

## MANAGEMENT REPORT

### 1. Consolidated Audited Financial Statements

The Company's consolidated financial statements for the years ended December 31, 2017 are incorporated herein by reference.

### 2. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in and disagreements with accountants on accounting and financial disclosures.

### 3. Brief Description of the General Nature and Scope of the Company's Business and Its Subsidiaries

Macay Holdings, Inc. (the "Company" or "Macay") is a company incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission ("SEC") on October 16, 1930 primarily to reflect the business of a holding company. The shares of stock of Macay Holdings, Inc. are listed and traded as "MACAY" on the Philippine Stock Exchange ("PSE") starting 2013 (formerly MAKE). The Company and its subsidiaries are collectively referred to in this document as the "Group".

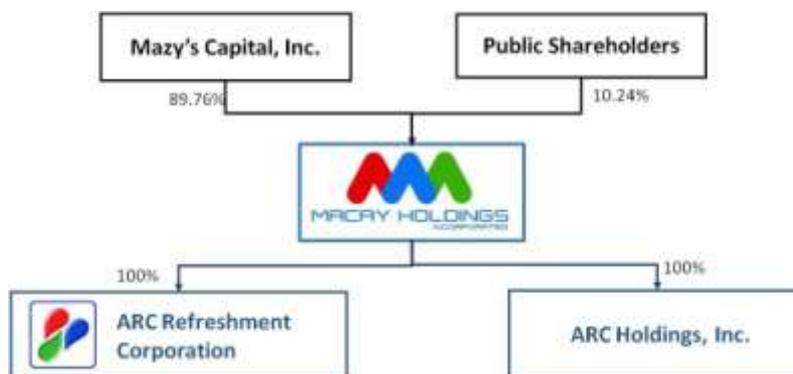
Macay owns 100% interest and operates as the holding company of ARC Refreshments Corporation (ARC Refreshments), a beverage company. ARC Refreshments commenced operations in February 1, 2014 and is the exclusive manufacturer and distributor of RC Cola in the Philippines. In addition, it has brands other than RC Cola competing in the orange, lemon, rootbeer and lemon-lime segments of the market these are Fruit Soda Orange, Juicy Lemon Arcy's Rootbeer and Seetrus, respectively. The Company recently launched a low-calorie brand Rite 'N Lite with a variety of refreshing flavours: Lemon, Lemon-Lime, Root Beer and Orange.

In August of 2015, Macay acquired 100% ownership of ARC Holdings, Inc. ("ARCHI"), which has the Concentrate Supply Agreement ("CSA") and the Trademark Licensing Agreement ("TLA") with Royal Crown Cola International ("RCCI").

The carbonated soft drinks market is highly competitive with local and international companies competing to gain ground through a mix of advertising and marketing campaigns, packaging differentiation, trade and consumer promotions and expanding distribution.

### RELATIONSHIP MAP

As of December 31, 2017, the Macay Group exhibits the following ownership structure:



#### 4. Management Discussion and Analysis

CALENDAR YEAR ENDED DECEMBER 31, 2017 COMPARED TO YEAR ENDED DECEMBER 31, 2016

##### RESULTS OF OPERATIONS

	<i>For the years ended December 31,</i>		<i>% change</i>
	<i>2017</i>	<i>2016</i>	
	<i>(In Php millions)</i>		
Revenues	10,727.2	11,378.3	-5.7
Cost of sales and services	6,782.4	7,429.8	-8.7
Gross profit	3,944.8	3,948.5	-.1
Selling and marketing expenses	1285.0	1,128.3	13.9
General and administrative expenses	384.6	329.4	16.8
Other income (charges)	41.8	43.3	-3.5
Income before income tax	2,317.1	2,534.1	-8.6
Provision for income tax	685.7	715.6	-4.2
Net Income	1,631.4	1,818.6	-10.3

Consolidated net revenues declined by 5.7%. This was due to stiff competition and because sales in 2016 was unusually high since it was an election year. Decline of cost of sales was however higher at 8.7% so gross profit was almost same as last year. Decrease in cost of sales was mainly due to lower sugar prices and increased efficiencies.

