

**Prime Orion Philippines, Inc.
and Subsidiaries**

Consolidated Financial Statements
December 31, 2017 and 2016
and June 30, 2016
and Year Ended December 31, 2017,
Six Months Ended December 31, 2016
and Year Ended June 30, 2016

and

Independent Auditors' Report



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Prime Orion Philippines, Inc.

Opinion

We have audited the consolidated financial statements of Prime Orion Philippines, Inc. (the Parent Company) and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and as at June 30, 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended December 31, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Group as at December 31, 2017 and 2016 and as at June 30, 2016, and its financial performance and its cash flows for the year ended December 31, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



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

Provisions and Contingencies

The Group is involved in various legal proceedings and tax assessments. This matter is significant to our audit because the evaluation and estimation of the potential liability resulting from these proceedings and assessments require management to exercise significant judgment and estimation brought about by the differences in the interpretation and implementation of the laws and tax rulings.

The Group's disclosures about provisions and contingencies are included in Notes 3 and 30 to the consolidated financial statements.

Audit Response

We involved our internal specialist in the evaluation of management's assessment on whether any provision for contingencies should be recognized, and the estimation of such amount. We discussed with management the status of the assessments and obtained correspondences with the relevant authorities and opinion from the Group's legal counsel. We evaluated the position of the Group by considering the relevant laws, rulings and jurisprudence.

Estimation of Provision for Reported Claims by Policyholders and Valuation of Incurred But Not Reported (IBNR) Reserves

The provision for reported claims by policyholders recognized by the Group comprises the total value of individual outstanding claims estimates when a claim has been initiated. These estimates are reassessed during the various stages of the claim processing cycle and are revised based on changes in specific circumstances pertaining to each claim and reports of external loss adjusters. The IBNR reserves recognized by the Group represents an estimate of the liability for a claim-generating event that has taken place during the year but has not yet been reported to the Group as at December 31, 2017. The IBNR is calculated at the reporting date based on the computations performed by an external actuary appointed by the management, after considering loss development factors, claims inflation and premium rate changes.

The measurement of these insurance contract liabilities involves significant judgment over uncertain future outcomes, mainly the ultimate total settlement value of the insurance contract liabilities. Due to the estimation uncertainty and subjectivity involved in the assessment of these reserves, we have considered the valuation of the provision for reported claims by policyholders and IBNR as a key audit matter.

Refer to Notes 2, 3 and 16 to the consolidated financial statements for the relevant disclosures related to this matter.



Audit Response

Our audit procedures over the provision for reported claims by policyholders included understanding of the processes and testing of relevant controls over the initiation, review and approval of the claim process across the different lines of business, including the claim settlement process. We tested the recognized provision by reviewing the loss adjusters reports, internal policies for reserves and other assumptions made by management, performing analytical review procedures and checking against other supporting documents.

Our audit procedures over the IBNR reserve included evaluation of the objectivity, capabilities and competence of the external actuary appointed by management, checking the data used by the external actuary against company records, recalculation of the external actuary's computation, and evaluation of the methodology and assumptions used against the generally accepted actuarial practices.

Other Information

Management is responsible for Other Information. Other Information comprises the information included in SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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



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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is
Dhonabee B. Señeres.

SYCIP GORRES VELAYO & CO.



Dhonabee B. Señeres

Partner

CPA Certificate No. 97133

SEC Accreditation No. 1196-AR-1 (Group A),
June 30, 2015, valid until June 29, 2018

Tax Identification No. 201-959-816

BIR Accreditation No. 08-001998-98-2018,
February 2, 2018, valid until February 1, 2021

PTR No. 6621331, January 9, 2018, Makati City

February 19, 2018



PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands, Except Par Value and Number of Shares)

	December 31	June 30
	2016 (As restated, Note 2)	2016 (As restated, Note 2)
	2017	
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 32)	₱254,969	₱368,360
Receivables (Notes 5 and 32)	381,545	249,756
Inventories (Note 6)	7,380	8,075
Real estate held for sale and development (Note 7)	264,464	264,464
Available-for-sale (AFS) financial assets (Notes 8, 19 and 32)	710,454	1,755,767
Amounts owed by related parties (Note 18)	392,319	1,447,928
Financial assets at fair value through profit or loss (Notes 9 and 32)	2,643	13,103
Other current assets (Note 10)	359,959	224,890
Total Current Assets	2,373,733	4,332,343
Noncurrent Assets		
Investment in an associate (Note 11)	1,888	1,931
Investment properties (Note 12)	5,996,405	1,492,299
Property and equipment (Note 13)	37,249	36,166
Software costs (Note 14)	4,906	7,633
Net pension assets (Note 24)	20,667	12,549
Other noncurrent assets (Note 15)	488,697	131,779
Total Noncurrent Assets	6,549,812	1,682,357
TOTAL ASSETS	₱8,923,545	₱6,014,700
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 16 and 30)	₱593,228	₱679,574
Current portion of rental and other deposits (Note 17)	185,397	121,167
Current portion of deferred rent income (Note 29)	18,929	9,603
Amounts owed to related parties (Note 18)	19,427	10,698
Deposit for future stock subscriptions (Note 1)	—	—
Total Current Liabilities	816,981	821,042
Noncurrent Liabilities		
Rental and other deposits - net of current portion (Note 17)	138,150	59,982
Deferred rent income - net of current portion (Note 29)	21,715	43,008
Net retirement benefits liability (Note 24)	—	—
Deferred income tax liabilities - net (Note 25)	208,168	200,900
Subscriptions payable (Note 19)	481,675	481,675
Total Noncurrent Liabilities	849,708	785,565
Total Liabilities	₱1,666,689	₱1,606,607
(Forward)		



	December 31	June 30
	2016 (As restated, Note 2)	2016 (As restated, Note 2)
	2017	
Equity Attributable to Equity Holders of the Parent		
Capital stock - ₡1 par value (Note 1)		
Authorized - 7.5 billion shares as at December 31, 2017 and 2016 and 2.4 billion shares as at June 30, 2016		
Issued and subscribed - 4,892,888,884 shares, 4,888,403,748 shares and 2,378,638,123 shares as at December 31, 2017, December 31, 2016 and June 30, 2016, respectively (net of subscriptions receivable of ₡240,621, ₡2,122,814 and ₡248,062, respectively)	₱4,652,268	₱2,765,589
Additional paid-in capital	3,942,404	1,598,654
Equity reserves (Notes 3 and 31)	60,810	27,469
Shares held by a subsidiary (Note 27)	(1,279,026)	(21,916)
Revaluation increment (Note 12)	225,595	233,206
Unrealized gain on AFS financial assets (Note 8)	17,748	168,449
Loss on remeasurement of retirement benefits (Note 24)	(46,259)	(51,859)
Deficit	(355,159)	(363,913)
	7,218,381	4,355,679
Non-controlling Interests	38,475	52,370
Total Equity	7,256,856	4,408,049
TOTAL LIABILITIES AND EQUITY	₱8,923,545	₱6,014,700
		₱6,416,823

See accompanying Notes to Consolidated Financial Statements.



PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	December 31, 2017 (One Year)	December 31, 2016 (Six Months) (As restated, see Note 2)	June 30, 2016 (One Year) (As restated, see Note 2)
REVENUE AND INCOME			
Rental and other charges (Note 12)	₱501,824	₱245,368	₱467,927
Real estate sales (Note 7)	—	—	274,082
Insurance premiums and commissions - net	108,656	112,703	237,243
Service fees	—	4,512	17,927
Gain on sale of AFS financial assets (Note 8)	8,647	1,708	17,240
Interest income on AFS financial assets (Note 8)	9,416	6,794	15,411
Merchandise sales	—	344	4,768
Dividend income (Notes 8 and 9)	1,673	1,110	2,495
	630,216	372,539	1,037,093
COSTS AND EXPENSES			
Cost of goods sold and services (Note 22)	351,728	176,272	430,237
Cost of real estate sold (Notes 7)	—	—	186,607
Operating expenses (Note 20)	248,483	291,360	556,944
Commission and other underwriting expenses	92,757	98,657	198,370
	692,968	566,289	1,372,158
OTHER INCOME (CHARGES)			
Reversal of (provision for) probable losses (Note 30)	—	106,470	(234,644)
Gain on sale of investment property (Note 12)	16,400	—	578,965
Gain on sale of property and equipment (Note 13)	31,741	2,090	5,972
Interest income and bank charges - net (Note 23)	37,414	18,435	10,359
Reversal of (provision for) inventory losses (Note 6)	(238)	(530)	4,223
Unrealized gain (loss) on financial assets at FVPL (Note 9)	(460)	400	(425)
Equity in net loss of an associate (Note 11)	(43)	(11)	(19)
Reversal of (provision for) impairment losses (Note 7, 8, 10, and 18)	(9,823)	(4,657)	(30,895)
Others - net (Note 23)	26,430	56,665	20,281
	101,421	178,862	353,817
INCOME (LOSS) BEFORE INCOME TAX	38,669	(14,888)	18,752
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)	20,118	(13,833)	7,114
NET INCOME	₱18,551	(₱1,055)	₱11,638
ATTRIBUTABLE TO:			
Equity holders of the Parent	₱33,143	(₱330)	₱29,505
Non-controlling interests	(14,592)	(725)	(17,867)
	₱18,551	(₱1,055)	₱11,638
EARNINGS PER SHARE (Note 26)			
Basic and diluted, for income for the year attributable to ordinary equity holders of the Parent	₱0.01	(₱0.00)	₱0.01

See accompanying Notes to Consolidated Financial Statements.



PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in Thousands)

	December 31, 2017 (One Year)	December 31, 2016 (Six Months) (As restated, see Note 2)	June 30, 2016 (One Year) (As restated, see Note 2)
NET INCOME	₱18,551	(₱1,055)	₱11,638
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Unrealized valuation gain (loss) on AFS financial assets (Note 8)	(147,060)	(105,576)	277,649
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Gain on remeasurement on retirement benefits liability (Note 24)	5,600	14,780	5,842
	(141,460)	(90,796)	283,491
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱122,909)	(₱91,851)	₱296,447
ATTRIBUTABLE TO:			
Equity holders of the Parent	(₱103,623)	(₱91,126)	₱313,918
Non-controlling interests	(19,286)	(725)	(17,471)
	(₱122,909)	(₱91,851)	₱296,447

See accompanying Notes to Consolidated Financial Statements

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

	Capital Stock	Additional Paid-in Capital	Shares held by a Subsidiary	Equity Reserves	Revaluation Increment (Notes 12 and 13)	Unrealized Valuation Gains (Losses) on AFS Financial Assets (Note 8)	Losses on Remeasurement of Retirement Benefits Plan (Note 23)	Deficit	Equity attributable to Equity Holders of Prime Orion Philippines, Inc.	Non-controlling Interests	Total
Balances at December 31, 2016	₱2,765,589	₱1,598,654	(₱21,916)	₱27,469	₱233,206	₱168,449	(₱51,859)	(₱332,715)	₱4,386,877	₱55,423	₱4,442,300
Effect on change in accounting policy and adjustment (Note 2)	—	—	—	—	—	—	—	(31,198)	(31,198)	(3,053)	(34,251)
Balances at December 31, 2016 (as restated)	2,765,589	1,598,654	(21,916)	27,469	233,206	168,449	(51,859)	(363,913)	4,355,679	52,370	4,408,049
Net income (loss)	—	—	—	—	—	—	—	33,143	33,143	(14,592)	18,551
Other comprehensive income											
Unrealized valuation loss on AFS financial assets	—	—	—	—	—	(147,060)	—	—	(147,060)	—	(147,060)
Actuarial loss recognized in OCI	—	—	—	—	—	—	5,600	—	5,600	—	5,600
Total comprehensive income	—	—	—	—	—	(147,060)	5,600	33,143	(108,317)	(14,592)	(122,909)
Collection of subscription receivable	1,886,679	2,343,750	—	—	—	—	—	—	4,230,429	—	4,230,429
Payment of stock subscription costs	—	—	—	—	—	—	—	(32,000)	(32,000)	—	(32,000)
Acquisition of own shares	—	—	(1,257,110)	—	—	—	—	—	(1,257,110)	—	(1,257,110)
Equity reserves (Notes 3 and 29)	—	—	—	33,341	—	—	—	—	33,341	—	33,341
Transfer of realized valuation increment	—	—	—	—	(7,611)	—	—	7,611	—	—	—
Unrealized gain transferred from equity to consolidated statement of income	—	—	—	—	—	(3,641)	—	—	(3,641)	697	(2,944)
Balances at December 31, 2017	₱4,652,268	₱3,942,404	(₱1,279,026)	₱60,810	₱225,595	₱17,748	(₱46,259)	(₱355,159)	₱7,218,381	₱38,475	₱7,256,856
Balances at June 30, 2016 (as previously stated)	₱2,130,576	₱829,904	(₱21,916)	₱27,469	₱237,011	₱276,226	(₱66,639)	(₱340,166)	₱3,072,465	₱54,869	₱3,127,334
Effect on change in accounting policy and adjustment (Note 2)	—	—	—	—	—	—	—	(27,060)	(27,060)	(1,938)	(28,998)
Balances at June 30, 2016 (as restated)	2,130,576	829,904	(21,916)	27,469	237,011	276,226	(66,639)	(367,226)	3,045,405	52,931	3,098,336
Net loss	—	—	—	—	—	—	—	(492)	(492)	(561)	(1,053)
Other comprehensive income (loss)											
Unrealized valuation loss on AFS financial assets	—	—	—	—	—	(105,576)	—	—	(105,576)	—	(105,576)
Actuarial gain recognized in OCI (Note 23)	—	—	—	—	—	—	14,780	—	14,780	—	14,780
Total comprehensive income	—	—	—	—	—	(105,576)	14,780	(492)	(91,288)	(561)	(91,849)
Collection of subscription receivable	10,013	—	—	—	—	—	—	—	10,013	—	10,013
Stock subscriptions	625,000	781,250	—	—	—	—	—	—	1,406,250	—	1,406,250
Payment of stock subscription costs	—	(12,500)	—	—	—	—	—	—	(12,500)	—	(12,500)
Transfer of realized valuation increment	—	—	—	—	(3,805)	—	—	3,805	—	—	—
Unrealized gain transferred from equity to consolidated statement of income	—	—	—	—	—	(2,201)	—	—	(2,201)	—	(2,201)
Balances at December 31, 2016	₱2,765,589	₱1,598,654	(₱21,916)	₱27,469	₱233,206	₱168,449	(₱51,859)	(₱363,913)	₱4,355,679	₱52,370	₱4,408,049

(Forward)



