of registration of securities under the SRC:

						Number of shares after offering	
Year	Date of SEC approval	Type of offering	Number of shares offered	Par value	Offer price	Authorized	Issued and outstanding
2003	April 24, 2003	Rights with warrants offer	499,97,540	P1.00	P2.00 [f]		599,997,048
			99,999,508 [d]				629,997,412 [g]
			99,999,508 [e]	P1.00	P2.00 [f]	1,100,000,000	652,477,229 [h]
2008	November 24, 2008	Rights offer	296,775,950	P1.00	P2.10 [f]	1,100,000,000	989,253,179

(d) Warrants
(e) Underlying common shares
(f) Exercise price
(g) After exercise of warrants in 2004
(h) After exercise of warrants in 2005

14. **Cost of Sales and Services**

This account consists of:

	2015	2014	2013
Materials (Note 6)	**P5,240,873,188**	P4,936,324,246	P3,766,106,100
Depreciation and amortization (Notes 8 and 9)	**802,190,669**	609,684,913	631,381,319
Direct labor	**345,397,906**	336,001,481	215,093,153
Rent (Note 19)	**219,074,036**	210,818,274	27,161,899
Personnel expenses and outside services	**189,889,881**	195,830,681	125,246,640
Specialty contractor [Note 18(b)]	**120,000,000**	154,000,000	–
Toll packing	**P106,192,582**	P60,580,906	P140,233,227
Repairs and maintenance	**98,446,724**	83,072,129	70,261,414
Gas and utilities	**36,416,955**	48,936,215	96,173,252
Provision for inventory obsolescence and condemnation (Note 6)	**–**	2,259,248	–
Others	**126,554,046**	52,477,548	91,717,233
	P7,285,035,987	P6,689,985,641	P5,163,374,237

"Others" consists of personnel development expenses, insurance and association and membership fees, among others.

"Specialty contractor fee" pertains to the manufacturing and bottling services of Mega Asia in all plants except Antipolo for a fixed monthly service fee of P14.00 million starting February 1, 2014 [see Note 18(b)]. Effective January 1, 2015, fixed monthly service fee was reduced to P10.00 million.

15. **Selling and Marketing Expenses**

This account consists of:

	2015	2014	2013
Advertising	**P301,405,968**	P236,688,444	P151,772,074
Outside services	**152,863,434**	123,991,113	65,142,435
Rent (Note 19)	**126,121,566**	110,208,524	1,169,863
Salaries, wages and benefits	**110,491,701**	101,295,950	93,865,683
Depreciation (Note 8)	**89,413,978**	69,938,805	44,548,025
Gas, oil and fuel	**61,267,489**	82,866,005	60,638,972
Promotions and commissions	**49,706,845**	34,666,170	31,852,950
Hauling and loading	**41,775,722**	38,679,340	49,220,597
Repairs and utilities	**41,278,825**	40,917,803	30,693,772
Travel, transportation and entertainment	**38,998,673**	36,017,340	24,889,814
Provision for inventory obsolescence and condemnation (Note 6)	**–**	9,302,844	–
Taxes, licenses and registrations	**4,330,545**	3,628,348	13,734,483
Others	**65,034,477**	56,847,856	20,744,514
	P1,082,689,223	P945,048,542	P588,273,182

"Others" consist of toll and market fees, freight and handling fees and entertainment and recreation expenses, among others.

16. **General and Administrative Expenses**

This account consists of:

	2015	2014	2013
Salaries, wages and benefits	**P164,023,857**	P158,128,216	P161,852,050
Contracted services and professional fees	**70,487,830**	55,467,361	50,409,052
Taxes, licenses and registrations	**24,049,205**	28,761,374	16,272,936
Repairs and utilities	**19,414,989**	17,860,209	17,114,885
Meetings and entertainment	**19,528,165**	17,779,953	13,230,991
Supplies and transportation	**12,345,396**	9,320,853	11,737,360
Depreciation (see Note 8)	**10,847,376**	8,817,698	11,897,268
Others	**29,511,400**	14,759,103	12,276,033
	P350,208,218	P310,894,767	P294,790,575

"Others" consist of donations, rentals and miscellaneous expenses, among others.

17. **Others** - net

This account consists of:

	2015	2014	2013
Sale of scrap materials and cullets	**P30,272,409**	P28,539,512	P925,127
Reversal of (loss from) write-off of CWTs	**9,736,529**	(9,736,529)	–
Write-off of input VAT	**–**	–	(4,899,248)
Write-off of uncollectible receivables	**–**	–	(4,409,591)
Others	**6,326,359**	996,340	(227,396)
	P46,335,297	P19,799,323	(P8,611,108)

Sale of scrap materials and cullets is presented net of selling costs.

18. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions.Parties are considered to be related if they are subject to common control and common significant influence. Related parties may be individuals or corporate entities. Transactions with related parties are based on terms agreed to by the parties.