Marketing and selling efforts were intensified with increased advertising and promotional activities to counter competitors' attempt to grab market share. These resulted in a 13.9% increase in selling and marketing expenses.

General and administrative expenses increased by Php55.2 million due mostly to rationalization of security agency fees and documentary stamps on stock dividends.

Interest income more than doubled in 2017 but was more than offset by the company's share in the net loss in a joint venture resulting in a decrease in other income by Php1.5 million.

Income before tax went down by 8.6% but provision for income tax went down by only 4.2% because remaining Net Operating Loss Carry Over (NOLCO) in 2017 was only Php17.8 million compared to last year's NOLCO of Php153.3 million.

Net income declined 10.3% from Php1,818.6 million in 2016 to Php1,631.4 million.

##### FINANCIAL POSITION

	<i>For the years ended December 31,</i>		<i>% change</i>
	<i>2017</i>	<i>2016</i>	
	<i>(In Php millions)</i>		
Current Assets	6,206.0	4,456.8	39.2
Non-Current Assets	3,756.4	3,934.6	-4.5
Total Assets	9,962.4	8,391.4	18.7
Current Liabilities	2,635.7	2,575.5	2.3
Non-Current Liabilities	-	2.1	-100.0
Total Liabilities	2,635.7	2,577.5	2.3
Total Equity	7,326.7	5,813.9	26.0

Sound policy on credit control and working capital management has enabled the Group to maintain a solid financial condition. Cash from operations were used to fund capital expenditures.

The Group's total assets increased by Php1,571.1 million from Php8,391.4 million to Php9,962.4 million. This was due mainly to the increase in cash and cash equivalents by Php1,787.9 million. Cash generated from operations amounted to Php3,057.3 million which was partly used for investment activities amounting to Php1,128.1 million, mostly for pallets and containers, and property plant and equipment. Cash outflows for financing activity amounted to Php140.2 million for cash dividends. The only other major increase in assets was in Trade and other receivables by Php103.5 million mainly due to increase in volume of sales under modern trade which has longer credit terms.

Total liabilities increased by a minimal Php58.2 million or 2.3%. Increase in total equity was due to the net income generated for the year less cash dividends declared of Php128.2 million.

## CALENDAR YEAR ENDED DECEMBER 31, 2016 COMPARED TO YEAR ENDED DECEMBER 31, 2015

### Results of Operation

	<i>For the years ended</i>		<i>December 31,</i>
	2016	2015	
	(In Php millions)		% change
Revenues	11,378.3	11,262.9	1.0
Cost of sales and services	7,427.8	7,285.0	2.0
Gross profit	3,950.5	3,977.9	-0.7
Selling and marketing expenses	1,130.3	1,082.7	4.4
General and administrative expenses	329.4	350.2	-5.9
Other income (charges)	43.3	44.3	-2.3
Income before income tax	2,534.1	2,589.3	-2.1
Provision for income tax	715.6	780.1	-8.3
Net Income	1,818.6	1,809.2	0.5

The Group posted consolidated net revenue of Php11.38 billion for the current year which is 1.0% higher versus 2015.

Cost of Goods Sold, which consists mainly of raw and packaging materials, direct labor and manufacturing overhead, increased by Php142.74 million. This is a 2.0% increase compared to Philippine's average inflation rate of 1.8%.

This resulted in , the Group's gross profit slightly dropped from Php3.98 billion to Php3.95 billion for the year, a decrease of less than 1% from last year. As a percentage to net sales, gross profit is stable at 35%.

Selling, marketing and distribution expenses increased by Php47.65 million which is 4.4% higher versus last year attributable to personnel-related expenses, higher impairment losses, and higher depreciation of vehicles due to full year effect of prior year acquisitions which is mitigated by the rationalization of advertising expenses during the year and the significant drop of oil prices.

