



Exploring  
New Horizons

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Annual Report  
2016



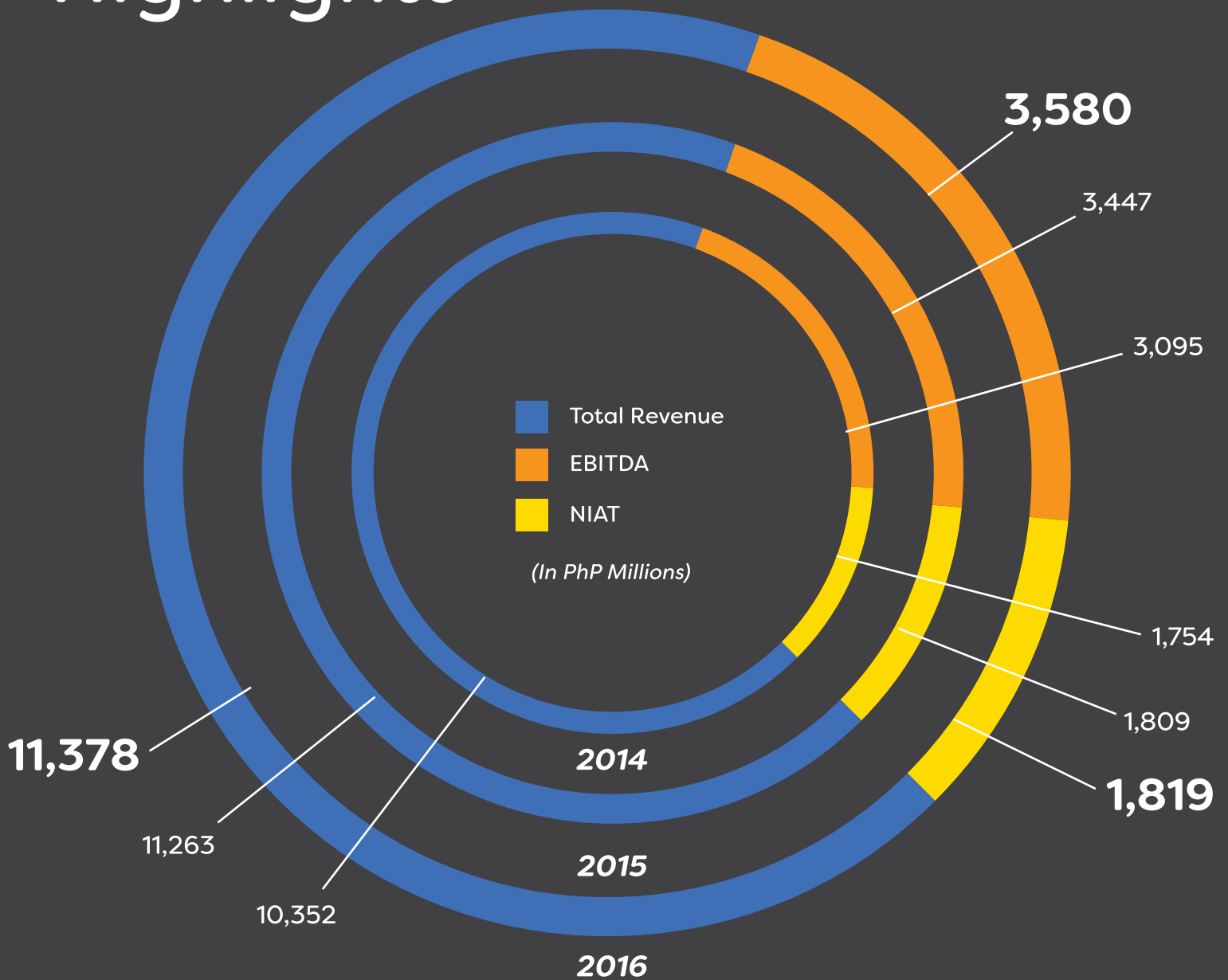
A graphic consisting of three overlapping, rounded, pill-shaped elements. The top element is blue, the middle is red, and the bottom is green. They are arranged in a slightly overlapping, diagonal fashion from top-left to bottom-right. The word "CONTENTS" is centered horizontally across the blue and red shapes.