Outstanding balances of transactions with related parties are set out below:

Category	Year	Revenues	Interest Income	Costs and Expenses	Cash and cash equivalents	Trade and other receivables	Due from related parties (Note 5)	Trade and other payables	Due to related parties (Note 11)	Terms	Conditions
Entities under common control:											
	2015	P–	P–	P16,756,020	P–	P–		P–	P39,077,715	Non-interest bearing; due and demandable	
Asiawide (Note 18a)	2014	P–	P–	P15,359,905	P–	P–	P–	P–	P22,679,013		Unsecured
Bev-pack Inc. (Bev-pack, Note 18c)	2015	–	–	253,442,354	–	–	–	134,308,874	–	Non-interest bearing; due and demandable	
	2014	–	–	468,982,669	–	–	–	193,118,297	–		Unsecured
Solmac Marketing Inc. (Solmac; Note 18e)	2015	–	–	4,713,473	–	–	–	1,255,535	–	Non-interest bearing; due and demandable	Unsecured
	2014	–	–	8,897,029	–	–	–	928,491	–		
SMI Development Corporation (SMI; Note 18f)	2015	–	–	6,660,384	–	–	–	593,413	526,840	Non-interest bearing; due and demandable	
	2014	–	–	6,105,352	–	–	–	3,697,280	–		Unsecured
	2015	4,288,700	–	–	–	–	11,004,959	–	27,351,403	Non-interest bearing; due and demandable	No impairment; Unsecured
AKPI (Note 18g)	2014	5,528,354	–	–	–	–	3,415,827	–	9,565,195		
Philippine Business Bank (PBB; Note 18h)	2015	–	6,645,244	–	685,463,530	–	–	–	–		
	2014	–	33,827,682	–	1,132,700,838	–	–	–	–		
Stockholder:											
Zest-O (Note 18d)	2015	P27,212,036	P–	P315,773,909	P–	P175,532,352	P42,479,970	P–	P180,561,229	Non-interest bearing; due and demandable	No impairment; Unsecured
	2014	P67,864,351	P–	P311,837,785	P–	P175,560,028	P47,558,126	P–	P130,417,151		
Mega Asia (Note 18b)	2015	–	–	295,787,902	–	–	14,605,941	–	146,334,285	Non-interest bearing; due and demandable	No impairment; Unsecured
	2014	–	–	315,138,912	–	–	57,939,846	–	166,548,279		
	2015	P31,500,736	P6,645,244	P893,134,042	P685,463,530	P175,532,352	P68,090,870	P136,157,822	P393,851,472		
	2014	P73,392,705	P33,827,682	P1,126,321,652	P1,132,700,838	P175,560,028	P108,913,799	P197,744,068	P329,209,638		

a. As mentioned in Note 1, ARC Refreshments entered into an APA with Asiawide. The agreement is effective at the close of business hours of January 31, 2014. The total consideration amounted to P1.0 billion and payment was made last July 13, 2014.

   Following the APA, ARC Refreshments entered into a lease agreement with Asiawide for the use of its land and building situated in Sitio Puting Bato, Antipolo Rizal. The amount of rental expense is P1.40 million per month.

   Asiawide also advances the payment for of import duties in related to ARC Refreshments' importation of bottles.

b. ARC Refreshments entered into an APA with Mega Asia as mentioned in Note 1. The agreement is effective at the close of business hours of January 31, 2014. The total consideration amounted to P0.57 billion and payment was made last July 13, 2014.

   Following the APA, ARC Refreshments entered into a lease agreements with Mega Asia for the use of its land and building situated in Pampanga, Pangasinan, Isabela, Davao and Misamis Oriental. Monthly rental expense is P14.65 million. Mega Asia also provides professional services in all plants except Antipolo. Under the agreement, ARC Refreshments shall pay a fixed monthly service fee of P14.00 million starting February 1, 2014. Effective January 1, 2015, fixed monthly service fee was reduced to P10.00 million per month (see Note 13).

c. Bev-pack is a supplier of caps for ARC Refreshments' production of 800 ml bottled softdrinks. Total purchases made in amounted to P253.44 million, P468.98 million and P203.81 million in 2015, 2014 and 2013, respectively, and outstanding payable as of December 31, 2015 and 2014 amounted to P134.31 million and P193.12 million, respectively. Purchases are covered with approved Purchase Order form based on the projected requirements of production.

d. On February 1, 2014, ARC Refreshments entered into various lease agreements with Zest-O for the use of its land and building facilities, and machinery and equipment in Kaybiga, Novaliches and Canlubang, Laguna. The contract for the land and building is for a period of three years, renewable after every three years, while the contract for the machinery and equipment ranges from two to four years depending on the type of machinery and equipment. Monthly rental expense for the land and building and machinery and equipment amounted to P4.70 million and P5.01 million, respectively.

   On February 1, 2014, ARC Refreshments also purchased various machinery and equipment from Zest-O. The total amount of consideration is P53.28 million. Total outstanding payable as of December 31, 2015 and 2014 amounted to P180.56 million and P130.42 million, respectively.

   Zest-O is a distributor of ARC Refreshments' one-way products polyethylene terephthalate bottles (PET) and cans in supermarkets and convenience stores. Zest-O enjoys a maximum discount of 17% of Gross Wholesale Price. Total outstanding receivables as of December 31, 2015 and 2014 amounted to P175.53 million and P175.56 million, respectively.