General and administrative expenses decreased by Php20.81 million or 5.9% for 2016 versus 2015 primarily due to lower professional fees relative to special financial audit engagements last year.

Total operating expenses maintained the same proportion to net revenue as last year at 12.8%.

Other income of Php43 million is almost at the same level of last year.

Provision for income tax decreased by 8.3% for 2016 compared to 2015 due to slightly lower operating income of the Group in the current year and application of NOLCO of parent company arising from prior year operations.

Overall, the Group delivered Php1.82 billion net income which is Php9M higher versus last year.

### Financial Position

	<i>For the years ended</i>		<i>December 31,</i>
	2016	2015	
	(In Php millions)		% change
Current Assets	4,456.8	3,398.1	31.2
Non-Current Assets	3,934.6	4,007.8	-1.8
Total Assets	8,391.4	7,405.9	13.3
Current Liabilities	2,575.5	3,267.5	-21.2
Non-Current Liabilities	2.1	93.3	-97.7
Total Liabilities	2,577.5	3,360.8	-23.3
Total Equity	5,813.9	4,045.1	43.7

Sound policy on credit control and working capital management has enabled the Group to maintain a solid financial condition. Cash from operations were used to fund capital expenditures.

The Group's total assets increased by 13.3% from Php7.41 billion in December 2015 to Php8.39 billion in December 2016 mainly due to increases in cash and cash equivalents, trade and other receivables, inventories, prepayments, and property, plant and equipment. Meanwhile, there were decreases in deferred pallets and containers, deferred tax assets and deposits with suppliers.

Cash and cash equivalents increased from Php1.05 billion to Php1.88 billion as a result of the net cash generated from operations of Php2.44 billion reduced by the net investment outflow of Php1.03 million and net financing outflow of Php 576.58 million.

Total trade and other receivables increased by Php44.74 million or 12.1% mainly due to accounts under Modern Trade.

Inventories are higher by Php138.55 million or 7.2% versus 2015 mainly due to increase in the purchases of containers and pallets.

Other current assets increased by Php45.15 million due to additional creditable withholding taxes arising from management fee charges within the Group of which a portion is withheld and remitted to BIR.

Property, plant and equipment increased by Php196.84 million or 16.7% due to capital expenditures on machineries and equipment, land acquisition and on-going plant construction.

Deferred containers decreased from Php2.03 billion to Php1.91 billion or 5.7% as the amortization cost exceeded current year additions.

Other non-current assets decreased from Php724.91 million to Php599.22 million mainly due to capitalization of deposits with suppliers upon completion of construction works during the year.

Total liabilities decreased from Php3.36 billion in December 2015 to Php2.58 billion in December 2016 due to settlement of short-term loans, subscription payable and dividends payable to stockholders during the year; decrease in the level of trade and accounts payable, income tax payable, and retirement liability.

As of December 31, 2016, trade and other payables are at a lower level by Php279.66 million primarily due to settlement but were partially offset by higher containers deposit liability.

Short-term loans payable decreased by Php371.66 million after loans were partially settled during the year.

Income taxes payable decreased by Php26.33 million due to lower taxable income during the fourth quarter.

Retirement liability decreased by Php91.27 due to a change in discount rate and lowering of provision for annual salary increase after a reassessment of the current salary increment.