	Capital Stock	Additional Paid-in Capital	Shares held by a Subsidiary	Equity Reserves	Revaluation Increment (Notes 12 and 13)	Unrealized Valuation Gains (Losses) on AFS Financial Assets (Note 8)	Losses on Remeasurement of Retirement Benefits Plan (Note 23)	Deficit	Equity attributable to Equity Holders of Prime Orion Philippines, Inc.	Non-controlling Interests	Total
Balances at June 30, 2015 (as previously stated)	₱2,069,912	₱829,904	(₱21,916)	₱-	₱244,622	₱2,066	(₱72,481)	(₱378,204)	₱2,673,903	₱72,340	₱2,746,243
Effect on change in accounting policy and adjustment (Note 2)	–	–	–	–	–	–	–	(26,137)	(26,137)	(1,543)	(27,680)
Balances at June 30, 2015 (as restated)	2,069,912	829,904	(21,916)	–	244,622	2,066	(72,481)	(404,341)	2,647,766	70,797	2,718,563
Net income (loss)	–	–	–	–	–	–	–	29,504	29,504	(17,866)	11,638
Other comprehensive income (loss)											
Unrealized valuation gain on AFS financial assets	–	–	–	–	–	277,649	–	–	277,649	–	277,649
Actuarial gain recognized in OCI	–	–	–	–	–	–	5,842	–	5,842	–	5,842
Total comprehensive income	–	–	–	–	–	277,649	5,842	29,504	312,995	(17,866)	295,129
Collection of subscription receivable	60,664	–	–	–	–	–	–	–	60,664	–	60,664
Equity reserves (Notes 3 and 29)	–	–	–	27,469	–	–	–	–	27,469	–	27,469
Transfer of realized valuation increment	–	–	–	–	(7,611)	–	–	7,611	–	–	–
Unrealized gain transferred from equity to consolidated statement of income	–	–	–	–	–	(3,489)	–	–	(3,489)	–	(3,489)
Balances at June 30, 2016	₱2,130,576	₱829,904	(21,916)	₱27,469	₱237,011	₱276,226	(66,639)	(367,226)	₱3,045,405	₱52,931	3,098,336

See accompanying Notes to Consolidated Financial Statement



PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	₱38,669	(₱14,888)	₱18,752
Adjustments for:			
Depreciation and amortization (Notes 12, 13, 14 and 20)	100,974	36,819	79,733
Provision for impairment losses on:			
AFS financial assets (Note 8)	–	–	3,115
Investment in an associate (Note 11)	–	–	610
Noncurrent assets	–	–	12,870
Receivables	60,340	897	–
Inventories	238	530	–
Retirement benefits expense (Note 23)	(2,518)	(58,943)	16,018
Interest income	(47,737)	(27,376)	(29,765)
Gain on sale of:			
Investment property (Note 12)	(16,401)	–	(578,965)
Property and equipment (Note 13)	(31,741)	(2,090)	(5,972)
AFS financial assets (Note 8)	(8,647)	(1,708)	(17,240)
Dividend income (Notes 8 and 9)	(1,673)	(1,110)	(2,495)
Interest expense and bank charges (Note 23)	907	2,147	331
Gain on valuation of fair value of FVPL	460	(400)	–
Equity in net loss (income) of associates (Note 11)	43	11	19
Accounts written-off	12,811	217	–
Unrealized foreign exchange losses (gains) - net	–	(1)	(93)
Provision for (reversal of) probable losses (Note 30)	9,823	(101,813)	231,144
Share-based expense (Note 31)	33,340	–	27,469
Operating income (loss) before working capital changes	148,888	(167,708)	(244,469)
Decrease (increase) in:			
Receivables	(186,117)	1,638,982	(1,420,993)
Inventories	(314)	231	2,842
Real estate held for sale and development	–	–	165,640
Amounts owed by related parties	–	(1,447,876)	(43)
Other current assets	(154,975)	131,570	(4,656)
Increase (decrease) in:			
Accounts payable and accrued expenses	(184,251)	(196,123)	(17,014)
Rental and other deposits	171,686	(48,638)	(3,774)
Net cash flows generated from (used in) operations	(205,083)	(89,562)	(1,522,467)
Interest received	47,737	27,376	29,765
Income tax paid	–	–	–
Interest paid	(907)	(2,147)	(331)
Net cash flows from (used in) operating activities	(₱158,253)	(₱64,333)	(₱1,493,033)

(Forward)



	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
CASH FLOWS FROM INVESTING ACTIVITIES			
Contributions paid for retirement plan	₱—	₱—	(₱29,997)
Proceeds from sale of			
Investment properties	20,000	—	703,148
AFS financial assets (Note 8)	858,138	2,175	21,360
Property, plant and equipment	48,182	3,089	19,305
FVPL investments	10,200	—	—
Disposal (acquisitions) of:			
AFS financial assets (Note 8)	45,695	(466,034)	379,485
Investment properties (Note 12)	(4,589,666)	(357,409)	(22,435)
FVPL investments	(118)	—	5,298
Property, plant and equipment (Note 13)	(29,390)	(25,001)	(4,071)
Software cost (Note 14)	(591)	(3,081)	(1,568)
Decrease (increase) in:			
Other noncurrent assets	(356,917)	(37,251)	108,220
Amounts owed by related parties	1,055,609	—	—
Dividends received (Note 8)	1,673	1,110	2,495
Net cash flows from (used in) investing activities	(2,937,185)	(882,402)	1,181,240
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of treasury shares	(1,257,109)	—	—
Receipt of deposit for future stock subscriptions (Note 1)	—	—	1,406,250
Collection of subscription receivables	4,230,428	10,013	60,664
Payment of subscription cost	—	(12,500)	—
Increase in amounts owed to related parties (Note 18)	8,728	10,698	—
Net cash flows from (used in) financing activities	2,982,047	8,211	1,466,914
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(113,391)	(938,524)	1,155,121
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	368,360	1,306,884	151,763
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱254,969	₱368,360	₱1,306,884

See accompanying Notes to Consolidated Financial Statements.



PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

Corporate Information

Prime Orion Philippines, Inc. (POPI; the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 19, 1989. The Parent Company's primary purpose is to acquire by purchase, exchange, assign, donate or otherwise, and to hold, own and use, for investment or otherwise and to sell, assign, transfer, exchange, lease, develop, mortgage, pledge, traffic, deal in and with, and otherwise operate, enjoy and dispose of any and all properties of every kind and description and wherever situated, as and to the extent permitted by law, including but not limited to, buildings, tenements, warehouses, factories, edifices and structures and other improvements, and bonds, debentures, promissory notes, shares of capital stock, or other securities and obligations, created, negotiated or issued by any corporation, association, or other entity, domestic or foreign. The Parent Company's registered office address is Unit 1014, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

Prime Orion Philippines, Inc. and its subsidiaries, collectively referred to as "the Group", have principal business interests in holding companies, real estate and property development and financial services (see Note 28).

Status of Operations

In September 2012, certain property and equipment and investment properties of Tutuban Properties, Inc. (TPI; a wholly-owned subsidiary) were destroyed in fire. FLT Prime Insurance Corporation (FPIC), the insurance policy provider and also a majority-owned subsidiary of POPI, recognized the incident as a fire loss event. The insurance policy was substantially ceded by FPIC to third party reinsurers. TPI received insurance proceeds from FPIC amounting to ₱17.89 million as at June 30, 2016 (nil as at December 31, 2017 and December 31, 2016).

