

# COVER SHEET

SEC Registration Number

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COMPANY NAME

D	I	T	O		C	M	E		H	O	L	D	I	N	G	S		C	O	R	P	.		(	F	O	R	M	E	R	L	Y	,		
I	S	M			C	O	M	M	U	N	I	C	A	T	I	O	N	S		C	O	R	P	O	R	A	T	I	O	N	)		A	N	D
I	T	S			S	U	B	S	I	D	I	A	R	I	E	S																			

PRINCIPAL OFFICE (No./Street/Barangay/City/Town/Province)

2	1	S	T		F	L	O	O	R		U	D	E	N	N	A		T	O	W	E	R	,		R	I	Z	A	L		D	R	.
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Form Type

1	7	Q
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Department requiring the report

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Secondary License Type, If Applicable

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### COMPANY INFORMATION

Company's Email Address

leandro.abarquez@udenna.ph
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Company's Telephone Number/s

(02) 8403-4007
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Mobile Number

n/a
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No. of Stockholders

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Annual Meeting  
Month/Day

First Friday of May
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Fiscal Year  
Month/Day

December 31
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### CONTACT PERSON INFORMATION

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

Name of Contact Person

Leandro A. Abarquez
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Email Address

leandro.abarquez@udenna.ph
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Telephone Number/s

(02) 8403-4007
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Mobile Number

n/a
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### CONTACT PERSON'S ADDRESS

21 <sup>st</sup> Floor Udenna Tower Rizal Drive cor. 4 <sup>th</sup> Avenue, Bonifacio Global City, Taguig City
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**NOTE 1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2 :** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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**DITO CME HOLDINGS CORP.**

**(Formerly: ISM Communications Corporation)**

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(Group's Full Name)

**21<sup>st</sup> Floor Udenna Tower, Rizal Dr. cor. 4<sup>th</sup> Avenue Bonifacio Global City, Taguig City, 1634**

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(Group's Address)

**(02) 8403-4007**

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(Telephone Number)

**December 31**

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(Fiscal Year Ending)

(month & day)

**Quarterly Report Pursuant to Section 17  
of the Securities Regulation Code and SRC Rule 17  
(2) (b) Thereunder**

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Form Type

**N/A**

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Amendment Designation (if applicable)

June 30, 2020

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Period Ended Date

**N/A**

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(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2020
2. Commission identification number 808
3. BIR Tax Identification No. 000-162-935V
4. Exact name of issuer as specified in its charter DITO CME Holdings Corp.
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office 21<sup>st</sup> Floor Udenna Tower, Rizal Dr. cor. 4<sup>th</sup> Avenue  
Bonifacio Global City, Taguig City  
Postal Code 1634
8. Issuer's telephone number, including area code (632) 8403-4007
9. Former name, former address and former fiscal year, if changed since last report  
ISM Communications Corporation, 3F Alegria Alta Building, 2294 Don Chino Roces Ave., Makati  
City
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of shares of common stock outstanding
Common P1.00 par value	2,800,000,000 common shares

11. Are any or all of the securities listed on a Stock Exchange?

Yes  No

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

Philippine Stock Exchange

Common Shares

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes  No

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes  No

## Financial Information

The following are attached hereto as part of this report:

- a. Consolidated Statements of Financial Position as of June 30, 2020 (unaudited) and December 31, 2019 (audited)
- b. Consolidated Statements of Comprehensive Income for the six-month period ended June 30, 2020 and 2019 (unaudited)
- c. Consolidated Statements of Changes in Stockholders' Equity as of June 30, 2020 and 2019 (unaudited)
- d. Consolidated Statements of Cash Flows as of June 30, 2020 and 2019 (unaudited)
- e. Notes to the Consolidated Interim Financial Statements
- f. Aging of Accounts Receivable
- g. Management's Discussion and Analysis of Financial Condition and Results of Operations

**DITO CME HOLDINGS CORP.**  
*(formerly ISM Communications Corporation)*  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2020 AND DECEMBER 31, 2019**  
*(Amounts in Philippine Pesos)*

	Notes		<b>June 30, 2020</b> <b>(Unaudited)</b>	December 31, 2019 (Audited)
<b><u>A S S E T S</u></b>				
<b>CURRENT ASSETS</b>				
Cash in banks	4	P	4,061,714	P 4,589,910
Receivables - net	5		4,038,116,565	3,982,146,834
Other current assets - net	6		7,289,183	7,232,340
Total Current Assets			<b>4,049,467,462</b>	3,993,969,084
<b>NON-CURRENT ASSETS</b>				
Receivables	5		37,100,872	37,482,274
Financial assets at fair value through other comprehensive income	8		86,079,989	101,173,928
Other non-current assets - net	6		25,267	25,267
Total Non-current Assets			<b>123,206,128</b>	138,681,469
<b>TOTAL ASSETS</b>		<b>P</b>	<b>4,172,673,590</b>	P 4,132,650,553
<b><u>LIABILITIES AND EQUITY</u></b>				
<b>CURRENT LIABILITIES</b>				
Accrued expenses and other payables	9	P	694,316	P 821,811
Income tax payable	10		1,169,188	1,233,709
Total Liabilities			<b>1,863,504</b>	2,055,520
<b>EQUITY</b>				
Capital stock	12		2,800,000,000	2,800,000,000
Additional paid-in capital	2		785,205,350	785,205,350
Revaluation reserves		(	368,934,546 )	( 353,840,608 )
Retained earnings			954,539,282	899,230,291
Total Equity			<b>4,170,810,086</b>	4,130,595,033
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P</b>	<b>4,172,673,590</b>	P 4,132,650,553

*See Notes to Consolidated Interim Financial Statements.*

**DITO CME HOLDINGS CORP.**  
*(formerly ISM Communications Corporation)*  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*  
*(Unaudited)*

	Notes	For the six months ended June 30,		For the three months ended June 30,	
		2020	2019	2020	2019
<b>EXPENSES</b>					
Professional fees		1,153,374	3,986,683	169,524	2,307,327
Taxes and licenses		318,284	7,382,545	317,144	7,345,133
Representation and entertainment		25,482	704,994	-	152,473
Utilities		6,928	285,800	5,180	148,047
Salaries and administrative		-	5,017,935	-	1,306,252
Rent		-	429,768	-	214,884
Travel and transportation		-	145,279	-	88,226
Depreciation and amortization		-	42,022	-	21,024
Miscellaneous		75,353	3,996,166	64,029	2,415,500
		<u>1,579,421</u>	<u>21,991,192</u>	<u>555,877</u>	<u>13,998,866</u>
<b>OTHER INCOME (CHARGES) - Net</b>					
Interest income	4, 5, 8	58,461,967	36,430,154	29,128,319	12,281,037
Foreign currency exchange gain (loss) - net		( 403,857 )	( 43,091,527 )	( 452,000 )	( 39,476,489 )
Equity share in net loss of an associate	7	-	( 21,719,040 )	-	( 11,699,353 )
Other income		-	126,475	-	66,475
		<u>58,058,110</u>	<u>( 28,253,938 )</u>	<u>28,676,319</u>	<u>( 38,828,330 )</u>
<b>INCOME (LOSS) BEFORE TAX</b>		<b>56,478,689</b>	<b>( 50,245,130 )</b>	<b>28,120,442</b>	<b>( 52,827,196 )</b>
<b>TAX EXPENSE</b>	10	<b>1,169,698</b>	<b>49,437</b>	<b>582,822</b>	<b>24,606</b>
<b>NET INCOME (LOSS)</b>		<b>55,308,991</b>	<b>( 50,294,567 )</b>	<b>27,537,620</b>	<b>( 52,851,802 )</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		<b>( 15,093,938 )</b>	<b>138,277,450</b>	<b>1,730,515</b>	<b>25,599,794</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>P 40,215,053</b>	<b>P 87,982,883</b>	<b>P 29,268,135</b>	<b>( P 27,252,008 )</b>
<b>EARNINGS (LOSS) PER SHARE</b>	13	<b>P 0.0198</b>	<b>( P 0.0180 )</b>	<b>P 0.0098</b>	<b>( P 0.0189 )</b>