# CONTENTS

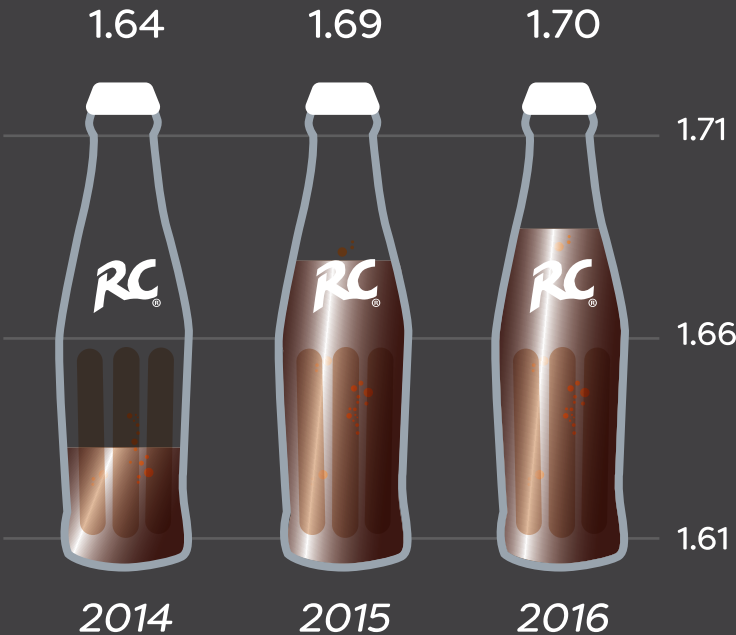


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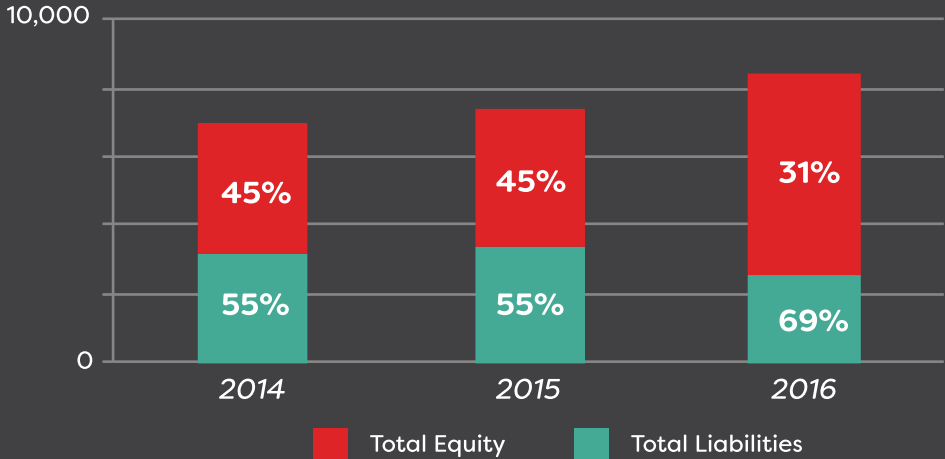
# Financial Highlights



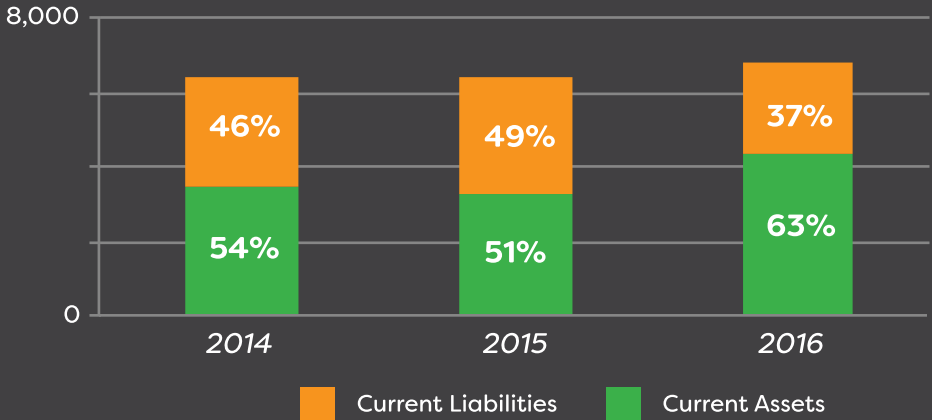
# Earnings per Share



# Debt to Equity



# Current Ratio





# MACAY HOLDINGS INCORPORATED

**M**acay Holdings, Inc. (“Macay” or the “Company”) is an investment holding company duly registered with the Securities and Exchange Commission and listed on the Philippine Stock Exchange (“PSE”). The shares of the Company were listed and traded as “MACAY” on the PSE starting 2014.

Macay is 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, Juice Lemon, Arcy’s Rootbeer, Seetrus & Rite N’ Lite. Over the years, Macay has –through ARC– carved out a market for its branded carbonated beverages. Significantly, it grew its footprint to a total of nine (9) bottling facilities. These bottling facilities are situated in various strategic locations throughout the country, in close proximity to our customers and dealers.

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 investor 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 indentified in the future.

The Company and its senior management team aims to expand the presence and market share of ARC, and enter into the manufacture, distribution, and sale of other consumer-focused products in the Philippines and in the Asian region.

# Joint Message from the Chairman & President

We are pleased to present the Macay Holdings, Inc.'s Annual Report for 2016.