   Zest-O has tolling arrangements with the Group as a Contract Packer and Filler for carbonated beverages in PET bottles. Total tolling expense amounted to P11.84 million, P13.21 million and P132.32 million in 2015, 2014 and 2013, respectively.

   Zest-O billed the Group for its share in administrative expenses amounting to P118.42 million and P124.84 million in 2015 and 2014, respectively.

   Zest-O has a supply agreement with the Group for gas, oil and fuel and other materials such as bottles, cartons and tin cans associated with the tolling agreement with Zest-O. As of December 31, 2015 and 2014, the Group's purchases amounted to P69.14 million and P67.12 million.

e. Solmac is the owner of the building where the corporate office of the Group is located. The Group occupies 12 units with an average rental of P260.25 per sq. meter. Total rental amounted to P4.13 million in 2015 and 2014, respectively, and P3.34 million in 2013.

   Solmac is also the supplier of labels and cartons used in one-way products as well as some marketing materials. Total purchases amounted to P0.20 million, P4.8 million and P5.1 million in 2015, 2014 and 2013, respectively.

f. On February 1, 2014, ARC Refreshments entered into a lease agreement with SMI for the use of its 16,398 sq. meter land in Antipolo. Monthly rental expense is P0.56 million.

g. In 2013, Mega Asia contracted to be the toll manufacturer of AKPI for its carbonated beverages. Total tolling revenue earned by Mega Asia amounted to P0.53 million for the one-month period ended January 31, 2014 and P7.59 million in 2013.

Following the APA with Mega Asia, ARC Refreshments was contracted to be the toll manufacturer of AKPI for its carbonated beverages starting February 1, 2014. Under the terms of the agreement, AKPI shall pay a variable fee per case of finished goods produced and delivered. Total tolling revenue earned in 2015 and 2014 amounted to P4.29 million and P5.53 million, respectively.

h. The Group has cash and cash equivalents with PBB.

i. The compensation of key management personnel are as follows:

	2015	2014	2013
Salaries and wages	**P23,734,401**	P17,569,280	P15,121,000
Allowances and benefits	**1,934,791**	1,484,500	1,320,000
	P25,669,192	P19,053,780	P16,441,000

19. **Lease Agreements**

Lease Agreements with Mega Asia

a. ARC Refreshments entered into a lease agreement with Mega Asia, a related party, for a lease of a piece of land and building located in Pampanga. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017. Rental security deposit amounted to P28.62 million as of December 31, 2015 and 2014 (see Note 7). Rent expense amounted to P27.36 million and P25.08 million for the years ended December 31, 2015 and 2014, respectively.

b. ARC Refreshments entered into a lease agreement with Mega Asia, a related party, for a lease of a piece of land and building located in Cagayan de Oro. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017. Rental security deposit amounted to P101.50 million as of December 31, 2015 and 2014 (see Note 7). Rent expense amounted to P33.20 million and P30.43 million for the years ended December 31, 2015 and 2014, respectively.

c. ARC Refreshments entered into a lease agreement with Mega Asia, a related party, for a lease of a piece of land and building located in Pangasinan. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017. Rental security deposit amounted to P72.05 million as of December 31, 2015 and 2014 (see Note 7). Rent expense amounted to P46.64 million and P42.75 million for the years ended December 31, 2015 and 2014, respectively.

d. ARC Refreshments entered into a lease agreement with Mega Asia, a related party, for a lease of a piece of land and building located in Isabela. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017. Rental security deposit amounted to P43.60 million as of December 31, 2015 and 2014 (see Note 7). Rent expense amounted to P31.66 million and P29.02 million for the years ended December 31, 2015 and 2014, respectively.

e. ARC Refreshments entered into a lease agreement with Mega Asia, a related party, for a lease of a piece of land and building located in Davao. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017. Rental security deposit amounted to P104.58 million as of December 31, 2015 and 2014. Rent expense amounted to P36.94 million and P33.86 million for the years ended December 31, 2015 and 2014, respectively.

The above lease agreements require ARC Refreshments to pay rental security deposits, which are included under "Security deposits" account in the consolidated statement of financial position. Rental security deposits amounted to P350.35 million as of December 31, 2015 and 2014 (see Note 7).

Lease Agreements with Zest-O

a. On February 1, 2014, ARC Refreshments entered into a lease agreement with Zest-O, a related party, covering a piece of land and building on which the manufacturing plant and administrative office of ARC Refreshments are located in Kaybiga, Novaliches, Quezon City. The lease is for a period of three (3) years up to 2017, renewable for mutual consent. Rent expense amounted to P27.86 million and P25.54 million for the years ended December 31, 2015 and 2014, respectively.

b. ARC Refreshments entered into a lease agreement with Zest-O, a related party, for a lease of bottling equipment in Kaybiga, Novaliches, Quezon City. The lease shall be for four (4) years commencing from February 1, 2014 to January 31, 2017, renewable by mutual consent. Rent expense amounted to P17.36 million and P15.91 million for the years ended December 31, 2015 and 2014, respectively.

c. ARC Refreshments entered into a lease agreement with Zest-O, a related party, for a lease of bottling equipment in Kaybiga, Novaliches, Quezon City. The lease shall be for two (2) years commencing from February 1, 2014 to January 31, 2017, renewable by mutual consent. Rental expense amounted to P12.47 million and P11.43 million for the years ended December 31, 2015 and 2014, respectively.