#### **QUARTER ENDED MARCH 31, 2018 COMPARED TO QUARTER ENDED MARCH 31, 2017**

##### **Results of Operations**

It is important to note that effective January 1, 2018, excise tax of ₱6.00 per liter was imposed on sweetened beverages without High Fructose Corn Syrup (HFCS) and ₱12.00 per liter for beverages with HFCS. Excise tax for the first quarter of 2018 amounted to ₱837 million which is very substantial. Sales increased by 8.8% from ₱2,431 million for the first quarter of 2017 to ₱2,644 million in 2018 due to the increase in selling prices to cover the excise tax. On the other hand, cost of sales increased by 30% from ₱1,632 million in 2017 to ₱2,131 million in 2018 due to the excise tax. With the higher increase in cost of sales compared to increase in sales, gross profit declined with gross profit rate (GPR) declining from 32.8% to 19.4%. The decline in GPR was mainly due to decrease in sales volume. Decline in sales was inevitable due to the huge price increase necessitated by the excise tax. Operating expenses decreased slightly from ₱364 million in 2017 to ₱361 million in 2018. With such a big decrease in sales, net income after tax declined by 61% from ₱313 million to ₱121 million.

Based on the experience in other countries that imposed tax on sweetened beverages, the industry started to recover the following year. We expect a similar pattern for the country's sweetened beverage industry.

##### **Financial Condition**

The Group's total assets decreased by 1.0% from ₱9,962 million as of December 31, 2017 to ₱9,865 million as of March 31, 2018. Current assets increased by 1.3% from ₱6,206 million to ₱6,284 million. Cash and cash equivalents, which account for 60% of current assets, increased from ₱3,671 million to ₱3,767 million as a result of net cash generated from operations. Trade and other receivables decreased by ₱52.9 million or 12.0% due to decline in sales volume. Inventories increased by ₱62.2 million due to the increase in finished goods and containers inventory. On the other hand, noncurrent assets declined by ₱175.4 million due mainly due to decrease in deferred pallets and containers by ₱177.9 million since the amortization was higher than the purchases which were reduced because of the lower sales volume.

Current Liabilities decreased in the first quarter by ₱219 million from ₱2,636 million to ₱2,417 million. This is accounted for mainly by the decrease in trade payables by ₱218 million due to the decline in sales volume. The income tax payable as of March 31, 2018 represents the tax payable as of December 31, 2017 plus the income tax due from income generated in the first quarter. Both are payable in the second quarter of 2018. Short term loans are actually a bank loan facility for the importation of raw materials, supplies and equipments. The decline is due mainly to the decline in raw material importations.

## Liquidity and Capital Resources

In 2015, 2016 and 2017, the Macay Group's principal source of liquidity was cash receipts from sale of goods and tolling services. As of December 31, 2015, 2016 and 2017, Macay Group's cash and cash equivalents reached Php1,053.2 million, Php1,883.4 million and Php3,671.3 million, respectively.

The following table sets forth selected information from Macay Group's consolidated statements of cash flows for the periods indicated.

Except for item 4 and 7, Macay does not know of:

1. Any known trends or any known demands, commitments, events, uncertainties that will result or that are reasonably likely in Macay's liquidity increasing or decreasing in any material way;
2. Any events that would trigger direct or contingent financial obligation that is material to Macay, including any default or acceleration of an obligation except those disclosed in the notes to the financial statements;
3. Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of Macay with unconsolidated entities or other persons created during the reporting period;
4. Any material commitments for capital expenditures, their purpose and the sources of funds for such expenditures;
5. Any known trends, events or uncertainties that have had or are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations;
6. Any significant elements of income or loss that did not arise from Macay's continuing operations;
7. The causes of any material change from period to period including vertical and horizontal analysis of any material item, the causes of material changes are discussed in the MD & A; and
8. Any seasonal aspects that had a material effect on financial condition or results of operation of Macay.

## **5. Company's Directors and Executive Officers**

Please refer to Item 5 of the Information Statement for the discussion on the identity of each of the Company's directors and executive officers including their principal occupation or employment, name and principal business of any organization by which such person is employed.