The Company reported an increase in net revenue of 1.1 percent to Php11.38 billion, retaining its gross revenue margin of 35% from the previous year. Cost of goods sold increased in sugar and concentrates, as well as manpower services. Marketing costs also increased due to intensified promotional activities. Higher amortization charges were also incurred from previous investments in containers. Despite the increase in cost of goods sold, gross profit was recorded at Php4.0 billion in 2016.

Total operating expenses were maintained at 12.8% of net revenues. Resulting EBITDA for 2016 increased by 3.8 percent to Php3.62 billion & net income increased by 0.5 percent to Php1.82 billion, providing shareholders per share earnings of Php 1.70.

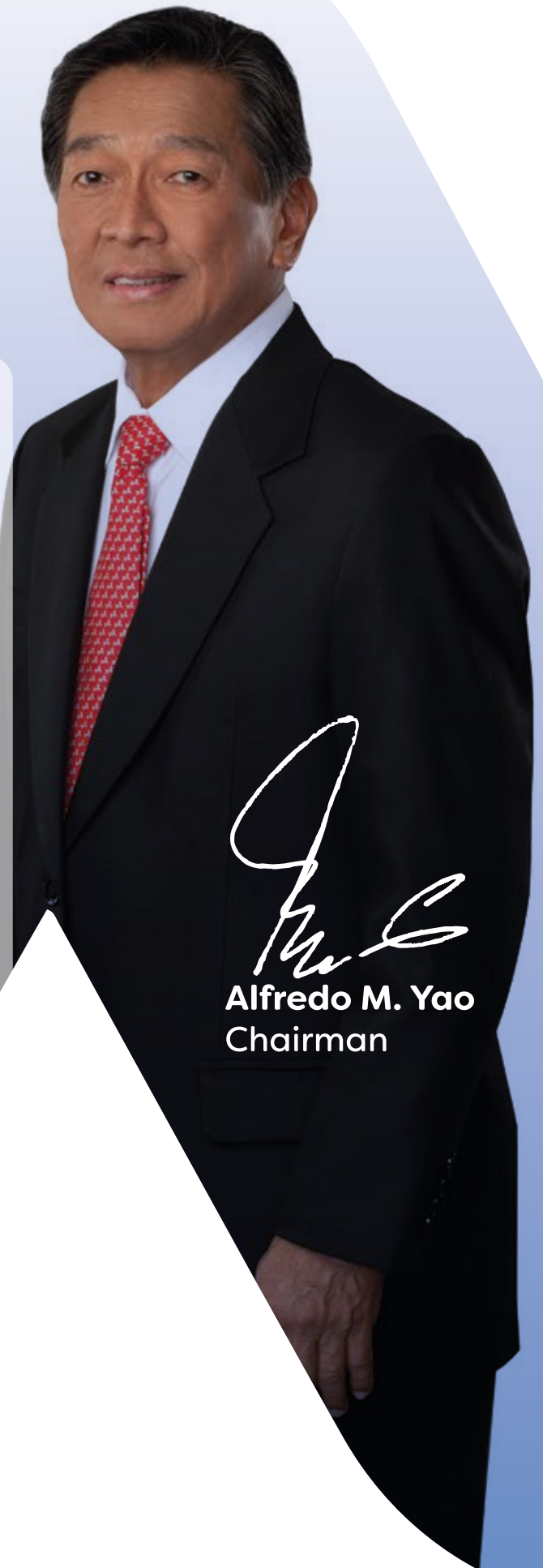
Macay's balance sheet remains robust with total assets at Php8.39 billion and total equity at Php5.81 billion, an increase of 13.3 percent and 43.7 percent, respectively. As a further testament to its financial health, the Company's current ratio increased from 1.04:1 to 1.73:1, its quick ratio doubled from 0.44:1 to 0.90:1, and its asset to equity ratio improved from 0.83:1 to 0.44:1.

Capital expenditures, particularly expenditures on machinery, equipment, land acquisition and on-going plant construction increased by Php196.84 million or 16.7

percent and were funded through cash from operations.

Macay declared and paid cash dividends amounting to Php0.12 per share for an aggregate amount of Php128.21 million in the second quarter of 2016, and concurrently declared a 21% stock dividend.

In the latter part of the year, our competitors accelerated their competitive pricing strategy and the new administration unveiled its proposal to impose a uniform excise tax on sugar-sweetened beverages. The Company pivoted by expanding its product offerings to target the health conscious market with the introduction of our zero-calorie drink *Rite 'n Lite*. Additionally, the Company enacted innovative operational enhancements in preparation for the next wave of growth with the completion of its new plant in Cabuyao to service the still unserved and underserved areas.



A white, handwritten signature of Alfredo M. Yao, written in a cursive style, positioned over the lower right portion of his suit jacket.