On April 1, 2015, TPI signed a Memorandum of Understanding (MOU) with the Department of Transportation and Communication (DOTC) (now the Department of Transportation or DOTr) and Philippine National Railways (PNR) to formalize the agreement to cooperate in the finalization and implementation of plans of the North-South Railway Project (NSRP) within a period of six (6) months. The NSRP involves construction of the North Line (Bulacan to Tutuban) and South Line (Tutuban to Albay) with the transfer station located at Tutuban Center. As at December 31, 2017, discussions on the implementation of the NSRP among DOTr, PNR and TPI are on-going.

On August 14, 2015, POPI entered into an agreement with Ayala Land, Inc. (ALI) whereby ALI will subscribe to 2,500,000,000 common shares of stock of POPI or 51.06% equity interest in POPI for a total consideration of ₱5.625 billion, subject to certain terms and conditions.

In connection with the foregoing, on August 13, 2015, the Board of Directors (BOD) approved the amendment of POPI's Articles of Incorporation, specifically: (i) Article Sixth - to increase the number of its directors from seven (7) to nine (9); and (ii) Article Seventh - to increase its authorized capital stock from ₱2.40 billion (divided into 2.40 billion common shares at ₱1 par value) to ₱7.50 billion (divided into 7.50 billion common shares at ₱1 par value). On February 24, 2016, the Deed of Subscription was executed. POPI's increase in authorized capital stock was approved by the SEC on July 4, 2016.



As at June 30, 2016, the amount received for the ALI subscription of ₱1,406.25 million was recorded as deposit for future stock subscription in the June 30, 2016 statements of financial position. With the subsequent approval of the SEC, the deposit was applied against the subscription as of December 31, 2016. On November 21, 2017, ALI paid the remaining 75% of its subscription amounting to ₱4,218.75 million.

ALI's parent company is Ayala Corporation (AC). AC is 47.74%-owned by Mermac, Inc., 10.15%-owned by Mitsubishi Corporation and the rest by the public. Both ALI and AC are publicly-listed companies incorporated in the Philippines.

With the entry of ALI, the Group will be able to benefit from the expertise and resources of ALI and optimize the development of its property assets, especially the Tutuban Center, a commercial complex operated by TPI and located in Manila City. The Tutuban Center, which sits on a 20-hectare property, will be the location of the NSRP Transfer Station which will interconnect with the LRT 2 West Station.

As part of the rationalization of the Group's operations, on September 2, 2016, the BOD of Orion Property Development, Inc. (OPDI), a wholly-owned subsidiary, approved the closure of its land title services division. On the same date, the BOD of Orion Maxis Inc. (OMI) and Orion Solutions, Inc. (OSI) approved and authorized the dissolution and liquidation of OMI and OSI by shortening their corporate term up to December 31, 2016. On September 5, 2016, the BOD of TPI approved the closure of its hotel and café operations in Tutuban Center.

In September 2016, the BOD of Lepanto Ceramics, Inc. (LCI) approved the amendment of LCI's Articles of Incorporation (AOI), specifically, to change its name to Lepanto Development Corporation and to change its primary purpose to state that it may purchase, acquire, own, lease, sell and convey real properties such as lands, buildings, factories and warehouses and machineries, equipment and other personal properties as may be necessary or incidental to the conduct of the corporate business, and to pay in cash, shares of its capital stock, debentures and other evidences of indebtedness, or other securities, as may be deemed expedient, for any business or property acquired by the corporation. As at December 31, 2017, the application for the amendment has yet to be filed with the SEC.

On March 15, 2016, the BOD of POPI approved the change in the accounting period from fiscal year (July 1 to June 30) to calendar year (January 1 to December 31). The change in accounting period was approved by the SEC on April 10, 2017.

In March 2017, FPIC surrendered its Certificate of Authority as it was no longer compliant with the net worth requirement of ₱550.0 million of the Insurance Commission (IC) as of December 31, 2016.

On April 20, 2017, the IC issued a Servicing License to FPIC, with authority limited to the following:

- a. accepting contract price payments from the policyholders;
- b. paying or settling claims arising under its non-life coverage; and/or,
- c. such other related services.

On October 20, 2017, the BOD of Orion I Holdings Philippines, Inc. (OIHPI), OE Holdings, Inc. (OEHI), ZHI Holdings, Inc. (ZHIHI), Orion Beverage, Inc. (OBI), Luck Hock Venture Holdings, Inc. (LHVHI) and TPI Holdings Corporation (TPIHC) approved and authorized the dissolution and liquidation of these companies by shortening their corporate term up to December 31, 2017.



On November 29, 2017, POPI's wholly-owned subsidiary, Orion Land Inc. (OLI), acquired a commercial building composed of a 5-storey shopping center and a 6-storey business processing outsourcing office with a gross leasable area of 60,000 square meters located along National Road, Alabang, Muntinlupa City, from ALI, for a total consideration of ₱4,798.0 million.

The consolidated financial statements of the Group as at December 31, 2017 and 2016 and June 30, 2016, and for the year ended December 31, 2017, for the six months ended December 31, 2016 and for the year ended June 30, 2016 were approved and authorized for issue in accordance with the resolution of the BOD on February 19, 2018.

2. Basis of Preparation, Statement of Compliance, Basis of Consolidation and Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the quoted available-for-sale (AFS) financial assets and financial assets at fair value through profit or loss (FVPL) that are carried at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency. All amounts are rounded off to the nearest thousand (₱1,000), except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippines Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries as at December 31, 2017 and 2016:

Subsidiaries	Nature of Business	Effective Percentage of Ownership
Real Estate, Property Development and Others:		
OLI and Subsidiaries:		
OLI	Real Estate and Investment Holding Company	100%
TPI and Subsidiary:		
TPI	Real Estate, Mall Operations	100%
TPIHC*	Investment Holding Company	100%
OPDI and Subsidiaries:		
OPDI	Real Estate Development	100%
OBI*	Manufacturing	100%
LCI	Manufacturing and Distribution	100%
LHVHI*	Other Business Activities	60%

(Forward)



Subsidiaries	Nature of Business	Effective Percentage of Ownership
Financial Services and Others:		
OEHI and Subsidiaries:		
OEHI*	Wholesale and Trading	100%
OMI*	Marketing and Administrative Services	100%
ZHIHI*	Financial Holding Company	100%
OIHPI*	Financial Holding Company	100%
FPIC (Note 1)	Non-Life Insurance Company	78.77%
OSI*	Management Information Technology Consultancy Services	100%

* Inactive companies approved by the BOD for liquidation (Note 1)

All of the companies are incorporated and domiciled in the Philippines.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

- a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- b. exposure, or rights, to variable returns from its involvement with the investee; and
- c. the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- a. the contractual arrangement with the other vote holders of the investee;
- b. rights arising from other contractual arrangements; and
- c. the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The financial statements of the subsidiaries are prepared for the same accounting period as the Parent Company using uniform accounting policies. All significant intercompany transactions and balances between and among the Group, including intercompany profits and unrealized profits, are eliminated in the consolidation.

Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity holders of the parent.



Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years, except for the PFRS, amended PFRS, improvements to PFRS and Insurance Commission requirements which were adopted as of January 1, 2017. Unless otherwise stated, the new standards and amendments did not have any material impact to the Group.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Future Changes in Accounting Policies

The Group will consider the effects on the Group's consolidated financial statements of the following future changes in accounting policies as these become effective and applicable in the future.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. The amendments are effective beginning on or after January 1, 2018 but early application is permitted. The Group will perform an assessment of the impact of the amendments to its share-based payment transactions.



- *PFRS 9, Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the standard on the required effective date and will not restate comparative information. The Group's detailed impact assessment of the three aspects of PFRS 9: classification and measurement, impairment, and hedge accounting is still ongoing.