## **6. Market Price, Shareholder and Dividend Information**

### Market Information

The Company's common shares are listed and traded in the Philippine Stock Exchange. The high and low sales prices of Macay's shares traded in the PSE for each quarterly period during the past three (3) years are as follows:

YEAR	1 <sup>ST</sup> QUARTER		2 <sup>ND</sup> QUARTER		3 <sup>RD</sup> QUARTER		4 <sup>TH</sup> QUARTER	
	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW
2018	23.00	17.80						
2017	28.80	23.00	38.00	23.00	25.00	20.00	23.40	16.44
2016	41.25	33.05	49.00	32.00	38.00	26.05	27.90	25.00
2015	74.00	44.10	61.00	45.00	59.00	44.20	47.00	35.00

The stock price of the Company's shares as of March 31, 2018 and May 23, 2018 were Php18.88 and Php17.82 per share respectively.

## Holders

As of March 31, 2018, the Corporation had 386 stockholders of record.

*Directors and Officers of Macay Holdings, Inc.*

Common Shares:

Name	Nationality	No. of Shares	Percentage of Ownership
ALFREDO M. YAO	Filipino	1	0%
ARMANDO M. YAO	Filipino	1	0%
JEFFREY S. YAO	Filipino	1	0%
CAROLYN S. YAO	Filipino	1	0%
MARY GRACE S. YAO	Filipino	1	0%
ROBERTO A. ATENDIDO	Filipino	1	0%
FERNANDO R. BALATBAT <sup>†</sup>	Filipino	1	0%
ANTONIO I. PANAJON	Filipino	1	0%
ALBERT S. TORIBIO	Filipino	1	0%
JESUS G. GALLEGOS, JR.	Filipino	1	0%
ROBERTO F. ANONAS, JR.	Filipino	1	0%
GERARDO T. GARCIA	Filipino	1	0%
RINALDI C. AVES	Filipino	1	0%
GABRIEL A. DEE	Filipino	0	0%

## Top 20 Stockholders of Macay

NAME	NATIONALITY	NO. OF COMMON SHARES SUBSCRIBED	PERCENTAGE OF OWNERSHIP
MAZY'S CAPITAL, INC.	FILIPINO	958,941,660	89.76%
PCD NOMINEE CORPORATION - NON FILIPINO	FOREIGN	100,224,352	09.38%
PCD NOMINEE CORPORATION - FILIPINO	FILIPINO	6,630,707	00.62%
GONZALO PUYAT & SONS, INC.	FILIPINO	942,095	00.09%
HANSON G. SO &/OR LARCY MARICHI Y. SO	FILIPINO	216,000	00.02%
KNIGHTS OF COLUMBUS - NEW HAVEN CONN	AMERICAN	62,916	00.01%
JOSEFA M. BENITEZ TRINIDAD	FILIPINO	62,427	00.01%
LUCIANO TAN	FILIPINO	57,879	00.01%
SAGITRO INCORPORATED	FILIPINO	52,018	00.00%
SUSANA LEE CHUNG	FILIPINO	42,994	00.00%
RAMON NISCE	FILIPINO	42,814	00.00%
NELLY V. KATIGBAK	FILIPINO	39,560	00.00%
SIM CHI TAT &/OR CONCHING TAN SIM	FILIPINO	38,097	00.00%
TEOFILO S. VILLONCO	FILIPINO	32,967	00.00%
VICENTE VILLONCO	FILIPINO	32,963	00.00%
PIERCE INTERLINK SECURITIES, INC.	FILIPINO	32,400	00.00%
ENRIQUE RAMIREZ	FILIPINO	32,193	00.00%
VIOLETA R. BARLAAN	FILIPINO	31,732	00.00%
SIM CHI TAT	FILIPINO	30,263	00.00%
JOSE P. LEVISTE, JR.	FILIPINO	30,240	00.00%

Note: Based on the list of top 100 stockholders of Macay Holdings, Inc. as of March 31, 2018 as reported by Stock Transfer Service, Inc.

## Dividends

On May 10, 2018 Macay's Board of Directors (the "Board") approved the declaration of cash dividends of Php0.12 per share for an aggregate amount of Php128.21 million. The previous year, Macay declared at the Company's May 24 Board meeting the same Php0.12 per share cash dividend totalling Php128.21 million. The cash dividend was paid on May 31, 2017.