**Alfredo M. Yao**  
Chairman





**Antonio I. Panajon**  
President

Furthermore, Macay strengthened its management structure and transformed its current portfolio to attain the Company's strategic vision to be a dominant company in consumer products and services in the Philippines and other Asian countries.

We thank you, our shareholders, for your continued support and confidence in us. We also wish to acknowledge and express our gratitude to the Board of Directors for their wisdom and counsel, and our employees for their dedication and hard work. Most importantly, we want to express our sincere appreciation for our customers, suppliers, dealers, and partners for helping us build this business to where it stands today.

We look forward to our continued relationship, as we grow this business together.

Thank you.

# Company Milestones

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



*ARC Refreshments Corporation*

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

ARC commenced commercial operations.

October  
2013

December  
2013

January  
2014

February  
2014

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

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 & Asiawide Refreshments Corporation under an asset purchase agreement.

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.

ARCHI has an existing joint venture with Kalbe International Pte. Ltd of Indonesia to market the latter's "Extra Joss" products.



Launched Rite 'n Lite a zero-calorie can drink available in a variety of refreshing flavors: Zesto Lemon, Tangy Lemon-Lime, Citrusy Orange and Creamy Rootbeer.



May 2015

August 2015

October 2015

December 2016

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



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.









# ARC unveils its premium drink that's just Rite 'N Lite

Rite 'N Lite is the newest addition to the RC Cola family, designed for the health-conscious individuals who yearn for a refreshing drink that's apartame-free, with no added sugar as as carbs and calories.

The zero-calorie drink comes in 250 ml packagin and is available in a variety of refreshing flavors: Zesto Lemon, Tangy Lemon-Lime, Citrusy Oranges and Creamy Rootbeer. Rite 'N Lite is already up for grabs in Metro Manila's leading and upscale supermarkets, convenience stores and some restaurants and will soon be available nationwide.

Consumption of low-calorie flavored softdrink products have since become a

trend, with many of today's consumers now looking to reduce their caloric and sugar intake; however, a number of these customers also still want to enjoy the refreshing taste of their favorite beverages.

Gerry Garcia, Executive Vice-President & Chief Operating Officer of ARC explains, "Niche concepts are now gaining acceptance as consumers shift away from past category staples. We at ARC are undertaking continued product research and development to be able to address this need."

ARC's Rite 'N Lite is an addition to the low-calorie, RC Cola products that now joins RC Cola Free, introduced in 2009.







Lemon Lime  
**Rite 'n Lite**

No Sugar. No Carbs. No Calories.

ROOT BEER  
**Rite 'n Lite**

No Sugar. No Carbs. No Calories.

ORANGE  
**Rite 'n Lite**

No Sugar. No Carbs. No Calories.

Created in 2011, the camp is an annual gathering of the most outstanding student leaders selected from colleges and universities in Metro Manila and nearby provinces. The program sends young leaders to a 3-day camp where they get immersed in leadership discussions, team-building activities and workshops with some of the country's top movers and change-makers.

### Framework & Strategy

The ARC Young Leaders Camp selects underserved yet exceptional Filipino student leaders who are actively involved in school and community organizations, have a good academic record, and have a passion to lead, create and change the society. It aims to be a breeding ground for future Filipino leaders.

Factoring accountability into its strategy, ARC Refreshments Corporation has initiated a proactive engagement, taking on CSR projects that uplift the quality of lives in the communities where it operates. The ARC Young Leaders Camp, for instance, is the company's way of helping develop the leadership potentials and skills of Filipino youth leaders and and instill in them the company's core values of resourcefulness, integrity, teamwork and discipline.

The ARC Young Leaders Camp's is a unique and impactful training that puts premium on underprivileged students who are not afforded the opportunity to join leadership camps and trainings that usually charges registration fees.

### Achievement & Impact

The camp has trained and developed 300 individuals geared to create positive change in the society. As they returned to their own schools and communities, they started implementing social devel-

opment projects of their own, from a simple creekside clean-up activity to a full-scale school building maintenance drive complete with donations of school supplies which benefited 1,800 public school students.