- *Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group as it no longer issues insurance contracts.

- *PFRS 15, Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business.

The Group plans to adopt the standard on the required effective date using the modified retrospective method. The Group's detailed assessment of the changes in the new revenue standard is ongoing.



In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRS, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognized; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and is effective on January 1, 2018, with earlier application permitted.

The amendments are not applicable to the Group as the Group does not include an entity that is considered as a venture capital organization or other qualifying entity under the amendments.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. Effective for annual periods beginning on or after January 1, 2018.

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or nonmonetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses, and income in its scope that are initially recognized on or after (i) the beginning of the reporting period in which



the entity first applies the interpretation; or (ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The interpretation is not expected to have any significant impact on the consolidated financial statements.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. Earlier application of these amendments is permitted.

The amendments are not expected to have any significant impact on the consolidated financial statements.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group will perform an assessment in 2018 of the impact of PFRS 16.



- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. Earlier application of these amendments is permitted.

The amendments are not expected to have any significant impact the Group's consolidated financial statements.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group will perform an assessment in 2018 of the interpretation's impact on the Group's consolidated financial statements.

Interpretation with Deferred Effective Date

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting and Financial Reporting Policies

Adoption of Insurance Commission Circular Letter

On December 28, 2016, Insurance Commission (IC) released Circular Letter No. 2016-67 (the Circular Letter) on the Valuation Standards for Non-Life Insurance Policy Reserves mandating insurance companies to maintain reserves for its written policies, which shall be charged as a liability in any determination of its financial position. An insurance company shall value incurred but not reported (IBNR) claims based from actuarial projection techniques. The Circular Letter was adopted by FPIC effective January 1, 2017, the adoption of the new valuation standards for non-life insurance policy reserves is considered as a change in accounting policy. The cumulative prior year impact of the changes, as well as any change in the actuarial projection techniques is recognized in retained earnings.



Along with the adoption of the Circular, FPIC has made adjustments to correct previously recognized receivables amounting to ₦22.54 million.

The effect of the above adjustments have been applied retrospectively. The effects of adoption on the financial statements are as follows:

Statements of financial position

	December 31, 2016	June 30 , 2016	July 1, 2015
Increase (decrease) in:			
Receivable	(₦21,637)	(₦20,581)	(₦20,330)
Accounts payable and accrued expenses	12,614	8,417	7,323
Deficit	(31,198)	(27,060)	(26,137)
Non-controlling interests	(3,053)	(1,938)	(1,543)

Statements of comprehensive income

	December 31, 2016	June 30, 2016
Increase (decrease) in:		
Commission and other underwriting expenses	₦5,254	₦1,318
Profit attributable to:		
Equity holders	4,138	923
Non-controlling interest	1,116	395

The adoption did not have an impact on the Company's statements of cash flows.

The effects of the above restatements on the statements of financial position as at December 31, 2016 and June 30, 2016 follow:

As at December 31, 2016

	As previously reported	Effects of change in accounting policy	As restated
Receivables	₦271,393	(₦21,637)	₦249,756
Accounts payable and accrued expenses	666,960	12,614	679,574
Deficit	(332,715)	(31,198)	(363,913)
Non-controlling interests	55,423	(3,053)	52,370

As at June 30, 2016

	As previously reported	Effects of change in accounting policy	As restated
Receivables	₦1,919,880	₦1,957	₦1,921,837
Accounts payable and accrued expenses	895,144	8,417	903,561
Deficit	(340,166)	(4,522)	(344,688)
Non-controlling interests	54,869	(1,938)	52,931



Current versus Noncurrent Classification

The Group presents assets and liabilities in its statement of financial position based on a current and noncurrent classification. An asset is current when it is:

- a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
- b. Held primarily for the purpose of trading;
- c. Expected to be realized within twelve months after the reporting period; or
- d. Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- a. It is expected to be settled in normal operating cycle;
- b. It is held primarily for the purpose of trading;
- c. It is due to be settled within twelve months after the reporting period; or
- d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Financial Instruments - Initial Recognition

Financial instruments within the scope of PAS 39 are classified as financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets and financial liabilities. The Group determines the classification of its financial instruments at initial recognition.

All financial instruments are recognized initially at fair value plus transaction costs, except in the case of financial instruments recorded at FVPL.

As at December 31, 2017 and 2016, the Group's financial assets are in the nature of loans and receivables, financial assets at FVPL and AFS financial assets. The Group has no financial assets classified as HTM investments as at December 31, 2017 and 2016.

Purchases or sales of financial instruments that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date (i.e., the date that the Group commits to purchase or sell the asset).

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, as derivatives designated as hedging instruments in an effective hedge, or as other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition.

As at December 31, 2017 and 2016, the Group's financial liabilities are in the nature of other financial liabilities.

Day 1 profit

For transactions where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instruments or based on a valuation technique whose variables include only data from observable market, the Group recognizes the



difference between the transaction price and fair value (a ‘Day 1’ profit) in profit or loss under “Other income” unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the ‘Day 1’ profit amount.

Financial Instruments - Subsequent Measurement

The subsequent measurement of financial instruments depends on their classification as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are impaired or derecognized. Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

The Group’s loans and receivables include cash and cash equivalents, receivables, amounts owed by related parties and refundable deposits (included under “Other noncurrent assets”; see Notes 4, 5, 15 and 18).

AFS Financial Assets

AFS financial assets include equity and debt securities. AFS financial assets consist of investment in equity securities which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

AFS financial assets are included in current assets if it is expected to be realized or disposed of within twelve (12) months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

After initial recognition, AFS financial assets are subsequently measured at fair value with unrealized gains and losses recognized under Other Comprehensive Income (OCI) in the “Unrealized valuation gains on AFS financial assets” in the consolidated statement of changes in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from equity to the consolidated statement of income as impairment losses. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Interest earned on holding AFS financial assets are reported as interest income using the EIR. Dividends on holding AFS financial assets are recognized in the consolidated statement of income when the right of payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of income.



The Group's listed and nonlisted equity securities and quoted and unquoted debt securities are classified under this category (see Note 8).

Financial Assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in the consolidated statement of financial position at fair value, with changes in fair value recognized in the consolidated statement of income.

The Group evaluated its financial assets at FVPL (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, AFS financial assets or HTM investments depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVPL using the fair value option at designation.

The Group's investment in redeemable preference shares are classified under this category (see Note 9).

Other Financial Liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue cost, and any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

The Group's financial liabilities include accounts payable and accrued expenses, rental and other deposits, amounts owed to related parties, subscriptions payable and deposit for future stock subscriptions (see Notes 1, 16, 17, 18 and 19).

Fair Value Measurement

The Group measures financial instruments, such as financial assets at FVPL and quoted AFS financial assets, at fair value at each end of the reporting period. Also, fair values of financial instruments of financial instruments measured are disclosed in Note 33.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.



The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For financial assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at each end of the reporting period.

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business at the end of the reporting period. Financial instruments for which the fair value cannot be reasonably determined are carried at cost less any impairment in value.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exist and discounted cash flow analysis or other valuation models.

For the purpose of fair value disclosures, the Group has determined the classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Impairment of Financial Assets

The Group assesses at each end of the reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and



collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery. Interest income continues to be recognized based on the original EIR. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets

In the case of quoted equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income in the "Others - net" account. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Interest income on AFS financial assets" account in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Derecognition of Financial Instruments

Financial Assets

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

- the rights to receive cash flows from the asset have expired;



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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained all the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the consolidated statement of income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle, on a net basis, or to realize the asset and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the consolidated statement of financial position.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). The NRV of finished goods is the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV of factory supplies and spare parts is the current replacement cost. In determining NRV, the Group considers any adjustment necessary for obsolescence.