*See Notes to Consolidated Interim Financial Statements.*



**DITO CME HOLDINGS CORP.**  
*(formerly ISM Communications Corporation)*  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*  
*(Unaudited)*

	<u>Capital Stock</u>	<u>Additional Paid-In Capital Stock</u>	<u>Revaluation Reserves</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at January 1, 2020	P 2,800,000,000	P 785,205,350	( P 353,840,608 )	P 899,230,291	P 4,130,595,033
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>( 15,093,938 )</u>	<u>55,308,991</u>	<u>40,215,053</u>
Balance at June 30, 2020	<u><b>P 2,800,000,000</b></u>	<u><b>P 785,205,350</b></u>	<u><b>( P 368,934,546 )</b></u>	<u><b>P 954,539,282</b></u>	<u><b>P 4,170,810,086</b></u>
Balance at January 1, 2019	P 2,800,000,000	P 785,205,350	( P 233,554,195 )	P 934,122,969	P 4,285,774,124
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>138,277,450</u>	<u>( 50,294,567 )</u>	<u>87,982,883</u>
Balance at June 30, 2019	<u><b>P 2,800,000,000</b></u>	<u><b>P 785,205,350</b></u>	<u><b>( P 95,276,745 )</b></u>	<u><b>P 883,828,402</b></u>	<u><b>P 4,373,757,007</b></u>

*See Notes to Consolidated Interim Financial Statements.*

**DITO CME HOLDINGS CORP.**  
**(formerly ISM Communications Corporation)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019**  
**(Amounts in Philippine Pesos)**  
**(Unaudited)**

	Notes	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit (loss) before tax		P 56,478,689	( P 50,245,130 )
Adjustments for:			
Interest income	4, 5, 8	( 58,461,967 )	( 36,430,154 )
Unrealized foreign currency exchange losses (gains) - net		400,447	43,091,527
Equity share in net loss of joint ventures and an associate	7	-	21,719,040
Depreciation and amortization		-	42,022
Gain on disposal of financial assets at fair value through other comprehensive income (FVOCI)	8	-	( 6,275 )
Gain on disposal of property and equipment		-	( 200 )
Operating loss before working capital changes		( 1,582,831 )	( 21,829,170 )
Increase in trade and other receivables		( 55,588,328 )	( 1,559,449 )
Increase in due from related parties		-	( 2,559,288,375 )
Increase in other current assets		( 56,843 )	( 569,169 )
Decrease in trade and other payables		( 127,495 )	( 335,033 )
Cash used in operations		( 57,355,497 )	( 2,583,581,196 )
Cash paid for income taxes		( 1,234,219 )	( 51,112 )
Interest received		58,461,967	28,816,133
Net Cash Used In Operating Activities		( 127,749 )	( 2,554,816,175 )
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>			
Repurchase agreements	5	-	761,884,765
Proceeds from sale of financial assets at FVOCI	8	-	30,281,851
Acquisitions of financial assets at FVOCI		-	( 15,728,309 )
Proceeds from disposal of property and equipment		-	200
Net Cash From Investing Activities		-	776,438,507
<b>EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS</b>			
		( 400,447 )	( 5,925,635 )
<b>NET DECREASE IN CASH IN BANKS</b>			
		( 528,196 )	( 1,784,303,303 )
<b>CASH IN BANKS AT BEGINNING OF YEAR</b>			
		4,589,910	2,871,653,215
<b>CASH IN BANKS AT END OF PERIOD</b>			
		P 4,061,714	P 1,087,349,912

*See Notes to Consolidated Interim Financial Statements.*

**DITO CME HOLDINGS CORP. AND SUBSIDIARIES**  
**(Formerly ISM Communications Corporation)**  
**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND DECEMBER 31, 2019**  
**(Amounts in Philippine Pesos)**

**1. CORPORATE INFORMATION**

**1.1 Corporate Information**

DITO CME Holdings Corp. (formerly ISM Communications Corporation) (DITO CME or the Parent Company) was, originally, a mining company incorporated under the name "Itogon-Suyoc Mines, Inc."

During meetings held on June 22 and July 25, 2001, the Board of Directors (BOD) and stockholders of DITO CME approved a Memorandum of Agreement (MOA) between DITO CME and PhilWeb Corporation (PhilWeb). Under the terms of the MOA, PhilWeb shall manage the transformation of DITO CME from a mining company to a company engaged in information technology, multimedia, telecommunications and other similar industries, including the identification of and negotiation with potential investors who will infuse the necessary capital or assets for projects in such industries. Any project identified by PhilWeb shall be subject to the approval of the BOD and stockholders of DITO CME. As consideration for the services to be rendered by PhilWeb, and in order to generate investor confidence in the new corporate direction of DITO CME, PhilWeb was granted the right to subscribe to 12,000,068,290 shares of the unissued capital stock of DITO CME at par value, by making an initial payment of 25% on such subscription.

To facilitate the transformation envisioned in the aforementioned MOA, DITO CME:

- a. amended its articles of incorporation and by-laws to enable it to undertake its new projects in a manner acceptable to the new investors;
- b. completely divested its mining operations, as well as all mining-related assets and liabilities to a third party such that, at the time of the commencement of the new projects and/or the entry of the new investors, it would have substantially no assets and no liabilities; and
- c. allowed the new investors to have majority control of its voting shares of stock and control the management of its operations.

On July 25, 2001, the stockholders of DITO CME also approved the following:

- a. The amendments to the Articles of Incorporation of DITO CME concerning:
  - (i) the declassification of the capital stock (common "A" and common "B") into just one class of common stock;
  - (ii) denial of pre-emptive rights; and,

(iii) inclusion, among its secondary purposes, of the business of information technology, telecommunications, multimedia, as well as other similar businesses.

b. The granting of authority to the BOD to sell, alienate and/or dispose of any or all of its assets to repay maturing loan obligations.

On April 10, 2002, the stockholders of DITO CME approved a Restructuring Plan, which involved, among others, the following:

a. change in corporate name from "Itogon-Suyoc Mines, Inc." to "ISM Communications Corporation"; and

b. change in the primary purpose from a company engaged in the business of mining to a company engaged in the business of telecommunications, multimedia and information technology.

The Securities and Exchange Commission (SEC) subsequently approved such Restructuring Plan on June 7, 2002.

On November 19, 2013, PhilWeb sold its entire equity interest in DITO CME to a domestic corporation. Accordingly, the Memorandum of Agreement with PhilWeb has been terminated.

On May 24, 2016, the stockholders of DITO CME approved the following amendments to the articles of incorporation of the Parent Company:

a. Change in the primary purpose from a company engaged in the business of telecommunications, multimedia and information technology to a company engaged in the business of a holding company.

b. Change in the principal address of the Parent company to 2F PBCOM Tower, 6795 Ayala Ave. cor. V.A. Rufino St., Makati City.

c. Reduction in the number of members of the BOD of the Parent Company from fifteen to nine, which shall consist of such number of regular and independent directors as the stockholders may elect from time to time. In no case shall the number of independent directors be less than two.