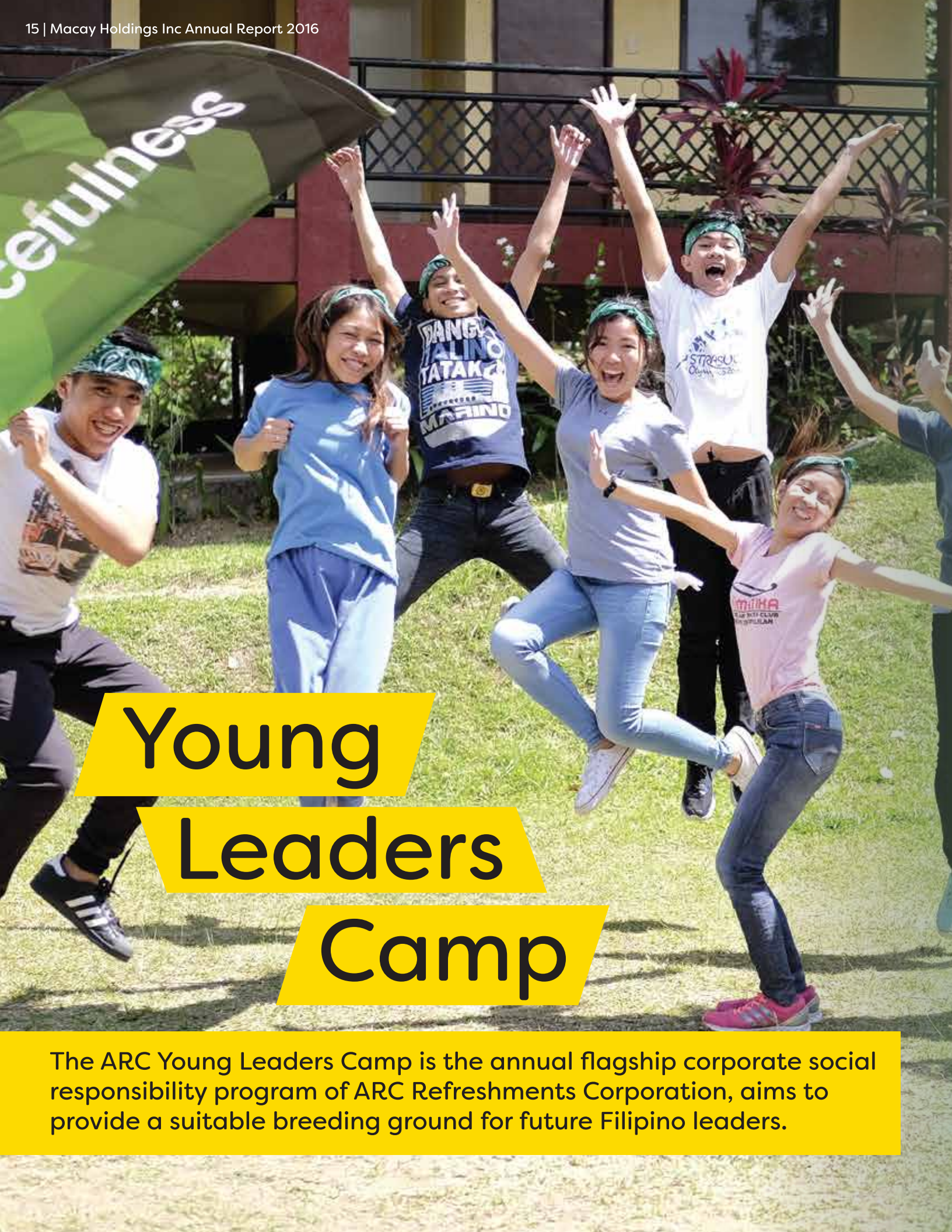
With the learnings and ideas that the campers absorb in the camp, it was ARC's objective that once they go back to "the real world", they would initiate or conduct social development projects of their own, may it be a small or big project, simple or complex.

One example of this is the participation of camp alumni in the Department of Education's Brigada Eswkela (School Brigade) wherein they helped prepare 36 classrooms in a public school for the upcoming school year. The alumni painted and cleaned the classrooms, chairs and other school facilities. They also pooled resources from their school mates, family and friends in order to donate school supplies like pencils, notebooks and crayons to 1,8000 students of the public school. This is a concrete example of leading by example and youth helping out their fellow youth.

They have also put in place a networking platform wherein the alumni can discuss their plans to come up with their social development projects, and because there has been a growing number of alumni every year, there is an on-going effort to formalize and create an ARC Young Leaders Camp alumni association.

ARC Refreshments Corporation is committed to level-up this advocacy because they want to contribute to a better world by nurturing young leaders. They also envision to provide a bigger and better camp in the coming years by expanding the program to enjoin more participants from all over the country.





# Young Leaders Camp

The ARC Young Leaders Camp is the annual flagship corporate social responsibility program of ARC Refreshments Corporation, aims to provide a suitable breeding ground for future Filipino leaders.