d. On February 1, 2014, ARC Refreshments entered into a lease agreement with Zest-O, a related party, covering a piece of land and building on which the manufacturing plant and administrative office of ARC Refreshments are located in 108 Progressive Avenue Carmelray Industrial Park, Brgy. Canlubang, Calamba, Laguna. The lease is for a period of three (3) years up to 2017, renewable by mutual consent. Rent expense amounted to P28.42 million and P26.05 million for the years ended December 31, 2015, and 2014, respectively.

e. ARC Refreshments entered into a lease agreement with Zest-O, a related party, for a lease of bottling equipment in 108 Progressive Avenue Carmelrey Industrial Park, Brgy. Canlubang, Calamba, Laguna. The lease shall be for four (4) years commencing from February 1, 2014 to January 31, 2017, renewable by mutual consent. Rent expense amounted to P19.33 million and P17.72 million for the years ended December 31, 2015 and 2014, respectively.

f. ARC Refreshments entered into a lease agreement with Zest-O, a related party, for a lease of bottling equipment in 108 Progressive Avenue Carmelray Industrial Park, Brgy. Canlubang, Calamba, Laguna. The lease shall be for two (2) years commencing from February 1, 2014 to January 31, 2017, renewable by mutual consent. Rent expense amounted to P10.92 million and P10.01 million for the years ended December 31, 2015 and 2014, respectively.

<u>Others</u>

a. ARC Refreshments entered into a lease agreement with Asiawide, a related party, for a lease of a piece of land and building located at Km. 27 Sitio Puting Bato, Inarawan, Antipolo City. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017, renewable by mutual consent. Rent expense amounted to P16.76 million and P15.36 million for the years ended December 31, 2015 and 2014, respectively.

b. ARC Refreshments entered into a lease agreement with SMI Development Corporation, a related party, for a lease of a piece of land at Km. 27 Sitio Puting Bato, Inarawan, Antipolo City. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017, renewable by mutual consent. Rent expense amounted to P6.67 million and P6.11 million for the years ended December 31, 2015 and 2014, respectively.

Future minimum lease payables under non-cancellable operating leases are as follows:

	2015	2014
Within one year	**P304,741,808**	P315,370,635
After one year but not more than three years	**36,689,892**	341,431,701

20. **Retirement Benefits**

The Group has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2015 and 2014.

The net retirement benefits costs recognized in the statements of comprehensive income for the years ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Service cost	**P32,805,444**	P29,057,014	P19,041,398
Net interest cost	**4,018,159**	2,957,953	3,076,121
Retirement benefits costs	**P36,823,603**	P32,014,967	P22,117,519

Retirement benefits liability recognized in the statements of financial position as of December 31, 2014 and 2013 are as follows:

	2015	2014
Present value of defined benefit obligation	**P205,359,730**	P167,549,022
Fair value of plan assets	**(112,038,569)**	(77,961,954)
Balance at end of year	**P93,321,161**	P89,587,068

The present value of defined benefit retirement obligation as of December 31, 2015 and 2014 are as follows:

	2015	2014
Balances at beginning of year	**P167,549,022**	P111,113,617
Service cost	**32,805,444**	29,057,014
Interest cost	**7,514,909**	5,906,244
Benefits paid	**(298,304)**	(5,264,312)
Remeasurement (gains) losses arising from:		
Experience adjustments	**(2,211,341)**	21,380,082
Changes in financial assumptions	**–**	5,356,377
Balances at end of year	**P205,359,730**	P167,549,022

The changes in the fair value of plan assets are as follows:

	2015	2014
Balances at beginning of year	**P77,961,954**	P55,465,919
Interest income	**3,496,750**	2,948,291
Benefits paid	**(298,304)**	(5,264,312)
Contributions	**33,048,963**	24,752,906
Actuarial gain (loss) from experience adjustments	**(2,170,794)**	59,150
Balances at end of year	**P112,038,569**	P77,961,954

The assets of the Plan are being held by a trustee bank. The investing decisions of the Plan are made by certain officers of ARC RC duly authorized by the BOD.

The fair value of plan assets by each class is as follows:

	Carrying amounts	Fair Values
Cash and cash equivalents	P50,148,613	P50,557,320
Shor-term investments	9,283,493	4,110,695
Long-term investments	52,606,463	23,293,939
	P112,038,569	P77,961,954

The Plan's assets and investments consist of the following:

- Cash and cash equivalents, which includes regular savings and time deposits.
- Short-term investments which includes time deposits and special deposit accounts with a maturity of more than three months but not more than one year from date of acquisition.
- Long-term investments which is primarily composed of government securities and some corporate bonds. The Group expects to contribute P36.0 million to the defined benefit plan in 2016.