The SEC subsequently approved such amendment on November 11, 2016.

On December 10, 2019, upon the recommendation of the management, the BOD and stockholders approved the subsequent amendments to the AOI of DITO CME to (a) change its corporate name to DITO CME Holdings Corp.; (b) change its principal address from 3<sup>rd</sup> Floor Alegria Alta Building, 2294 Don Chino Roces Extension, Makati City to 21<sup>st</sup> Floor, Udenna Tower, Rizal Drive corner 4<sup>th</sup> Avenue, Bonifacio Global City, Taguig City, 1634; and (c) increase the authorized capital stock from 2.8 billion to 40.0 billion shares with a par value of P1.0 per share (see Note 12.1).

On March 6, 2020, the application for the change in name and principal address was approved by the SEC. As of the date of issuance of the consolidated financial statements, these changes were not yet submitted to the Bureau of Internal Revenue (BIR). Currently, the details for the subscription of the increase in authorized capital stock have yet to be finalized. The application is not yet submitted to SEC.

The Parent Company is a publicly-listed company and its shares are listed in the Philippine Stock Exchange (PSE).

The Parent Company holds ownership interest in the following subsidiaries and an associate (collectively these entities together with DITO CME are referred herein as the “Group”):

Subsidiaries/Associate	Notes	Percentage of Ownership		Country of Incorporation
		2020	2019	
Subsidiaries:				
ISM Equities Corporation (ISMEC)	(a)	100.0%	100.0%	Philippines
Wagas Consultants Limited (Wagas)	(b)	100.0%	100.0%	British Virgin Islands
Host Union International Limited (Host Union)	(c)	100.0%	100.0%	Hong Kong
Associate –				
Acentic Holdings Limited (Acentic)	(d)	32.5%	32.5%	United Kingdom

(a) ISMEC is a domestic corporation registered with the SEC on May 27, 2015, primarily engaged in investing, purchasing, using, and selling real and personal property of every kind. As at June 30, 2020, ISMEC has not started yet its operations.

(b) Wagas is a special-purpose entity, organized and existing under the laws of the British Virgin Islands.

(c) Host Union, an indirect subsidiary of the Parent Company through Wagas, is a special-purpose entity organized and existing under the laws of Hongkong.

(d) Acentic is an associate of Host Union, organized in the laws of England and Wales, engaged in the production, sale and operation of media and information systems, particularly for hotels and tourism business, as well as development of software and hardware internet solutions. Prior to December 31, 2017, Host Union holds a 32.5% interest in Acentic GmbH, however, on such date, Host Union applied for the allotment and issuance of 325 ordinary shares at GBP 1 each of Acentic in consideration for the transfer of Host Union’s 325,000 shares in Acentic GmbH to Acentic. As of December 31, 2019, management of Acentic has determined that a material uncertainty exists, which may cause significant doubt on the associate's ability to continue as a going concern due to continuous operating losses. Also, as of the date the consolidated financial statements are authorized for issue, it was determined that Acentic's financial condition and performance was negatively affected by corona virus (COVID-19). The associate's management manage this event by relying on the continuous financial support of the controlling shareholder, availing of various government relief and daily focus on cash requirement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 *Basis of Preparation of Consolidated interim financial statements*

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

#### (a) *Statement of Compliance with Philippine Financial Reporting Standards*

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

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

#### (b) *Presentation of Consolidated interim financial statements*

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

#### (c) *Functional and Presentation Currency*

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

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

### 2.2 *Adoption of New and Amended PFRS*

#### (a) *Effective in 2020 that are Relevant to the Group*

The Group adopted for the first time the following PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 1 (Amendments)	:	Presentation of Financial Statements
PAS 8 (Amendments)	:	Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 3 (Amendments)	:	Business Combinations – Definition of a Business

Discussed below are the relevant information about these pronouncements.

- (i) PAS 1 (Amendments), *Presentation of Financial Statements*, and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.
- (ii) *Revised Conceptual Framework for Financial Reporting* (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

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

(b) *Effective Subsequent to 2020 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2021, which are adopted by the FRSC. Management will adopt the relevant pronouncements in the succeeding pages, in accordance with their transitional provisions, and unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

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

**2.3 Basis of Consolidation**

The Group's consolidated interim financial statements comprise the accounts of the Parent Company, and its subsidiaries after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses, if any, that indicate impairment are recognized in the consolidated interim financial statements.

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

The Parent Company accounts for its investments in subsidiaries and associate as follows:

(a) *Investments in Subsidiaries*

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

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



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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss (see Note 2.7).

On the other hand, business combinations arising from transfers or acquisition of interests in entities that are under the common control of the shareholder that controls the Group are normally accounted for under the pooling-of-interests method and reflected in the consolidated financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognized in the Group's consolidated financial statements at the carrying amounts previously recognized. The difference between the consideration transferred and the net assets of the subsidiary acquired is recognized as Other Reserves as part of the equity

*(b) Investment in an Associate*

Associate is an entity over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investment in an associate is initially recognized at cost and subsequently accounted for using the equity method.

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

All subsequent changes to the Group's share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported within the Equity share in net income (loss) of associates under Other Income (Charges) account in the consolidated statement of comprehensive income. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

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

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Group, as applicable.

However, when the Parent Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Parent Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

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

The Parent Company holds indirect interests in a subsidiary and an associate as presented in Note 1.1.

#### **2.4 Financial Assets**

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

##### *(a) Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

##### *(i) Financial Assets at Amortized Cost*

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash in Banks and Receivables.

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

For purposes of cash flows reporting and presentation, cash in banks comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(ii) *Financial Assets at Fair Value Through Other Comprehensive Income*

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or as mandatorily required to be classified as FVTPL. The Group has designated certain equity instruments as at FVOCI on initial recognition.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Retained Earnings account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as dividend income, when the Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and, the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

*(iii) Financial Assets at Fair Value Through Profit or Loss*

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL include equity-based mutual funds which contractual cash flows do not represent SPPI.

Financial assets at FVTPL are measured at fair value with gains or losses, if any, are recognized in profit or loss as part of Fair Value Gains or Losses in the consolidated statement of comprehensive income. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statement of comprehensive income as part of Interest Income.

A change in the objective of the Group's business model will take effect only at the beginning of the next reporting period following the change in the business model.

*(b) Impairment of Financial Assets*

At the end of the reporting period, the Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. Recognition of credit losses is no longer dependent on the Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group applies the general approach in measuring ECL of advances to related parties. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In applying this approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. In calculating the ECL, the Group incorporates forward-looking information based on reasonable and supportable macroeconomic variables.

To calculate the ECL of advances to related parties, the Group uses the liquidity and forward-looking approach based on external indicators.

For other financial assets at amortized cost, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For debt instruments measured at FVOCI, the Group recognizes lifetime ECL when there has been a significant increase in credit risk on a financial asset since initial recognition. Lifetime ECL represents the expected credit loss that will result from all possible default events over the expected life of a financial asset, irrespective of the timing of the default. However, if the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures and provides for credit losses that are expected to result from default events that are possible within 12-months after the end of the reporting period.

The Group determines whether there has been a significant increase in credit risk for financial asset since initial recognition by comparing the risk of default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of default over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.
- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral or effect of any credit enhancement.
- *Exposure at default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(c) *Derecognition of Financial Assets*

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

**2.5 Other Assets**

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

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

Other assets include property and equipment which are carried at cost less accumulated depreciation, amortization and impairment losses, if any. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred. Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets of three to 10 years. Leasehold improvements are amortized over the estimated useful lives of five years or the term of the lease, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.14).