# Board of Directors



**Alfredo M. Yao**  
Chairman

**Antonio I. Panajon**  
President

**Jeffrey S. Yao**  
Vice President

**Fernando R. Balatbat**  
Treasurer

**Jesus G. Gallegos, Jr.**  
Independent Director

**Carolyn S. Yao**  
Director



**Mary Grace S. Yao**  
Director

**Armando M. Yao**  
Director

**Rinaldi C. Aves**  
Director

**Albert S. Toribio**  
Director

**Gerardo T. Garcia**  
Director

**Roberto F. Anonas**  
Independent Director

**Roberto A. Atendido**  
Director

# Independent Auditor's Report

The Board of Directors and Stockholders  
Macay Holdings, Inc. and Subsidiaries

## Opinion

We have audited the consolidated financial statements of Macay Holdings, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

## Basis for Opinion

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a

separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### **Estimating Useful Life of Deferred Pallets and Containers**

In accordance with its policy, the Group reviews annually the estimated useful life of its deferred pallets and containers based on the profile of the assets and scuff level analysis. The estimation of useful life is based on internal technical evaluation done on a collective basis, and the Group's experience with similar assets in so far as breakages and trip lives are concerned. We consider this as a key audit matter because estimating the useful life of deferred pallets and containers requires significant judgment and estimation by management. In addition, this estimate has significant impact in the consolidated financial statements, particularly on impairment assessment and/or testing, amortization of deferred pallets and containers, and recognition of the Group's liability pertaining to customers' refundable deposits made in relation to containers in trade.

As of December 31, 2016, the carrying value of deferred pallets and containers amounted to 1.91 billion. The Group recognized amortization expense of these assets amounting to 816.23 million in 2016. See Notes 2 and 9 to the consolidated financial statements.

### **Audit response**

We obtained an understanding of the Group's process in estimating the useful life of its deferred pallets and containers. We assessed the competence, capabilities and objectivity of management's specialist who performed the technical evaluation of the estimated useful life. We also tested the relevant controls over the management estimation process. We performed an analysis of the information used by management in determining the estimates. We tested selected information such as the condition of the assets, level of breakages, and trip lives to supporting documents such as containers profiling and scuff level analysis.

## Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17A and/or Annual Report for the year ended December 31, 2016 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20IS (Definitive Information Statement), SEC Form 17A or Annual Report for the year ended December 31, 2016, which is expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, 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.

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

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



## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction,

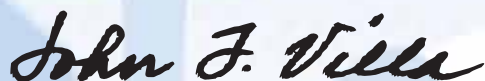
supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is John T. Villa.

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. 5908775, January 3, 2017, Makati City

April 6, 2017



**MACAY HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	₱1,883,395,401	₱1,053,174,904
Trade and other receivables (Note 5)	415,139,564	370,397,142
Inventories (Note 6)	2,057,398,079	1,918,847,810
Other current assets (Note 7)	100,865,162	55,716,546
<b>Total Current Assets</b>	<b>4,456,798,206</b>	<b>3,398,136,402</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment (Note 8)	1,378,956,975	1,182,113,654
Deferred pallets and containers (Note 9)	1,910,046,913	2,025,164,137
Interest in a joint venture (Note 10)	42,111,039	41,619,164
Deferred tax assets - net (Note 21)	4,240,116	33,971,008
Other noncurrent assets (Note 7)	599,215,816	724,906,295
<b>Total Noncurrent Assets</b>	<b>3,934,570,859</b>	<b>4,007,774,258</b>
<b>TOTAL ASSETS</b>	<b>₱8,391,369,065</b>	<b>₱7,405,910,660</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 11)	₱2,302,126,021	₱2,581,782,886
Stock acquisition payable (Note 1)	-	17,000,000
Short-term loans payable (Note 12)	125,783,025	497,439,728
Dividends payable (Note 13)	24,770,828	22,192,003
Income tax payable	122,780,792	149,109,490
<b>Total Current Liabilities</b>	<b>2,575,460,666</b>	<b>3,267,524,107</b>
<b>Noncurrent Liability</b>		
Retirement benefits liability (Note 20)	2,051,753	93,321,161
<b>Total Liabilities</b>	<b>2,577,512,419</b>	<b>3,360,845,268</b>
<b>Equity</b>		
Capital stock - ₱1 par value (Note 13)	1,068,393,223	1,068,393,223
Additional paid-in capital	1,153,568,289	1,153,568,289
Stock dividends payable (Note 13)	224,362,576	-
Other comprehensive income (loss) (Note 20)	51,989,019	(26,445,349)
Retained earnings		
Appropriated (Note 13)	1,052,044,720	-
Unappropriated	2,263,498,819	1,849,549,229
<b>Total Equity</b>	<b>5,813,856,646</b>	<b>4,045,065,392</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱8,391,369,065</b>	<b>₱7,405,910,660</b>

See accompanying Notes to Consolidated Financial Statements.