The principal assumptions used to determine the accrued retirement fund as of December 31, 2015 are as follows:

Discount rate	4.49%
Future salary increases	7.00%
Expected average future service years of employees	26.37

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2015, assuming all other assumptions were held constant:

2015	**Increase (Decrease)**	**Amount**
Discount rate	**+1%**	**(P39,735,000)**
	-1%	**50,883,000**
Future salary increase rate	**+1%**	**P47,353,000**
	-1%	**(38,135,000)**

2014	Increase (Decrease)	Amount
Discount rate	+1%	(P31,204,000)
	-1%	40,191,000
Future salary increase rate	+1%	P37,630,000
	-1%	(30,101,000)

The average duration of the accrued retirement fund at the end of the reporting date is 26 years.

Shown below is the maturity analysis of the undiscounted benefit payments:

More than 1 year to 5 years	P1,370,000
More than 5 years to 10 years	27,032,000
More than 10 years	1,566,772,000

21. **Income Taxes**

The current provision for income tax in 2015, 2014 and 2013 represents the regular corporate income tax.

The components of the Group's net deferred income tax assets (liabilities) as of December 31, 2015 and 2014 are as follows:

	2015	2014
Deferred income tax assets		
Retirement benefits liability	**P20,005,319**	P18,872,928
Allowance for inventory obsolescence and condemnation	**677,774**	8,839,096
Straight-line adjustment on rent	**3,763,465**	3,398,769
Unamortized past service costs	**1,215,304**	1,297,077
Allowance for impairment losses on receivables	**369,993**	650,999
	26,031,855	33,058,869
Deferred tax liability on unrealized foreign exchange gain	**(51,876)**	(371,478)
	25,979,979	32,687,391
Deferred income tax asset on retirement benefits liability recognized directly in equity	**7,991,029**	8,003,193
Net deferred income tax asset	**P33,971,008**	P40,690,584

The Group did not recognize the deferred income tax asset pertaining to NOLCO amounting to P6,284,462 and P6,890,799 in 2015 and 2014, respectively, since Management believes that there will be no sufficient future taxable profit available to allow all or part of such deferred tax assets to be utilized.

As of December 31, 2015, the Group has NOLCO that can be claimed as deductions from future taxable income as follows:

Year Incurred	Year of Expiration	Amount
2013	2016	P3,243,776
2014	2017	17,704,431
		P20,948,207

The following are the movements in NOLCO:

	2015	2014
Balances at beginning of year	**P22,969,331**	P5,264,900
Additions	–	17,704,431
Application	**(2,021,124)**	–
Balances at end of year	**P20,948,207**	P22,969,331

The reconciliation of provision for income tax computed based on the statutory income tax rate to the provision for income tax in the consolidated statement of comprehensive income is as follows:

	2015	2014	2013
Income tax at statutory tax rate	**P776,803,936**	P738,112,856	P301,678,156
Reductions in income tax resulting from:			
Nondeductible expenses	**6,709,602**	8,165,208	598,867
Interest income already subjected to final tax	**(2,287,040)**	(10,825,148)	(4,266,420)
Changes in previously unrecognized deferred income taxes	**(606,337)**	5,311,329	2,679,964
Nontaxable income	**(563,876)**	(2,127,165)	(899)
Movement in deferred tax from net asset acquisition	–	(32,687,391)	–
	P780,056,285	P705,949,689	P300,689,668

22. **Financial Risk Management and Capital Management**

The Group's financial instruments consist mainly of cash and cash equivalents, trade and other receivables, due to and from related parties, short-term loans payable, trade and other payables excluding statutory payables. The main purpose of the Group's dealings in financial instruments is to fund its operations, capital expenditures and financing activities.

The risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls and to monitor and assess risks and compliance to internal control, identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

Management addresses the risks faced by the Group in the preparation of its annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Group's operations and forecasted results. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk
Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk exposure arises principally from the possibility that the counterparties may fail to fulfill their agreed obligations. To manage such risk, the Group monitors its receivables on an ongoing basis. The objective is to reduce the risk of loss through default of counterparties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main components of this allowance are specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective allowance is determined based on historical data of payment statistics for similar financial assets.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents and receivables, the Group's exposure to credit risk arises from a possible default of the counterparties with a maximum exposure equal to the carrying amounts of these instruments.

The tables below show the credit quality by class of financial assets.

	2015				
	Neither Past Due Nor impaired				
	High Grade	Standard Grade	Past Due But Not Impaired	Impaired	Total
Cash and cash equivalents*	**P934,077,766**	**P–**	**P–**	**P–**	**P934,077,766**
Trade and other receivables	**–**	**370,397,142**	**–**	**1,233,310**	**371,630,452**
Total credit risk exposure	**P934,077,766**	**P370,397,142**	**P–**	**P1,233,310**	**P1,305,708,218**

**Excluding cash on hand*

	2014				
	Neither Past Due Nor impaired				
	High Grade	Standard Grade	Past Due But Not Impaired	Impaired	Total
Cash and cash equivalents*	P1,396,405,321	P–	P–	P–	P1,396,405,321
Short-term investments	20,000,000	–	–	–	20,000,000
Trade and other receivables	–	375,863,004	–	2,169,999	378,033,003
Total credit risk exposure	P1,416,405,321	P375,863,004	P–	P2,169,999	P1,794,438,324

**Excluding cash on hand*

The Group has assessed the credit quality of the following financial assets:

1. Cash and cash equivalents are assessed as high grade since these are deposited with reputable banks.
2. Trade and other receivables, which pertain mainly to receivables from related parties, officers and employees and others, were assessed as standard grade since there were no history of default on the outstanding receivables as of December 31, 2015 and 2014. These were assessed based on past collection experience and the debtors' ability to pay the receivables.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The table below shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	2015				
	Due and Demandable	**Within 6 Months**	**6 to 12 Months**	**Over 1 year**	**Total**
Trade and other payables*	**P2,533,174,470**	**P–**	**P–**	**P–**	**P2,533,174,470**
Short-term loans payable	**–**	**497,439,728**	**–**	**–**	**497,439,728**
	P2,533,174,470	**P497,439,728**	**P–**	**P–**	**P3,030,614,198**

**Excluding statutory payables*

	2014				
	Due and Demandable	Within 6 Months	6 to 12 Months	Over 1 year	Total
Trade and other payables*	P2,676,356,939	P–	P–	P–	P2,676,356,939
Short-term loans payable	–	103,291,516	–	–	103,291,516
	P2,676,356,939	P103,291,516	P–	P–	P2,779,648,455

**Excluding statutory payables*

The Company has financial assets of P1,424.81 million and P1,892.44 million as of December 31, 2015 and 2014, respectively that may be used to settle its financial liabilities.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group uses the Peso (P) as its functional currency and is therefore exposed to foreign exchange movements, primarily on the US Dollar ($). The Group follows a policy to manage this risk by closely monitoring its cash flow position and by providing forecast on its exposures in non-peso currency.

The balances of the Group's financial assets and liabilities denominated in foreign currency translated in Philippine peso, as of December 31, 2015 and 2014, are as follows:

	2015			
	Original Currency in $	**Translated in P**	**Original Currency in €**	**Translated in P**
Financial asset:				
Cash and cash equivalents	**$307,926**	**P14,490,998**	**€74,502**	**P3,854,815**
Financial liability:				
Accounts payable	**(80,001,417)**	**(3,764,866,684)**	**–**	**–**
Net exposure	**($79,693,491)**	**(P3,750,375,686)**	**€74,502**	**P3,854,815**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2014			
	Original Currency in $	Translated in P	Original Currency in €	Translated in P
Financial asset:				
Cash and cash equivalents	$281,065	P12,562,281	€90,418	P4,913,314
Financial liability:				
Accounts payable	(2,852,915)	(127,582,359)	–	–
Net exposure	($2,571,850)	(P115,020,078)	€90,418	P4,913,314

As of December 31, 2015 and 2014, the exchange rate of the Philippine peso to the USD is P47.06 and P44.72, respectively, while the exchange rate for EUR as of December 31, 2015 and 2014 is P51.74 and P54.34, respectively.

The table below demonstrates the sensitivity to a reasonably possible change in P to $ and P to Euro (€) exchange rates, with all other variables held constant, of the Group's income before income tax. There is no other impact on the Group's equity other than those affecting the statement of comprehensive income.

	Change in exchange rate			
	$ strengthens by 5%	$ weakens by 5%	€ strengthens by 5%	€ weakens by 5%
Increase (decrease) in income before income tax and equity				
2015	**P187,518,784)**	**P187,518,784**	**P192,741**	**(P192,741)**
2014	(P5,751,004)	P5,751,004	P245,666	(P245,666)

<u>Fair Values of Financial Instruments</u>
Fair value is defined as the amount at which the financial instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following financial assets and liabilities have carrying values that approximate their fair values as of December 31, 2015 and 2014:

Cash and cash equivalents
The carrying amounts of cash and cash equivalents approximate their fair value due to the short-term maturity of these financial instruments.

Trade and other receivables, Short-term loans payable, Trade and other payables and Dividends Payable
Similarly, the carrying amounts of trade and other receivable, short-term loans payable, trade and other payables, and dividends payable which are all subject to normal trade terms, approximate their fair values due to their short-term nature.

<u>Fair Value Hierarchy</u>
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The Group uses Level 2 hierarchy for determining and disclosing the fair value of the security deposits.

During 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

Capital Management
The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to increase the value of shareholders' investment. The Group sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure upon commencement of its operations.

The BOD has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry. No changes were made in the objectives, policies or processes during the years ended December 31, 2015, 2014 and 2013.

The following table summarizes what the Group considers as its total capital as of December 31, 2015 and 2014:

	2015	2014
Capital stock	**P1,068,393,223**	P1,068,393,223
Additional paid-in capital	**1,153,568,289**	1,153,568,289
Retained earnings	**1,849,645,739**	1,631,181,772
	P4,071,607,251	P3,853,143,284

23. **Notes to Consolidated Statement of Cash flows**

The principal noncash transactions relate to the following:

a) Assets and liabilities that were not part of the assets acquired and liabilities assumed by the Group in January 2014 (see Notes 1 and 2) were distributed to previous owners of Asiawide and Mega Asia.
b) Reclassification of inventory to other current assets amounting to P0.51 million in 2013.
c) Reclassification of inventory to property, plant and equipment amounting P0.66 million in 2013.
d) Reclassification of other noncurrent assets to other current assets amounting to P1.33 million in 2013.