An item of property and equipment, including the related accumulated depreciation and amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

**2.6 Financial Liabilities**

Financial liabilities, which pertain to accounts payable and accrued expenses (except tax-related liabilities), are recognized when the Group becomes a party to the contractual terms of the instrument.

Accounts payable and accrued expenses are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for those with maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

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

## **2.7 Business Combination**

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

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

Negative goodwill, which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost, is charged directly to income and is presented as Gain on bargain purchase under Other Income (Charges) in the consolidated statement of comprehensive income.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating unit that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

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

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

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

## **2.8 Segment Reporting**

An operating segment is a component of an entity: (a) that engages in business activities from which may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about sources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. An operating segment may engage in business activities for which it has earned revenues, for example, start-up operations may be operating segments before earning revenues.

The Group determines and presents an operating segment based on the information that is internally provided to the Chairman and Chief Executive Officer who is the Group's chief operating decision maker (CODM).

The Group's CODM is reviewing the results of the Group as a whole, hence, the Group has only one segment. The information being reviewed by the CODM is based on the amounts reflected in the consolidated financial statements and hence, no additional information is presented.

## **2.9 Offsetting Financial Instruments**

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

## **2.10 Provisions and Contingencies**

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

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

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements.



Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### **2.11 Revenue and Expense Recognition**

Revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Group's consolidated financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract.

Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

### **2.12 Leases – Group as Lessee**

The Company accounts for its leases as follows:

#### *(a) Accounting for Leases in Accordance with PFRS 16*

The Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The Group's current lease agreement was assessed as a short-term lease and was accounted for using the practical expedients available for short-term leases such as the use of hindsight in determining the lease term where the contract contains an option to terminate the lease. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

### **2.13 Foreign Currency Transactions and Translation**

#### *(a) Transactions and Balances*

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

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

Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVOCI (previously as AFS financial assets) are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

#### *(b) Translation of Financial Statements of a Foreign Subsidiary*

The operating results and financial position of Wagas which are measured using the United States (U.S.) dollar, its functional currency, are translated to Philippine pesos, the Group's functional currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (ii) Income and expenses for each profit or loss account are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in Wagas, is taken to other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the consolidated statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The translation of the financial statements into Philippine peso should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

#### **2.14 Impairment of Non-financial Assets**

The Group's investment in associate and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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

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

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

#### **2.15 Income Taxes**

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

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

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

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

### **2.16 Related Party Transactions and Relationships**

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

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

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

Based on the requirement of SEC Memorandum Circular 2019-10, *Rules of Material Related Party Transaction for Publicly-listed Companies*, transactions amounting to 10% or more of the total consolidated assets based on its latest consolidated financial statements that were entered into with related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds (2/3) vote of the Company's board of directors, with at least a majority of the independent directors, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of ten percent of the Group's total assets based on the latest consolidated financial statements, the same board approval would be required for the transactions that meet and exceeds the materiality threshold covering the same related party.

### **2.17 Earnings per Share**

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

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

### **2.18 Equity**

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

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise of unrealized fair value gains and losses from revaluation of financial assets at FVOCI, share in cumulative other comprehensive loss of an associate and cumulative translation adjustment.

Retained earnings represent all current and prior period results of operations as reported in the consolidated statement of comprehensive income, reduced by the amounts of dividends declared.

### **2.19 Events After the End of the Reporting Period**

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

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the financial statements in accordance with PFRSs requires management to make judgments, estimates and assumptions that affect amounts reported in the financial statements and related notes. The judgments, estimate and assumption used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

The judgments, estimate and assumption 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.

### **3.1 Critical Management Judgments in Applying Accounting Policies**

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

(a) *Application of ECL on Receivables and Financial Assets at FVOCI*

PFRS 9 notes that the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. In the case of advances to related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded. The management's assessment for possible impairment on advances to related parties is based on the sufficiency of the counterparties' highly liquid assets in order to repay the loan if demanded at the reporting date taking into consideration the historical defaults of the related party.

The Group uses modified loss rates to calculate ECL for receivables and debt instruments carried at FVOCI. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, which is equal to the lifetime ECL, or unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the financial assets at FVOCI, is recognized.

The Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) *Evaluation of Business Model Applied in Managing Financial Instruments and Testing the Cash Flow Characteristics of Financial Instruments*

In determining the classification of a financial instrument under PFRS 9, the Group:

(i) evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment and trading strategies; and, (ii) assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding.

The Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

In respect of the investment in preferred shares of an associate, the Company elected the option to irrevocably designate and present in other comprehensive income the changes in fair value of these equity securities as the Company consider these to be strategic in nature.

*(c) Classification of Investment in Preferred Shares of an Associate as Equity Instruments*

The Group classifies its investment in preferred shares of an associate as part of equity securities at FVOCI since there is no fixed redemption date and the option to redeem these securities partially or in full is under its terms and conditions. In addition, the issuer may, at its discretion, declare and pay dividends in the event the issuer has distributable reserves even when it is likely that the payments will be made. On the other hand, these securities shall be treated as financial liability when the issuer has an obligation to pay the accumulated distributions should the issuer declares dividends to its equity holders as defined under PAS 32. Should the issuer also opt to not defer payment of distributions, all distributions in arrears as of that date will be recognized as a financial liability until payment is made.

At initial recognition, the Group made an irrevocable election to designate these securities as at FVOCI which was aligned with the Group's business model to hold to collect the associated cash flows and sell.

*(d) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10 and disclosures on relevant provisions and contingencies are presented in Note 14.

### **3.2 Key Sources of Estimation Uncertainty**

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

*(a) Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost and at FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 15.2.

*(b) Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management calculates the fair value based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques.

The carrying values of the Group's financial assets at FVOCI and the amounts of fair value changes recognized on those assets are disclosed in Note 8.

*(c) Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that certain deferred tax assets as at March 31, 2020 and December 31, 2019 may not be fully utilized in the subsequent reporting periods; hence, a portion of it was no longer recognized. The details of recognized and unrecognized deferred tax assets as of March 31, 2020 and December 31, 2019 are presented in Note 10.

*(d) Impairment of Non-financial Assets*

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

No impairment losses relating to non-financial assets were incurred by the Group as of March 31, 2020 and December 31, 2019.



#### 4. CASH IN BANK

This account consists of cash in banks amounting to P4.1 million and P4.6 million as of June 30, 2020 and December 31, 2019, respectively.

Interest earned in 2020 and 2019 are presented as part of Interest Income account under Other Income account in consolidated statements of comprehensive income.