On April 8, 2016, Macay declared stock dividends equivalent to 21% of issued and outstanding common shares, payable in common stocks to stockholders as of record date to be determined by the SEC upon the approval of the increase in authorized capital stock, subject to the approval of the SEC. These shares shall be listed in the Philippine Stock Exchange. Concurrently Macay declared cash dividends of Php0.12 per share for an aggregate amount of Php128.21 million.

## Recent Sale of Unregistered or Exempt Securities

The Company did not participate in any recent sale of unregistered or exempt securities.

## **7. Corporate Governance**

The corporate governance policies adopted by the board of directors of the Corporation (the "Board") are found in the Corporation's Revised Manual on Corporate Governance (the "Manual"), as of 30 May 2017. The Manual contains sections on Shareholders' Benefits, covering Investor's Rights and Protection.

The Section 7 on Shareholders' Benefits recognizes and enjoins the Board to respect the following rights of stockholders, to wit -

- Right to Vote
- Right to inspect
- Right to information
- Right to Dividends and
- Appraisal right

Furthermore, Section 6 of the Manual on the Reportorial or Disclosure System of the Company's Corporate Governance Policies provides that the essence of corporate governance is transparency. It is therefore essential that all material information about the Company which could adversely affect its viability or interest of its stockholders and other stakeholders, such as earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and management, should be publicly and timely disclosed. All such information should be disclosed through the appropriate Philippine Stock Exchange ("PSE") mechanism and submissions to the Securities and Exchange Commission ("SEC").

The Board is committed at all times to full disclosure of material information dealings and shall cause the filing of all required information through the appropriate PSE mechanisms for listed companies and submissions to the SEC for the interest of its stockholders and other stakeholders.

The general responsibility of the Board of Directors includes the following:

- The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities.
- It is the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders.

- The Board should formulate the Corporation's vision, mission, strategic objectives, policies, and procedures that shall guide its activities, including the means to effectively monitor Management's performance.

To ensure a high standard of best practice for the Corporation, shareholders, and other stakeholders, the Board shall conduct itself with honesty and integrity in the performance of its specific duties and functions -

- Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest, and highly motivated management officers. Adopt an effective succession planning program for Management.
- Provide sound strategic policies and guidelines to the Corporation on major investments and capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.
- Ensure the Corporation's faithful compliance with all applicable laws, regulations and best business practices.
- Identify the Corporation's stakeholders in the community in which it operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the Corporation's internal control system in order to maintain its adequacy and effectiveness.
- Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Corporation to anticipate and prepare for possible threats to its operational and financial viability.
- Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships by members of the Board.
- Constitute an Audit Committee and other such committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
- Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its stockholders, and the Corporation and third parties, including regulatory authorities.
- Meet at such times or frequency as may be needed but no less than four (4) times during one calendar year. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.

- Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations.
- Appoint a Compliance Officer with the rank of at least vice-president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.
- Perform such other responsibilities as may be required under relevant rules and regulations.

A director's office is one of trust and confidence. A director should act in the best interest of the Corporation in a manner characterized by transparency, accountability, and fairness. He or she should also exercise leadership, prudence, and integrity in directing the Corporation towards sustained progress. Accordingly, the Manual provides the duties and responsibilities of individual directors, as follows -

- Conduct fair business transactions with the Corporation and ensure that his personal interest does not conflict with the interests of the Corporation.
- Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.
- Act judiciously.
- Exercise independent judgment.
- A director shall have working knowledge of the statutory and regulatory requirements that affect the Corporation, including its articles of incorporation and by-laws, the rules and regulations of the Commission, and where applicable, the requirements of relevant regulatory agencies.
- Observe confidentiality.

The Manual also provides for the duties and responsibilities of various Corporate Officers, namely, the Chairman, President, Treasurer, Corporate Secretary, Compliance Officer, External Auditor, and Internal Auditor.