The cost of raw materials includes all costs directly attributable to their acquisition. Finished goods include the cost of raw materials, direct labor, and a proportion of manufacturing overhead.

Real Estate Held for Sale and Development

Real estate held for sale and development is carried at the lower of cost and NRV. NRV is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost includes acquisition cost of the land plus development and improvement costs. Borrowing costs incurred on loans obtained to finance the improvements and developments of real estate held for sale and development are capitalized while development is in progress.



Other Current Assets

Other current assets are resources that the Group expects to consume or realize within its operating cycle. These are carried at cost, less any impairment in value. Included under these are creditable withholding taxes (CWTs), input value added tax (VAT), and prepayments.

CWTs

CWTs represent taxes withheld by the Group's customer on sale of goods and services which are claimed against income tax due. The excess over the income tax payable is either carried over in the succeeding period for the same purpose or claimed for refund.

VAT

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepaid expenses are apportioned to expense over the period covered by the payment and charged to the appropriate expense accounts when incurred.

Investment in an Associate

The Group's investment in an associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate.

When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

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

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in an associate. The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount in the "Equity in net income (loss) of an associate" in the consolidated statement of income.



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

Investment in an associate pertains to the 20% percentage of ownership in investment in BIB Aurora Insurance Brokers, Inc. (BAIBI) (Note 11).

Investment Properties

The Group's investment properties include properties utilized in its mall operations, condominium unit, commercial building, plant facilities and certain land and land improvements which are held for rentals while the rest of the land is held for capital appreciation.

Investment properties utilized in its mall operations are stated at their revalued amount as deemed cost as allowed under PFRS, less accumulated depreciation and amortization and any accumulated impairment losses. The revalued amounts were determined by an independent firm of appraisers. The excess of appraised values over the acquisition costs of the properties is shown under the "Revaluation increment" account in the consolidated statement of financial position and in the consolidated statement of changes in equity. An amount corresponding to the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost is transferred annually from "Revaluation increment" to "Deficit" account in the consolidated statement of financial position.

Condominium unit and commercial building are stated at cost less accumulated depreciation and any accumulated impairment losses. Land is stated at cost less any impairment in value.

The initial cost of investment properties include the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Leasehold improvements under investment properties (including buildings and structures) on the leased land are carried at cost less accumulated amortization and any impairment in value.

The estimated useful lives of investment properties follow:

	Useful life in years
Land improvements	30
Buildings and improvements	7-40
Condominium units and improvements	25
Machineries and equipment	9-25

Investment properties are derecognized when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.



Leasehold improvements and investment properties are amortized on a straight-line basis over the estimated useful lives or the term of the lease, whichever is shorter.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation, amortization and any impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefit expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful life of the property and equipment as follows.

	Useful life in years
Leasehold improvements	3 - 5
Machinery and equipment	5 - 10
Transportation equipment	5
Furniture, fixtures and equipment	3 - 5
Hotel equipment	5

Leasehold improvements are amortized on a straight-line basis over three (3) to five (5) years or the term of the lease, whichever is shorter.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in the consolidated statement of income in the year the asset is derecognized.

The residual values, useful lives and depreciation and amortization method are reviewed and adjusted if appropriate, at each end of the reporting period.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are sold or retired, the cost and the related accumulated depreciation and amortization and any impairment in value are derecognized and any gain or loss resulting from their disposal is included in the consolidated statement of income.

Software Costs

Acquired software license is capitalized on the basis of costs incurred to acquire and bring to use the specific software. Software license is amortized on a straight-line basis over its estimated useful life of three (3) to four (4) years. Costs associated with the development or maintenance of computer software programs are recognized as expense when incurred in the consolidated statement of income.

An item of software license 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 is included in the consolidated statement of income in the year the items is derecognized.



The Group's capitalized software costs includes purchase price payments for new software and other directly related costs necessary to bring the asset to its intended use.

Other Noncurrent Assets

Other noncurrent assets consist of advance rental, deferred acquisition cost, deferred reinsurance premiums, refundable deposits, deferred input VAT, spare parts and supplies, unclaimed claims reserve fund and other prepayments that will be consumed twelve (12) months after each end of the reporting period.

Deferred Acquisition Costs

Costs incurred in relation to the acquisition of insurance contracts such as commissions are deferred and charged to commission expense in proportion to premium revenue recognized.

Subsequent to initial recognition, these costs are amortized using the 24th method where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to the statement of income. The unamortized acquisition costs are shown as "Deferred acquisition cost" under "Other noncurrent assets".

Impairment of Nonfinancial Assets

Inventories and Real Estate Held for Sale and Development

The Group recognizes provision for inventory losses when the net realizable values of inventory items become lower than the costs due to obsolescence or other causes. Obsolescence is based on the physical and internal condition of inventory items. Obsolescence is also established when inventory items are no longer marketable. Obsolete goods, when identified, are written down to their net realizable values.

Investment in an Associate

The Group assesses at each end of the reporting period whether there is any indication that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the investment and the acquisition cost and recognizes the amount in the consolidated statement of income.

An assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the investment is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the consolidated statement of income.

Investment Properties, Property and Equipment and Software Costs

The Group assesses at each end of the reporting period whether there is an indication that investment properties, property and equipment and software costs may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units (CGU) are written down to their estimated recoverable amounts. The estimated recoverable amount of an asset is the greater of fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a



pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Nonfinancial Other Current and Noncurrent Assets

The Group first assesses whether there are indications of impairment on nonfinancial other current and noncurrent assets. When indicators exist, the Group estimates the recoverable amount of the asset and recognizes impairment loss in the consolidated statement of income to reduce the carrying amount to the recoverable value.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract, there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Group defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Recognition and Measurement

a) Premium Revenue

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relates to the unexpired periods of the policies at financial reporting dates is accounted for as "Reserve for unearned premiums" and shown as part of "Accounts payable and accrued expenses" in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at financial reporting dates are accounted for as "Deferred reinsurance premiums" and shown under "Other noncurrent assets" in the statement of financial position. The net changes in these accounts between financial reporting dates are charged to or credited against profit or loss.

b) Insurance Contract Liabilities

Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.



Reserve for Unearned Premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods is deferred as reserve for unearned premiums using the 24th method. The change in the reserve for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk.

Claims Provision and Incurred but not Reported (IBNR) losses

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the financial reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. Provision for IBNR losses is calculated based on standard actuarial projection techniques.

The liability is not discounted for the time value of money and includes IBNR losses. The liability is derecognized when the contract expires, is discharged or is cancelled.

Liability Adequacy Test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Any inadequacy is immediately charged to profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests.

c) Reinsurance Assets

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies for ceded insurance liabilities. Recoverable amounts are estimated in a manner consistent with the outstanding claims provisions and are in accordance with the reinsurance contract.

An impairment review is performed on all reinsurance assets when an indication of impairment arises during the financial reporting year.

Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognized as income and expense in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.



Reinsurance commissions are deferred and subject to the same amortization method as the related acquisition costs; unamortized reinsurance commissions are shown as “Due to reinsurers and ceding companies” and shown as part of “Accounts payable and accrued expenses” in the statement of financial position.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or has expired or when the contract is transferred to another party.