#### 5. RECEIVABLES

This account consists of:

	Notes	June 30, 2020	December 31, 2019
Current:			
Advances to affiliates	11.2	P 4,031,530,369	P 3,975,560,638
Receivables from sale of Eastern Telecommunications Philippines, Inc (ETPI)	5.1	307,777,692	307,777,692
Interest receivable	5.2	6,300,999	6,300,999
Others		<u>285,197</u>	<u>285,197</u>
		4,345,894,257	4,289,924,525
Allowance for impairment	5.1	( <u>307,777,692</u> )	( <u>307,777,692</u> )
		<u>4,038,116,565</u>	<u>3,982,146,833</u>
Noncurrent:			
Long term notes receivable	5.2	69,237,763	69,619,165
Allowance for impairment on notes receivable	5.2	( <u>32,136,891</u> )	( <u>32,136,891</u> )
		<u>37,100,872</u>	<u>37,482,274</u>
		<u>P 4,076,065,524</u>	<u>P 4,019,629,108</u>

##### 5.1 Receivable from ETPI

Receivable from sale of ETPI pertains to the outstanding proceeds from the sale of the Group's investment in Eastern Telecommunications Philippines, Inc. (ETPI). The amount is noninterest-bearing. On March 25, 2015, the Group and the buyer entered into an agreement on the payment schedule to be made in relation to the aforementioned receivable. Schedule of payments is as follows:

	Amount of Payment	Payment Date
P	800,000,000	2015
	50,444,462	2016
	<u>48,000,000</u>	2017
P	<u>898,444,462</u>	

The receivable from sale of ETPI was collected as per the agreed payment schedule. However, in 2015, the Group provided allowance for impairment loss amounting to P307.78 million, pertaining to the remaining balance of receivable which was not included in the payment schedule, as management deemed the amount is doubtful of collection.

As of March 31, 2020, the Group and ETPI are still discussing for the plan on the remaining receivable. The receivable is still uncollected; hence, the corresponding allowance for impairment loss has not been reversed.

## 5.2 Notes Receivable

Notes receivable consist of foreign currency denominated interest-bearing loans to Acentic as follows:

	Amount in original currency	Peso Equivalent		Maturity Date
		June 30, 2020	December 31, 2019	
EUR Loan 1	EUR 860,451	P 48,221,825	P 48,487,465	December 31, 2022
EUR Loan 2	EUR 250,000	14,010,625	14,087,800	December 31, 2021
EUR Loan 3	EUR 125,000	<u>7,005,313</u>	<u>7,043,900</u>	December 31, 2021
		<u>P 69,237,763</u>	<u>P 69,619,165</u>	

During 2017, the Group and its subsidiary, Wagas, have an outstanding notes receivable from Acentic GmbH amounting to EUR 5,741,653, inclusive of EUR 746,429 accrued interest. As part of the restructuring, Acentic GmbH assigned to Acentic the accrued interest plus a portion of the principal amounting to EUR 114,022 or with a total amount of EUR 860,451 due to the Group. Such loan bears a fixed interest of 5.00% and will mature on December 31, 2022 (EUR Loan 1).

On March 22, 2018 and May 2, 2018, the Group granted additional loans to Acentic amounting to EUR 250,000 ("EUR Loan 2") and EUR 125,000 ("EUR Loan 3"), respectively. Both loans bear an annual fixed interest of 10.00% and this matured on March 31, 2020. However, in March 2020, upon the agreement of Acentic and the Group, the maturity date for EUR Loan 2 and EUR Loan 3 is extended to December 31, 2021.

Interest earned from these receivables are presented as part of Interest income account under Other Income account in consolidated statement of comprehensive income.

The Group's notes receivables have been assessed by management for expected credit losses. All were found to be impaired as determined by the management; hence, adequate amounts of allowance for impairment have been recognized, which was based on the days past due (see Note 15.2).

A reconciliation of the allowance for impairment losses on receivables at the beginning and end of 2019 is shown below. There were no similar transaction in 2020.

	Current	Non-current	Total
December 31, 2019:			
Balance at beginning of year	P 307,777,692	P -	P 307,777,692
Impairment loss	-	32,136,891	32,136,891
	<u>P 307,777,692</u>	<u>P 32,136,891</u>	<u>P 339,914,583</u>

## 6. OTHER ASSETS

This account consists of:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Current:		
Input value-added tax (VAT)	P 8,962,804	P 8,916,825
Prepaid assets	<u>2,720,890</u>	<u>2,710,026</u>
	<b>11,683,694</b>	11,626,851
Allowance for impairment losses on input VAT	<u>( 4,394,511)</u>	<u>( 4,394,511)</u>
	<b>7,289,183</b>	<b>7,232,340</b>
Non-current:		
Property and equipment	5,794,013	5,794,013
Accumulated depreciation	<u>( 5,768,746)</u>	<u>( 5,768,746)</u>
	<b>25,267</b>	<b>25,267</b>
	<u><b>P 7,314,450</b></u>	<u><b>P 7,257,607</b></u>

## 7. INVESTMENT IN AN ASSOCIATE

The cost of investment in Acentic amounted to P660,419,903 as of June 30, 2020 and December 31, 2019.

In 2020 and 2019, the Group's share in the net losses of its associate exceeded the carrying amount of its investment. Cumulative excess share in net losses was absorbed fully by the investment in preferred shares of the Group in the same entity (see Note 8).

The management assessed that the associate's continuous losses is an indication of impairment of the Group's investment in Acentic, however, no impairment was recognized in the books as the carrying value is nil due to the absorbed share in net losses.

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The amounts in the consolidated statement of financial position comprises equity securities amounting to P84.3 million and P101.2 million as of June 30, 2020 and December 31, 2019, respectively.

The breakdown of the equity securities are as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Listed equity securities	P 83,449,295	P 98,543,234
Unquoted equity securities – Common	<u>2,630,694</u>	<u>2,630,694</u>
	<u><b>P 86,079,989</b></u>	<u><b>P 101,173,928</b></u>

The investment in equity shares consists of quoted and unquoted shares. Quoted shares consist of 4,806,987 shares of stock in PBCom. Unrealized fair value changes of these shares amounted to P15.1 million loss in 2020 and and P1.4 million gain in 2019. Such amounts are presented as part of Fair Value Gains (Losses) on Equity Securities at FVOCI account in the consolidated statement of comprehensive income.

The fair values of government and corporate bonds and listed equity securities have been determined based on quoted prices in active markets.

In 2017, some of the Group's notes receivables and interest receivables were converted into investment in preferred shares and the remaining balance into a new loan agreement as a result of the proposed restructuring of Acentic.

Prior to restructuring, the Group has an outstanding notes receivable from Acentic GmbH amounting to EUR 5.74 million (P342.28 million), inclusive of EUR 0.7 million (P44.50 million) accrued interest. The restructuring agreement provides that the Group agreed to accept settlement of the loan balance of EUR 4.88 million (P290.98 million) originally due from Acentic GmbH via the issuance of 4,150,682 preferred shares from Acentic worth EUR 4.15 million (P247.44 million) in its favor as full and final settlement. As such, the Group waives any rights to receive this remaining loan balance other than the said preference share consideration.

In 2019, the management assessed that the Group's investment in Acentic is already impaired. This resulted to the full impairment of the investment in preferred shares amounting to P199.69 million which includes the fair value losses, absorption of share in net losses of investment in an associate and foreign currency exchange losses.

## 9. ACCRUED EXPENSES AND OTHER PAYABLES

This account consists of:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Accrued expenses	P 682,589	P 513,384
Other payables	<u>11,727</u>	<u>308,427</u>
	<u>P 694,316</u>	<u>P 821,811</u>

Accrued expenses pertains to the amount payable to the investment manager. Payable to government agencies pertain to withholding taxes and to the employer's share in the contribution for SSS, HDMF, and PhilHealth. Other payables consist of amounts due to internet service provider.

## 10. INCOME TAXES

The Group's current income tax expense, which pertains to minimum corporate income tax (MCIT), amounted to P1.2 million and P1.4 million as of June 30, 2020 and December 31, 2019, respectively.