'Cash and cash equivalents' of the Parent Company upon change of its ownership on October 25, 2013 amounting to P3.65 billion is presented separately in the 2013 consolidated statement of cash flow.

24. **Basic/Diluted Earnings Per Share**

Basic and diluted EPS is computed as follows:

	2015	2014	2013
Net income	**P1,809,290,167**	P1,754,426,497	P704,904,185
Weighted average number of common shares outstanding	**1,068,393,223**	1,068,393,223	1,068,393,223
Basic and diluted EPS	**P1.69**	P1.64	P0.66

As at December 31, 2015 and 2014, there are no potential ordinary shares that have a dilutive effect on the basic EPS of the Parent Company.

25. **Segment Information**

The Group is organized into only one operating division, manufacturing and trading of beverages, which is its primary activity. The Group operates in nine geographical areas namely Antipolo, Kaybiga, Canlubang, Pangasinan, Pampanga, Isabela, Cebu, Davao and Cagayan De Oro, where it derives its revenues. For management purposes, the Group considers the entire business as one segment. Management monitors the operating results of the business for purposes of making decisions about resource allocation and performance assessment.

Net sales, net income, total assets and total liabilities of the beverage company as at and for the years ended December 31, 2015, 2014 and 2013, respectively, are as follows:

	2015	2014	2013
Net Sales - external customers	**P11,262,933,328**	P10,352,147,129	P7,054,669,366
Net income	**1,783,782,114**	1,729,168,057	679,313,818
Total assets	**7,245,158,361**	6,858,253,354	4,975,227,097
Total liabilities	**3,326,801,736**	3,139,707,226	3,376,332,394

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of net income:

	2015	2014	2013
Segment net income	**P1,783,782,114**	P1,729,168,057	P679,313,818
General and administrative	**19,862,327**	28,889,014	30,981,055
Others - net	**9,872,450**	(9,736,528)	87,908
Share in net income of joint venture	**1,471,937**	233,633	(7,050,834)
Interest income	**764,985**	24,879,005	7,793,453
Foreign exchange gain - net	**166,304**	14,361	–
Provision for income tax	**(6,157,265)**	(12,267,948)	(8,151,242)
Interest expense	**(472,685)**	(6,753,097)	–
Tolling revenues	–	(184,649,991)	(1,547,679,577)
Cost of sales and services	–	184,649,991	1,549,609,604
Group net income	**P1,809,290,167**	P1,754,426,497	P704,904,185

Reconciliation of assets and liabilities:

	2015	2014	2013
Segment assets	**P7,245,923,025**	P6,858,253,354	P4,975,227,097
Cash and cash equivalents	**102,874,934**	106,265,743	3,632,616,437
Interest in a joint venture	**41,619,164**	40,147,227	–
Other current assets	**14,859,672**	695,662	9,737,857
Property, plant and equipment	**1,076,464**	1,213,890	–
Trade and other receivables	**65,529**	182,620	(564,407,939)
Short-term investments	–	–	83,284,425
Deferred income tax assets - net	–	–	1,206,339
Group assets	**P7,406,418,788**	P7,006,758,496	P8,137,664,216

	2015	2014	2013
Segment liabilities	**P3,326,801,736**	P3,139,707,226	P3,376,332,394
Dividends payable	**22,192,003**	–	(2,020,560)
Stock acquisition payable	**17,000,000**	–	–
Income tax payable	**411,617**	1,742,331	2,177,998
Trade and other payables	**(5,148,470)**	21,639,387	(510,786,987)
Group liabilities	**P3,361,256,886**	P3,163,088,944	P2,865,702,845

26. **Subsequent Events**

On April 8, 2016, the BOD of the Parent Company approved the increase in authorized capital stock by P800 million through the increase of common shares by 800,000,000 shares with a par value of P1. At the same time, the BOD approved the declaration of a stock dividend equivalent to 21% of issued and outstanding common shares, to be issued out of the aforementioned increase in authorized capital stock. On the same day, the BOD of the Parent Company approved the declaration of cash dividends of P0.12 per share in favor of stockholders on record as of April 29, 2016.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
Macay Holdings, Inc.
137 Yakal Street, San Antonio Village
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Macay Holdings, Inc. (the Company) and its Subsidiaries as at December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015, included in this Form 17-A and have issued our report thereon dated April 8, 2016. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended (2011), and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

John T. Villa

John T. Villa
Partner
CPA Certificate No. 94065
SEC Accreditation No. 0783-AR-2 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 901-617-005
BIR Accreditation No. 08-001998-76-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5321708, January 4, 2016, Makati City