Short-term Insurance Contracts

These contracts include the following:

- Fire insurance contracts cover loss or damage to the insured's properties caused by fire and/or natural calamities like typhoon, lightning, flood and earthquake.
- Motor insurance contracts provide financial protection to vehicle owners against physical loss of or damage to their vehicles and legal liability to third parties and/or passengers due to accident.
- Personal accident insurance contracts provide financial aid to either the insured or his beneficiaries in case of accidental death or disability.
- Marine insurance contracts indemnify the owner and/or assignee of a vessel, plane, goods and/or other transportable properties against sustained loss or damage on land, marine and aerial transit.
- Engineering insurance contracts provide complete protection against loss of or damage to plant, mechanical, electronic and other types of equipment used in construction and/or business operations.
- Extended perils or optional coverages are also available.
- Bonds/suretyship insurance contracts cover undertake to provide the needed guarantee to complete a contractual or civil engineering project.
- Liability insurance contracts indemnify the insured against the financial consequences of accidents to third parties for which he is legally responsible or liable.

Rental and Other Deposits

Customer rental and other deposits represent payments from tenants on leased properties which are refundable at the end of the lease contract. These are initially measured at fair value and subsequently measured at amortized cost.

Subscriptions Payable

Subscriptions payable pertains to the Group's unpaid subscription of shares of stock of other entities. These are recognized and carried in the books at the original subscription price in which shares of stock will be issued upon payment.

Capital Stock

Common shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to “Additional paid-in capital”. Subscription receivables pertains to the uncollected portion of the subscribed shares and is presented net against capital stock. Retained earnings (deficit) represents accumulated earnings (losses) of the Group.

Treasury Shares and Shares Held by Subsidiary

Treasury shares are own shares (POPI and subsidiaries) acquired by the Group. These are measured at acquisition cost and presented as deduction against equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issuance or cancellation of the company's own equity instruments.



Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

The Parent Company's shares acquired by a subsidiary is presented as "Shares held by subsidiary" under the equity section

Share-based Payments

The Group has equity-settled, share-based compensation plan with its employees. The Group has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Group's shares at a discounted price. The Group recognizes stock compensation expense at the date of grant. These are accounted for as limited-recourse loan-type share plans. Dividends paid on the awards are treated as installment payment against the exercise price of the options. The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized, together with a corresponding increase in "Equity reserves" in equity, in "Personnel expense" account.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expense that are not recognized in the consolidated statement of income for the year in accordance with PFRS.

Revenue and Income Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognized.

Rent and Other Charges

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. Other charges pertain to rebilled utility charges to tenants in relation to the operating lease on properties.

Insurance Premiums and Commissions - net

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for premiums arising from marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relates to the unexpired periods of the policies at financial reporting dates is accounted for as "Reserve for unearned premiums" and shown as part of "Accounts payable and accrued expenses" in the consolidated statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at financial reporting dates are accounted for as "Deferred reinsurance premiums" and shown under "Other noncurrent assets" in the consolidated statement of financial position. The net changes in these accounts between financial reporting dates are charged to or credited against income for the period.

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the deferred reinsurance commission pertains to the premiums for the last two months of the year.

The portion of the commissions that relates to the unexpired periods of the policies at the financial reporting date is accounted for as "Due to reinsurers and ceding companies" and shown as part of "Accounts payable and accrued expenses" in the consolidated statement of financial position.



Merchandise Sales and Real Estate Sales

Revenue from sale of these assets are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Gain on Sale of AFS Financial Assets

Gain on sale of AFS financial assets is recognized when the Group sold its AFS financial assets higher than its carrying value at the time of sale.

Interest Income

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as AFS financial assets, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Service Fees

Service fees are recognized based on agreed rates upon rendering of the service.

Dividend Income

Dividend income is recognized when the Group's right to receive the payment is established.

Cost and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or incurrence of liabilities that result in decrease in equity. Expenses are recognized in the consolidated statement of income in the period these are incurred. Cost and expenses are generally recognized when services or goods used or the expense arises in the appropriate financial reporting period and measured in the amount paid or payable.

Cost of Goods Sold and Services

Cost of sales and services are direct costs incurred in the normal course of the business, are recognized when incurred and generally measured in the amount paid or payable. These comprise cost of goods sold, services, merchandise and handling services.

Operating Expenses

Operating expenses consist of all expenses associated with the development and execution of marketing and promotional activities and expenses incurred in the direction and general administration of day-to-day operations of the Group. These are generally recognized when the service is incurred or the expense arises.

Earnings Per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Parent Company (after adjusting for interest on any convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.



Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The income tax rates and income tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the profit or loss in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Income Tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefits of unused net operating loss carryover (NOLCO) and unused tax credits from excess minimum corporate income tax (MCIT), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, and the carry forward of unused NOLCO and MCIT can be utilized, and except if it arises from initial recognition and those associated with the investments in subsidiaries, associates and joint ventures as discussed above.

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

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

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in the consolidated statement of comprehensive income or directly in equity.



Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered. Subsidiaries operating in the Philippines file income tax returns on an individual basis. Thus, the deferred tax assets and deferred tax liabilities are offset on a per entity basis.

Retirement Benefits Costs

The Group has a funded, non-contributory defined benefit retirement plan.

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as retirement benefits costs under "Personnel expenses" in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of



the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee Leave Entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12) months after the end of the reporting period is recognized for services rendered by employees up to the end of the reporting period.

Leases

Determination of Whether an Arrangement Contains a Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. A reassessment is made after the inception of the lease only if one of the following applies:

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

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

Operating Lease Commitments - Group as a Lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Rent income from operating leases are recognized as income on a straight-line basis over the lease term or based on the terms of the lease, as applicable. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Operating Lease Commitments - Group as a Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease payments under non-cancellable operating leases are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Foreign Currency Translation

Transactions in foreign currencies are initially recorded in Philippine Peso based on the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.



Claims

The liabilities for unpaid claim costs (including incurred but not reported losses) and claim adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves is continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense for the period in which the estimates are changed or payments are made. Estimated recoveries on settled and unsettled claims are evaluated in terms of the estimated realizable values of the salvaged recoverables and deducted from the liability for unpaid claims. The unpaid claim costs are accounted as “Claims payable” under “Accounts payable and accrued expenses” account in the consolidated statement of financial position.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Restructuring provisions are recognized when the Group has a constructive obligation (the Group has committed to settle), which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan’s main features.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingencies

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

Segment Reporting

The Group’s operating businesses are recognized and managed according to the nature of the products or services offered, with each segment representing a strategic business unit that serves different markets.

Segment revenue, expenses and performance include transfers between business segments. The transfers are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

Events After the End of the Reporting Period

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



3. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcome can differ from these estimates.

Judgments

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

Determining Classification of Investment Properties

The Group classifies its buildings and improvements and land and improvements either as investment property or owner-occupied property based on its current intentions where it will be used. When buildings and improvements as well as land and improvements are held for capital appreciation or when management is still undecided as to its future use, it is classified as investment property. Buildings and improvements and land and improvements which are held for rent are classified as investment properties.

Assessment Whether an Agreement is a Finance or Operating Lease

Management assesses at the inception of the lease whether an arrangement is a finance lease or operating lease based on who bears substantially all the risk and benefits incidental to the ownership of the leased item. Based on the management's assessment, the risk and rewards of owning the items leased by the Group are retained by the lessor and therefore accounts for such lease as operating lease.