The details of NOLCO as of December 31, 2019, which can be claimed as deduction against future taxable income, and their respective prescriptive period are as follows:

<u>Year Incurred</u>	<u>Original Amount</u>	<u>Applied</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2018	P 32,392,843	( P 9,408,357 )	P 22,984,486	2021
2017	<u>22,150,997</u>	<u>( 22,150,997 )</u>	<u>-</u>	2020
	<b><u>P 54,543,840</u></b>	<b><u>( P 54,543,840 )</u></b>	<b><u>P 22,984,486</u></b>	

The details of the Group's MCIT which can be claimed as deduction against future corporate tax liabilities as follows:

<u>Year Incurred</u>	<u>Original Amount</u>	<u>Expired</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2020	P 1,169,698	P -	P 1,169,698	2023
2019	1,358,696	-	1,358,696	2022
2018	112,963	-	112,963	2021
2017	79,589	-	79,589	2020
2016	<u>906,918</u>	<u>( 906,918 )</u>	<u>-</u>	2019
	<b><u>P 3,627,864</u></b>	<b><u>( P 906,918 )</u></b>	<b><u>P 2,720,946</u></b>	

## 11. RELATED PARTY TRANSACTIONS

The Group's related parties include its associates, the Group's key management personnel and others as described in Note 2.16. The summary of the Group's transactions and outstanding balances with its related parties follows:

<u>Related Party Category</u>	<u>Amount of Transactions</u>		<u>Outstanding Balances</u>	
	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>
<b>Associate:</b>				
Interest-bearing loan	( P 381,402 )	( P 37,029,041 )	P 37,100,872	P 37,482,274
Interest income	-	4,651,704	<b>6,300,999</b>	6,300,999
Investment in preferred shares	-	( 199,687,585 )	-	-
<b>Others</b>				
Advances	( 2,489,685 )	3,911,552,876	<b>3,910,028,054</b>	3,912,517,739
Interest on advances	<b>58,459,416</b>	63,042,899	<b>121,502,315</b>	63,042,899
Short-term receivables	-	( 761,884,765 )	-	-

### 11.1 Loans to Associate

The Group has been granting various unsecured foreign currency denominated interest-bearing loans to its associate for its working capital requirements. As at June 30, 2020 and December 31, 2019, the outstanding receivable from Acentic amounted to P37.1 million and P37.5 million, respectively, and is shown under the Receivables account in the consolidated statements of financial position of the Group (see Note 5.3).

In 2020 and 2019, a portion of the foreign currency denominated interest-bearing loans is assessed by the management for expected credit losses based on the days past due (see Notes 5.3 and 15.2).

Interest income on these loans are presented as part of Interest Income account under the Other Income (Charges) section in the consolidated statements of comprehensive income. The outstanding interest receivable amounted to P6.30 million as of June 30, 2020 and December 31, 2019, respectively, and is presented as part of the Receivables account in the consolidated statements of financial position.

### **11.2 Loans to Affiliates**

The Group grants cash advances to its related parties under common ownership for working capital requirements and other purposes. The advances are subject to 3% interest rate per annum, unsecured and payable in cash on demand. The advances are noninterest-bearing, unsecured and payable in cash on demand. In 2019, the Group granted Udenna Corporation, Chelsea Logistics and Infrastructure Holdings Corporation, and Chelsea Shipping Corporation advances amounting to P3,546.2 million, P332.4 million, and P33.0 million, respectively. Interest earned on these advances is presented as part of Interest Income in the consolidated statements of comprehensive income. The outstanding balance, including the accrued interest, amounted to P4,031.5 million and P3,974.6 million as of June 30, 2020 and December 31, 2019, respectively, is presented as part of Receivables account in the consolidated statements of financial position).

Management has determined that there is no impairment loss to be provided from the aforementioned advances as of June 30, 2020.

## **12. EQUITY**

### **12.1 Capital Stock**

Capital stock consists of 2,800,000,000 common shares with a par value of P1.0 per share or a total of P2,800,000,000 as of June 30, 2020 and December 31, 2019.

On August 15, 2018, the BOD approved the subscription by Dennison Holdings Corporation to all of the Group's 883,730,659 unissued common shares at a subscription price of P1.45 per share or a total subscription of P1,281.41 million, 25.00% of which is payable upon subscription and the 75.00% balance no later than the end of 2018. Such subscription is equivalent to 45.00% of the resulting outstanding capital stock of the Group. The total amount of subscription price was received as of December 31, 2018 and the proceeds is presented as part of Cash on hand under the Cash in Banks account in the 2018 consolidated statement of financial position (see Note 4). The related stock issuance cost amounting to P8.84 million were deducted from additional paid-in capital.

On December 10, 2019, the BOD and stockholders approved the plan to increase the authorized capital stock of the Parent Company from 2.8 billion to 40.0 billion shares with a par value of P1.0 per share. As of the date of issuance of the consolidated financial statements, the proposed amendments were not yet submitted to the SEC.

## 12.2 Treasury Shares

On November 28, 2014, the BOD of the Parent Company approved the conduct of an issuer tender offer for 1,200,000,000 of its common shares at an offer price equivalent to the prevailing market price of P1.52 per share. From a total of 1,412,212,410 tendered shares received, 1,199,999,993 shares were accepted at a price of P1.52 per share or for a total consideration of P1,823,999,989. The accepted shares were crossed on the Philippine Stock Exchange on February 2, 2015. As a result of the tender offer, the outstanding shares of the Group are 716,216,156 common shares as of December 31, 2015.

On January 26, 2016, the BOD of the Parent Company approved the reissuance of a total of 358,108,078 Treasury Shares (Safe Shares) to its shareholders of record as of February 5, 2016 ("Eligible Shareholders"). Under the terms approved by the BOD, Eligible Shareholders were entitled to buy one treasury share for every two common shares held as of February 5, 2016 at a price of P1.00 per share. The offer period of the sale began last February 9, 2015 and ended last March 15, 2016. The Group successfully concluded the sale of the safe shares and were successfully transferred to the participating shareholders via the facilities of the PSE on March 21, 2016. As a result, the remaining treasury shares as of December 31, 2017 and 2016 is 841,945,107.

On August 15, 2018, the BOD approved the proposed sale of the Group's treasury shares to Accion Common Development Fund SPC at a purchase price of P1.45 per share or for a total price of P1,220.80 million, 25.00% of which is payable upon execution of the deed of assignment and the 75.00% shall be payable no later than the end of the year. The agreement further provides that both parties shall agree when to transact the transfer of treasury shares through the facilities of PSE. As at December 31, 2018, the date of transfer has not been agreed yet by both parties. However, the total purchase price was collected as of December 31, 2018.

## 13. EARNINGS PER SHARE

Loss per share is computed for the six months ended as follows:

	<u>2020</u>	<u>2019</u>
Net income (loss) during the period	P 55,308,991	(P 50,294,567)
Divided by weighted number of outstanding common shares	<u>2,800,000,000</u>	<u>2,800,000,000</u>
Basic and Diluted EPS	<u>P 0.0198</u>	<u>(P 0.0180)</u>

## 14. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

### 14.1 *Operating Lease Commitments – Group as Lessee*

The Group is a lessee under non-cancellable operating lease agreements covering certain offices and parking slots. The leases have terms ranging from one to four years, with renewal options, and include annual escalation rate of 5%. Upon adoption of PFRS 16 as at January 1, 2019, the remaining lease term of these leases are less than 12 months due to pre-termination and the Group elected to account these using practical expedient available for short-term leases and the use of hindsight. The future minimum lease payments under these non-cancellable operating leases as of December 31, 2018 are as follows:

Less than one year	P	641,064
Between one and five years		<u>400,080</u>
	P	<u>1,041,144</u>

On January 31, 2020, a deed of assignment was executed between the Company and a third party (Assignee) whereas the former assigned, transferred, conveyed, all of its rights and interest over the offices and parking slots to the Assignee. Starting January 1, 2020, the Assignee has been responsible to the monthly rentals until the expiration of the contract of lease on August 31, 2020.