April 8, 2016

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2015

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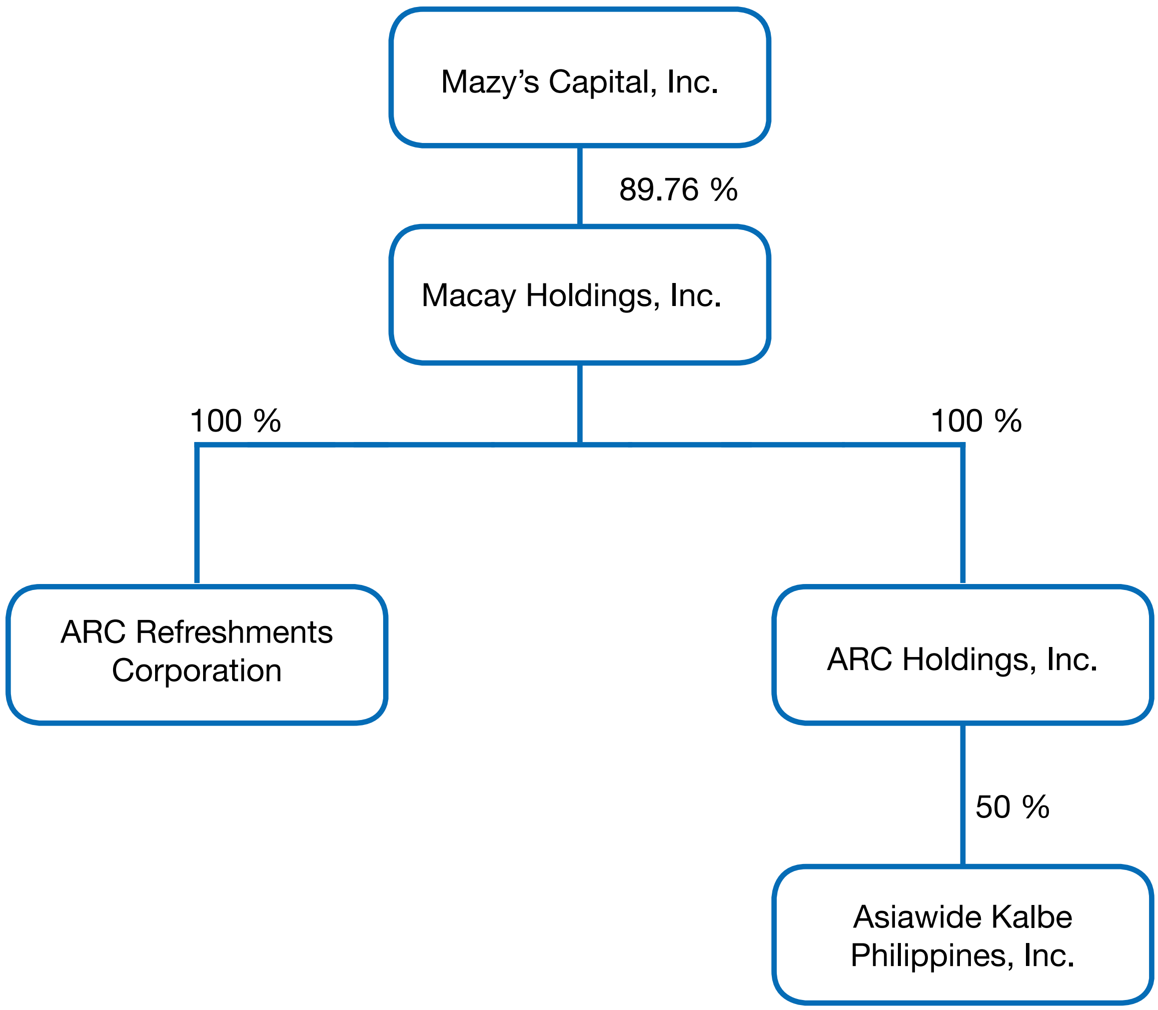
III	Reconciliation of Retained Earnings Available for Dividend Declaration

MAP SHOWING RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND ITS SUBSIDIARIES

DECEMBER 31, 2015



SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II”, respectively. It also prescribed the additional schedule requirements for large entities showing a list of all effective standards and interpretations under Philippine Financial Reporting Standards (PFRS).

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2015:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Early Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments			✓
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Early Adopted	Not Applicable
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets		✓	
	Financial Instruments: Classification and Measurement of Financial Liabilities		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
	Amendments to PFRS 9: Hedge Accounting			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income			✓
	Amendments to PAS 1 (Revised): Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 – Deferred Tax: Recovery of Underlying Assets			✓
PAS 14	Segment Reporting			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants			✓
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation		✓	
PAS 17	Leases	✓		
PAS 18	Revenue	✓		

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Early Adopted	Not Applicable
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19 (Revised): Defined Benefit Plans: Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Revised)	Amendments to PAS 27 (Amended): Investment Entities			✓
	Amendments to PAS 27 (Revised): Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27 (Amended): Investment Entities			✓
	Amendments to PAS 27 (Amended): Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28 (Amended): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28 (Amended): Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Amortization			✓

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Early Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PAS 39: Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendments to PAS 41: Bearer Plants			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Early Adopted	Not Applicable
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

Standards tagged as “Not applicable” have been adopted by the Company but have no significant covered transactions for the year ended December 31, 2015.

Standards tagged as “Not adopted’ are standards issued but not yet effective as of December 31, 2015. The Company will adopt the Standards and Interpretations when these become effective.

SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2015

Unappropriated retained earnings, at January 1, 2015	P32,122,111
Add: Net income during the period	1,585,524,816
Less: Dividends declared during the period	(1,549,170,175)
Total retained earnings available for dividend declaration, at December 31, 2015	P68,476,752

MACAY HOLDINGS
INCORPORATED