## MACAY HOLDINGS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2016	2015	2014
<b>REVENUES</b>			
Sale of goods	P11,374,354,624	P11,258,644,628	P10,346,618,774
Tolling revenues (Note 18g)	3,958,626	4,288,700	5,528,354
	<b>11,378,313,250</b>	<b>11,262,933,328</b>	<b>10,352,147,128</b>
<b>COST OF SALES AND SERVICES</b> (Note 14)	<b>(7,427,775,072)</b>	<b>(7,285,035,987)</b>	<b>(6,689,985,641)</b>
<b>GROSS PROFIT</b>	<b>3,950,538,178</b>	<b>3,977,897,341</b>	<b>3,662,161,487</b>
<b>EXPENSES</b>			
Selling and marketing (Note 15)	1,130,339,970	1,082,689,223	945,048,542
General and administrative (Note 16)	329,395,854	350,208,218	310,894,767
	<b>1,459,735,824</b>	<b>1,432,897,441</b>	<b>1,255,943,309</b>
<b>OTHER INCOME (CHARGES)</b>			
Interest income (Note 4)	12,416,997	8,105,630	36,819,374
Share in net income of joint venture (Note 10)	491,875	1,471,937	233,633
Interest expense (Note 12)	(5,908,056)	(7,139,269)	(7,213,060)
Foreign exchange gains (losses) - net	(278,155)	(4,427,043)	4,518,738
Others - net (Note 17)	36,611,693	46,335,297	19,799,323
	<b>43,334,354</b>	<b>44,346,552</b>	<b>54,158,008</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>2,534,136,708</b>	<b>2,589,346,452</b>	<b>2,460,376,186</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 21)			
Current	719,456,474	773,445,384	738,637,080
Deferred	(3,883,837)	6,707,411	(32,687,391)
	<b>715,572,637</b>	<b>780,152,795</b>	<b>705,949,689</b>
<b>NET INCOME</b>	<b>1,818,564,071</b>	<b>1,809,193,657</b>	<b>1,754,426,497</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Other comprehensive (income) loss not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on retirement benefits, net of tax (Note 20)	78,434,368	28,383	(18,674,116)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P1,896,998,439</b>	<b>P1,809,222,040</b>	<b>P1,735,752,381</b>
<b>EARNINGS PER SHARE</b>			
Basic/Diluted Earnings Per Share (Note 24)	<b>P1.70</b>	<b>P1.69</b>	<b>P1.64</b>

See accompanying Notes to Consolidated Financial Statements.

**MACAY HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

	Capital Stock	Additional Paid-in Capital	Stock Dividend Payable	Equity Reserve (Note 2)	Comprehensive Income (Loss)	Retained Earnings		Total
						Appropriated	Unappropriated	
<b>Balances at January 1, 2014</b>	<b>₱1,068,393,223</b>	<b>₱1,153,568,289</b>	<b>₱-</b>	<b>₱1,812,198,536</b>	<b>(₱7,799,616)</b>	<b>₱-</b>	<b>₱1,200,209,544</b>	<b>₱5,226,569,976</b>
Net income	-	-	-	-	-	-	1,754,426,497	1,754,426,497
Other comprehensive loss	-	-	-	-	(18,674,116)	-	-	(18,674,116)
Total comprehensive income	-	-	-	-	(18,674,116)	-	1,754,426,497	1,735,752,381
Distribution to owners of Asiadwide 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)
<b>Balances at December 31, 2014</b>	<b>1,068,393,223</b>	<b>1,153,568,289</b>	<b>-</b>	<b>17,000,000</b>	<b>(26,473,732)</b>	<b>-</b>	<b>1,631,181,772</b>	<b>3,843,669,552</b>
Net income for the year	-	-	-	-	-	-	1,809,193,657	1,809,193,657
Other comprehensive income	-	-	-	-	28,383	-	-	28,383
Total comprehensive income	-	-	-	-	28,383	-	1,809,193,657	1,809,222,040
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)
<b>Balances at December 31, 2015</b>	<b>1,068,393,223</b>	<b>1,153,568,289</b>	<b>-</b>	<b>-</b>	<b>(26,445,349)</b>	<b>-</b>	<b>1,849,549,229</b>	<b>4,045,065,392</b>
Net income	-	-	-	-	-	-	1,818,564,071	1,818,564,071
Other comprehensive income	-	-	-	-	78,434,368	-	-	78,434,368
Total comprehensive income	-	-	-	-	78,434,368	-	1,818,564,071	1,896,998,439
Dividends declared (Note 13)	-	-	224,362,576	-	-	-	(352,569,761)	(128,207,185)
Appropriations (Note 13)	-	-	-	-	-	-	1,052,044,720	(1,052,044,720)
<b>Balances at December 31, 2016</b>	<b>₱1,068,393,223</b>	<b>₱1,153,568,289</b>	<b>₱224,362,576</b>	<b>₱-</b>	<b>₱51,989,019</b>	<b>₱1,052,044,720</b>	<b>₱2,263,498,819</b>	<b>₱5,813,856,646</b>

See accompanying Notes to Consolidated Financial Statements.