### 14.2 *Assignment of Receivables*

On September 12, 2019, the BOD approved the assignment of the Group's receivables from Chelsea Logistics and Infrastructure Holdings Corp., a related party under common ownership, amounting to P215.0 million for the benefit of Emerald Development Holdings Limited (EDHL), also a related party under common ownership.

EDHL desires to secure a \$130,000,000 credit accommodation in the form of a facilities agreement (Agreement) between itself, as borrower, certain stockholders, as personal guarantors, and Madison Pacific Trust Limited, as agent. The Agreement contemplates the execution and implementation of certain security arrangements as security for the payment of the secured liabilities which include the Group's receivables.

### 14.3 *Investment Management Agreement*

In 2015, the Parent Company entered into an IMA whereby the Parent Company availed the services of a trustee bank (investment manager) relative to the management and investment of funds amounting to P351.0 million (the Fund). The Fund, without distinction to principal and income, are invested and reinvested in one or more fixed income placements and securities, other money market or direct placements, or in government securities, and other duly registered commercial papers, whether singly or commingled with other IMA accounts, upon written instruction and/or confirmation of the Parent Company. The agreement further clarified that it is an agreement of agency whereby, the legal title to the Fund should retain to the Parent Company. Accordingly, each financial instruments in the portfolio of investments shall be recorded directly in the books of the Parent Company, classified and measured depending on the type of each financial instruments.



Income arising from interests and dividends shall be measured as interest income and dividend income, respectively, and expenses such as trust fees and taxes, shall be recorded in the profit or loss while any fair value gains or losses shall be recorded under other comprehensive income.

On June 26, 2019, the BOD passed and approved the resolution to terminate the Parent Company's existing IMAs with Security Bank. On July 9, 2019, all fixed income placements and securities, other money market or direct placements, or in government securities, and other duly registered commercial papers have been disposed realizing a loss amounting to P7.5 million and is presented as Loss on disposal of Financial Assets at FVOCI under Other Income (Charges) section in the 2019 consolidated statement of comprehensive income. Proceeds from such transaction were directed to the Parent Company's other bank account (see Note 4).

#### **14.4 Others**

There are other commitments and contingent liabilities that may arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. As of March 31, 2020 and December 31, 2019, management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Group's consolidated financial statements at the end of the reporting period.

### **15. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 16. The main types of risks are market risk, credit risk and liquidity risk.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The BOD has established the Executive Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee identifies all issues affecting the operations of the Group and reports regularly to the BOD on its activities.

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

#### **15.1 Market Risk**

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

##### *(a) Foreign Currency Risk*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

In 2020 and 2019, exposures to currency exchange rates arise, primarily, from its U.S. dollar-denominated cash in banks. Further, the Group has notes receivables from Acentic, which were transacted in Euro. In 2020, the major contributor to the exposure were its Euro-denominated notes receivables (see Note 5).

*(b) Interest Rate Risk*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. As at June 30, 2020 and December 31, 2019, the Group has no outstanding long-term borrowings. The Group is exposed to changes in market interest rates through its cash in banks and short-term receivables, which are subject to variable interest rates (see Notes 4 and 5). All other financial assets and liabilities have fixed rates.

*(c) Other Price Risk*

The Group's market price risk arises from its financial assets at FVOCI (previously as AFS financial assets). The Group manages exposures to price risk by monitoring the changes in the market price of the investments.

**15.2 Credit Risk**

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from placing deposits with banks and investing in debt securities that are carried at FVOCI.

The Group continuously monitors defaults of counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of advance payments are received to mitigate credit risk.

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

	<u>Notes</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Cash in Banks	4	<b>P 4,061,714</b>	P 4,589,910
Receivables – net	5	<b><u>4,076,065,524</u></b>	<u>4,019,629,108</u>
		<b><u>P 4,080,127,238</u></b>	<b><u>P 4,024,219,018</u></b>

*(a) Cash in banks*

The credit risk for cash in banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.50 million for every depositor per banking institution.

(b) *Receivables*

In 2020 and 2018, the Group applies the simplified approach using a provision matrix in measuring ECL which uses a lifetime expected credit loss allowance for its receivables. To measure the ECL, receivables have been grouped based on shared credit risk characteristics and the days past due. The modified loss rates are calculated based on the payment profiles of interest over a period of 36 months before March 31, 2020 and December 31, 2019, and the corresponding modified credit losses experienced within such period. The modified loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the inflation rate where the debtor is located to be the most relevant factor, and accordingly adjusts the modified loss rates based on expected significant changes in these factors.

On that basis, the loss allowance for the notes receivable as at June 30, 2020 and December 31, 2019, in addition to the existing loss allowance amounting to P307.8 million was determined based on days past due.

Modified loss rate		46.16%
Gross carrying amount	P	69,619,165
Loss allowance		32,136,890

In measuring the ECL for its advances to related parties, which are repayable on demand, the Group based the expected credit loss allowance based on the related parties' ability to repay the advances upon demand at the reporting date taking into consideration historical defaults from the related parties. Management assessed that the outstanding receivables from affiliates as of June 30, 2020 and December 31, 2019 are recoverable since these related parties have the capacity to pay the advances upon demand. Accordingly, no impairment losses were recognized as of the end of the reporting periods.

**15.3 Liquidity Risk**

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

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of June 30, 2020 and December 31, 2019, the Group's financial liabilities, which pertain to accrued expenses and other payables, amounting to P0.68 million and P0.51 million, respectively, have contractual maturities of six months to one year.

These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

## 16. FAIR VALUE MEASUREMENT AND DISCLOSURES

### 16.1 Fair Value Hierarchy

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

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

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

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

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

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

## 17. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented in the consolidated statement of financial position. Capital for the reporting periods under review is summarized as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Total liabilities	<b>P 1,863,504</b>	P 2,055,520
Total equity	<b><u>4,170,810,086</u></b>	<u>4,130,595,033</u>
Debt-to-equity ratio	<b><u>0.0004 : 1.00</u></b>	<u>0.0005 : 1.00</u>

The BOD's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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.

BOD uses debt-to equity ratio to monitor and review, on a regular basis, the Group's capital, defined as total equity includes capital stock, additional paid-in capital, revaluation reserves and retained earnings, net of treasury stock as shown in the consolidated statement of financial position.

#### **18. EVENT AFTER THE END OF THE REPORTING PERIOD**

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. The World Health Organization has declared the outbreak as a 'public health emergency of international concern'. COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of enhanced quarantine and social distancing measures and restrictions within the Luzon area with other cities and provinces in the country enacting similar measures thereafter. This resulted in a wide-ranging business suspension – disrupting the supply chains, affecting production and sales across a range of industries, and weakening the stock market.

While the disruption is currently expected to be temporary, management expects that it will negatively impact the financial performance of the Group and its related parties for 2020 and potentially even future periods that are evidently affected by the pandemic, specifically its associate located in a heavily affected location. Management further expects material negative impact on the recoverability of its notes receivable from its associate and fair value of its equity securities in the said associate. However, the severity of these consequences will depend on certain developments, including the duration and spread of the outbreak, development and deployment of a vaccine, impact on the Group and its related parties' customers, suppliers, employees, and the accessibility and effectiveness of government support programs, all of which are uncertain and cannot be predicted as of the date of the issuance of the Group's consolidated financial statements. Accordingly, management is not able to reliably quantify the impact of the outbreak on the Group's financial position and results of operation for future periods aside from the decrease in the share price for one of the Group's financial assets at FVOCI, through the facilities of PSE, was known.

In support and compliance with the government measures to protect the welfare and interest of the Parent Company's employees and stakeholders, including its counterparties, the Parent Company has implemented safety measures and activated its business continuity procedures. These measures include work from home arrangements for employees and continuous communication with stakeholders, and counterparties through online meetings and email communications. The Parent Company has also implemented cost-saving initiatives and adjusted spend plans. Management believes that these measures can mitigate the further negative impact, if any, of COVID-19 to the Company's business and to its financial condition and performance

The Parent Company has determined that this event is a non-adjusting subsequent events. Accordingly, their impact was not reflected in the Group's consolidated financial statements as of and for the period ended June 30, 2020.

**DITO CME Holdings Corp.**  
AGING OF RECEIVABLES  
As of June 30, 2020

	<b>June 30, 2020</b>	<b>June 1, 2020</b>	<b>January 31, 2020</b>	<b>January 1, 2019</b>	<b>December 2, 2019</b>	
	<b>Balance</b>	<b>Current</b>	<b>&gt; 30 but &lt; 60</b>	<b>&gt; 60 but &lt; 90</b>	<b>&gt; 90 but &lt; 120</b>	<b>&gt; 120</b>
Loans Receivable	37,100,872	-	-	-	-	37,524,916
Interest Receivable	6,300,999	-	-	-	378,738	5,922,261
Other Receivables	4,031,815,566	4,031,530,369	-	-	-	285,197
	<b>4,075,217,437</b>	<b>4,031,530,369</b>	-	-	<b>378,738</b>	<b>43,732,374</b>

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The current capitalization of the Group, and expected future revenues from its various investment activities are projected to sufficiently meet the Group’s operating cash requirements. The Group intends to utilize internally generated funds to finance the acquisition of computer and other equipment, if any. These acquisitions, and facilities, are not expected to be of material amounts.

The Group does not expect to conduct any product research and development in the foreseeable future.

No extraordinary purchase or sale of plant and equipment are expected beyond those in the regular course of the Group’s operations. All purchases will be financed through internally-generated funds and existing capitalization.

Hiring of employees will be done in the regular course of business, if necessary.

There are no known trends, events or uncertainties that are reasonably expected to have a material impact on the Group’s revenues or continuing operations.

### **RESULTS OF OPERATION**

<b>Financial Performance (In Peso)</b>	<b>January - June (Unaudited)</b>			
	<b>2020</b>	<b>2019</b>	<b>Change</b>	<b>%</b>
Other income - net	58,058,110 (	28,253,938 )	<b>86,312,048</b>	-305%
Expenses	( 1,579,421 ) (	21,991,192 )	<b>20,411,771</b>	-93%
<b>Profit before tax</b>	<b>56,478,689 (</b>	<b>50,245,130 )</b>	<b>106,723,819</b>	<b>-212%</b>
Tax expense	1,169,698	49,437	<b>1,120,261</b>	2266%
<b>Net Income</b>	<b>55,308,991 (</b>	<b>50,294,567 )</b>	<b>105,603,558</b>	<b>-210%</b>
Retained Earnings, Beginning	899,230,291	934,122,969 (	<b>34,892,678 )</b>	-4%
Retained Earnings, End of Period	954,539,282	883,828,402	<b>70,710,880</b>	8%

<b>Financial Position (In Peso)</b>	<b>June 30, 2020 (Unaudited)</b>	<b>Dec. 31, 2019 (Audited)</b>	<b>Change</b>	<b>%</b>
Current Assets	4,049,467,462	3,993,969,084	<b>55,498,378</b>	1%
Non-current Assets	123,206,128	138,681,469 (	<b>15,475,341 )</b>	-11%
<b>Total assets</b>	<b>4,172,673,590</b>	<b>4,132,650,553</b>	<b>40,023,037</b>	<b>1%</b>
<b>Total liabilities</b>	<b>1,863,504</b>	<b>2,055,520 (</b>	<b>192,016 )</b>	<b>-9%</b>
<b>Total equity</b>	<b>4,170,810,086</b>	<b>4,130,595,033</b>	<b>40,215,053</b>	<b>1%</b>

### **Results of Operation for the First Six Months ended of 2020 and 2019**

The Group generated a net income of ₱55.31 million and net loss of ₱50.29 million in the first six months of 2020 and 2019, respectively.

In the 4<sup>th</sup> quarter of 2019, the Group entered into a intercompany interest-bearing advances agreement with Udenna Corporation. During the first six months of 2020, the Company earned ₱58.46 million interest income and is recognized as part of Other income – net account in the statements of comprehensive income.

In the first six months of 2019, the Company earned interest income amounting to ₱36.43 million which was derived from the short-term investments amounting to ₱761.88 million. This short-term investments was disposed of in June 2019.



**Key performance indicators for the First Six Months ended of 2020 and 2019**

<b>Financial Ratios</b>		
	<b>2020</b>	<b>2019</b>
Current Ratio (Current Assets/Current Liabilities)	2173.04 : 1.00	1943.05 : 1.00
Asset to Equity Ratio (Total Assets/Total Equity)	1.00 : 1.00	1.00 : 1.00
Debt to Asset Ratio (Total Liabilities/Total Assets)	0.00 : 1.00	0.00 : 1.00
Debt to Equity Ratio (Total Liabilities/Total Equity)	0.00 : 1.00	0.00 : 1.00
Return on Total Assets (Net Income/Total Assets)	1.33%	-1.22%
Return on Total Equity (Net Income/Total Equity)	1.33%	-1.22%

**Discussion on the Balance Sheets (BS) for the periods ending June 30, 2020 and December, 31 2019:**

*Cash in Banks*

Cash in banks stood at ₱4.06 million at end of March 31, 2020 compared to ₱4.59 million at December 31, 2019. The decrease can be attributed to the expenses made during the first six months of 2020.

*Receivables*

There is an increase in the net receivables of the Company from December 31, 2019 to the end of the first six months of 2020 is due to increase in interest receivable on advances made to Udenna Group.

In 2019, the Group grants cash advances to Udenna Group for working capital requirements and other purposes. The advances are subject to 3% interest rate per annum, unsecured and payable in cash on demand. The advances are noninterest-bearing, unsecured and payable in cash on demand.

*Other Current Assets*

The increase in other current assets is mainly due to the increase in input VAT.

*Financial Assets at Fair Value Through Other Comprehensive Income*

Financial assets at fair value through other comprehensive income amounting to ₱86.08 million and ₱101.17 million as of June 30, 2020 and December 31, 2019, respectively, represents the investment in equity shares in PBCOM and Alpha Force Security. The decline in this account primarily relates to the fair value loss amounting to ₱15.09 million in 2020.

In 2019, the management assessed that the Group's investment in Acentic is already impaired. This resulted to the full impairment of the investment in preferred shares amounting to P199.69 million which includes the fair value losses, absorption of share in net losses of investment in an associate and foreign currency exchange losses.

**Part II – Other Information**

There are no disclosures not reported under SEC Form 17-C.

**SIGNATURES**

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

**DITO CME HOLDINGS CORP.**

Registrant



**JOSEPH JOHN L. ONG**  
Chief Finance Officer



**DENNIS A. UY**  
Chairman/CEO

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August 10, 2020