## MACAY HOLDINGS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱2,534,136,708	₱2,589,346,452	₱2,460,376,186
Adjustments for:			
Depreciation and amortization (Notes 14, 15 and 16)	1,088,769,821	902,452,023	688,441,416
Retirement expense (Note 20)	20,790,549	36,823,603	32,014,967
Interest expense (Note 12)	5,908,056	7,139,269	7,213,060
Unrealized foreign exchange losses (gains) - net	860,313	4,427,043	(1,252,482)
Provision for impairment losses on inventories (Notes 6, 14 and 15)	2,913,747	-	11,562,092
Interest income (Note 4)	(12,416,997)	(8,105,630)	(36,819,374)
Share in net income of joint venture (Note 10)	(491,875)	(1,471,937)	(233,633)
Loss from (reversal on) write-off of CWTs (Note 17)	-	(9,736,529)	9,736,529
Provision for impairment losses on trade and other receivables (Note 5)	-	732,160	2,169,999
Operating income before working capital changes	3,640,470,322	3,521,606,454	3,173,208,760
Decrease (increase) in:			
Trade and other receivables (Note 5)	(43,233,627)	4,733,702	(336,412,145)
Inventories (Note 6)	(141,464,016)	(337,663,973)	(286,830,054)
Other current assets (Note 7)	(28,148,616)	90,263,179	(143,242,176)
Increase (decrease) in:			
Trade and other payables	(279,656,865)	(101,983,529)	847,376,843
Trade loans payable (Note 12)	31,145,523	(55,851,787)	(192,822,955)
Net cash generated from operations	3,179,112,721	3,121,104,046	3,061,278,273
Interest received	10,908,202	8,105,630	35,504,745
Income taxes paid, including creditable withholding taxes (Note 23)	(745,785,172)	(910,271,711)	(406,469,419)
Interest paid (Note 12)	(5,908,056)	(7,139,269)	(7,213,060)
Contributions paid to plan assets (Note 20)	(10,859)	(33,048,963)	(24,752,906)
Net cash from operating activities	2,438,316,836	2,178,749,733	2,658,347,633
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (increase) in other noncurrent assets	125,690,479	(73,033,152)	(542,883,267)
Additions to:			
Deferred pallets and containers (Note 9)	(701,115,733)	(1,057,007,451)	(1,129,875,422)
Property, plant and equipment (Notes 8 and 12)	(422,189,052)	(386,879,344)	(420,133,301)
Proceeds from termination (payment for availment) of short-term investments	(17,000,000)	20,000,000	(20,000,000)
Payment for subscription payable (Notes 1 and 2)	(17,000,000)	-	(1,570,519,360)
Net cash used in investing activities	(1,031,614,306)	(1,496,919,947)	(3,683,411,350)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of short-term loan (Note 12)	(450,000,000)	(50,000,000)	-
Cash dividends paid (Note 13)	(126,583,212)	(1,549,170,175)	(1,442,330,851)
Distribution to previous owners of ARCHI (Note 13)	-	(19,464,022)	-
Proceeds from availment of loans (Note 12)	-	500,000,000	-
Net cash used in financing activities	(576,583,212)	(1,118,634,197)	(1,442,330,851)

(Forward)

	Years Ended December 31		
	2016	2015	2014
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	₱101,179	(₱4,427,043)	₱1,252,483
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	830,220,497	(441,231,454)	(2,466,142,085)
CASH AND CASH EQUIVALENTS EXCLUDED IN NET ASSETS PURCHASED (Note 23)	-	-	(794,171,315)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,053,174,904	1,494,406,358	4,754,719,758
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱1,883,395,401	₱1,053,174,904	₱1,494,406,358

See accompanying Notes to Consolidated Financial Statements.



## MACAY HOLDINGS, INC. AND SUBSIDIARIES

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 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, Philippines 1203.

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

#### Change in Ownership

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 ₱3.3298 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 ₱3.19 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.

#### Investment in New Business

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 all 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 ₱1.00 billion and ₱0.57 billion from Asiawide and Mega Asia, respectively. Total consideration amounted to ₱1.57 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 ₱10 per share, for a total investment of ₱1,900.00 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 to the RC Cola brand. All issued and outstanding common shares totaling 1.70 million shares shall be purchased by the Parent Company at ₱10 per share for a total consideration of ₱17.00 million. The consideration was settled on November 10, 2016.

The accompanying consolidated financial statements of the Group as of December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, were approved and authorized for issue by the BOD on April 6, 2017.

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## 2. Basis of Preparation, Statement of Compliance and Changes in Accounting Policies

### Basis of Preparation

The accompanying consolidated financial statements have been prepared under the historical cost basis. The consolidated financial statements are presented in Philippine peso (₱), which is the Group's functional currency. All amounts are rounded off to the nearest ₱, 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