Assessing Operating Lease Commitments - Group as Lessor

The Group has entered into commercial property leases on its investment properties portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Estimates and Assumptions

The key estimates and 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 financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes in circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Estimating Allowance for Impairment Losses on Receivables

The Group reviews its receivables from third parties and amounts owed by related parties at each end of the reporting period to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance



required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

For the receivables, the Group evaluates specific accounts where the Group has information that certain customers or third parties are unable to meet their financial obligations and considers cumulative assessment for the risk of the collectability of past due accounts. Facts, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered to ascertain the amount of allowance that will be provided. The allowances are evaluated and adjusted as additional information is received.

For the amounts owed by related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing allowance against the recorded receivable amounts.

Provision for impairment losses on receivables amounted to ₦60.34 million, ₦3.12 million and ₦36.77 million the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively. The Group wrote off receivables against allowance amounting to ₦76.49 million and ₦24.21 million for the year ended December 31, 2017 and year ended June 30, 2016, respectively (nil for the six months ended December 31, 2016). The carrying values of the receivables amounted to ₦381.55 million and ₦249.76 million as at December 31, 2017 and 2016, respectively, net of allowance for impairment losses amounting to ₦299.73 million and ₦315.88 million, respectively (see Note 5).

Estimating Allowance for Inventory Losses

The level of allowance for inventory losses is evaluated by management on the basis of factors that affect the recoverability of the inventory. These factors include, but are not limited to, the physical condition and location of inventories on hand, the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period, and the purpose for which the inventory item is held.

Provision for inventory losses amounted to ₦1.01 million and ₦0.66 million for the year ended December 31, 2017 and six months ended December 31, 2016 (nil for the year ended June 30, 2016). Recovery of allowance for impairment on inventory losses amounted to ₦0.77 million, ₦0.13 million, and ₦4.22 million for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively. The Group wrote off inventories against allowance amounting to ₦33.44 million for the year ended December 31, 2017 (nil for the six months ended December 31, 2016 and year ended June 30, 2016).

The carrying values of inventories amounted to ₦7.38 million and ₦8.08 million as at December 31, 2017 and 2016, respectively, net of allowance for inventory losses amounting to ₦34.72 million and ₦67.92 million as at December 31, 2017 and 2016, respectively (see Note 6).

Estimating Allowance for Impairment Losses on Real Estate Held for Sale and Development

The Group maintains an allowance for impairment losses on real estate held for sale and development. The level of this allowance is evaluated by management on the basis of factors that affect the recoverability of the real estate held for sale and development. These factors include, but are not limited to, the physical condition and location of real estate held for sale and development, the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period, and the purpose for which the real estate held for sale and development item is held.



Impairment losses on real estate held for sale and development recognized for the year ended June 30, 2016 amounted to ₦16.04 million (nil for the year ended December 31, 2017 and six months ended December 31, 2016). The carrying values of real estate held for sale and development amounted to ₦264.46 million as at December 31, 2017 and 2016 (see Note 7).

Estimating Allowance for Impairment Losses of AFS Financial Assets

The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Group treats ‘significant’ generally as 20% or more and ‘prolonged’ as greater than six (6) months for quoted equity securities. For equity instruments, when determining whether the decline in value is significant, the Group considers historical volatility of share price (i.e., the higher the historical volatility, the greater the decline in fair value before it is likely to be regarded as significant) and the period of time over which the share price has been depressed (i.e., a sudden decline is less significant than a sustained fall of the same magnitude over a longer period). For debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on the AFS financial assets previously recognized in the consolidated statement of income.

Provision for impairment losses on AFS financial assets amounted to ₦3.12 million for the year ended June 30, 2016 (nil for the year ended December 31, 2017 and six months ended December 31, 2016). The fair values of AFS financial assets amounted to ₦710.45 million and ₦1,755.77 million as at December 31, 2017 and 2016, respectively, net of allowance for impairment losses amounting to ₦538.40 million as at December 31, 2017 and 2016 (see Note 8).

Assessing and Estimating Allowance for Impairment Losses on Investment in an Associate, Property and Equipment, and Investment Properties

PFRS requires that an impairment review be performed when certain impairment indicators are present. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

Estimating the recoverable value of those assets entails the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets requiring the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group’s estimate to change or to conclude that these assets may not be fully recoverable. Any resulting impairment loss could have a material adverse impact on financial position and results of operations of the Group.

Provision for impairment losses on investment in an associate amounted to ₦0.61 million for the year ended June 30, 2016 (nil for the year ended December 31, 2017 and six months ended December 31, 2016). The carrying values of the investment in an associate amounted to ₦1.89 million and ₦1.93 million as at December 31, 2017 and 2016, respectively (see Note 11).



Provision for impairment losses on property and equipment amounted to ₦12.28 million for the year ended June 30, 2016 (nil for the year ended December 31, 2017 and six months ended December 31, 2016, see Note 13). The Group wrote off property and equipment against allowance amounting to ₦12.28 million for the year ended December 31, 2017 (nil for the six months ended December 31, 2016 and year ended June 30, 2016).

There was no provision for impairment losses on investment properties recognized for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016 (see Note 12). The Group wrote off investment property against allowance amounting to ₦3.34 million for the year ended December 31, 2017 (nil for the six months ended December 31, 2016 and year ended June 30, 2016).

Estimating Useful Lives of Depreciable Investment Properties and Property and Equipment

The estimated useful lives used as bases for depreciating and amortizing the Group's investment properties and property and equipment were determined on the basis of management's assessment of the period within which the benefits of these asset items are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Group's assets. The Group estimates the useful lives of its investment properties and property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties and property and equipment are reviewed, at least, annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of these assets increases depreciation and amortization and decreases the carrying value of investment properties and property and equipment.

The carrying value of property and equipment amounted to ₦37.25 million and ₦36.17 million as at December 31, 2017 and 2016, respectively, net of accumulated depreciation, amortization and impairment amounting to ₦536.98 million and ₦2.12 billion as at December 31, 2017 and 2016, respectively (see Note 13).

The carrying value of investment properties amounted to ₦5,996.41 million and ₦1,492.30 million as at December 31, 2017 and 2016, respectively (see Note 12).

Information on the estimated useful life of investment properties and property and equipment is included in Note 2.

Assessing and Estimating Allowance for Impairment Losses on Nonfinancial Other Current and Noncurrent Assets

The Group provides allowance for losses on nonfinancial other current and noncurrent assets whenever they can no longer be realized in full or partially. Considerations include future obligations or payments against which these assets can be used or applied. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for losses would increase recorded expenses and decrease nonfinancial other current and noncurrent assets.

Provisions for impairment losses on nonfinancial other current assets amounted to ₦6.90 million and ₦0.02 million for the year ended December 31, 2017 and 2016, respectively (nil for the year ended June 30, 2016). As at December 31, 2017 and 2016, the carrying values of nonfinancial other current assets amounted to ₦359.96 million and ₦224.89 million, respectively (see Note 10).



There was no provision for impairment losses on nonfinancial other noncurrent assets recognized for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016. As at December 31, 2017 and 2016, the carrying values of nonfinancial other noncurrent assets amounted to ₦451.33 million and ₦113.94 million, respectively (amounts exclude refundable deposit, see Note 15).

Claims Liability Arising from Insurance Contracts

Estimates have to be made both for the expected ultimate cost of claims reported at the financial reporting date and for the expected ultimate cost of the IBNR claims as of financial reporting date. It can take significant period of time before the ultimate claim costs can be established with certainty. Management estimates the cost of reported and IBNR claims using past claims settlement trends to predict future claims settlement trends. The determination of the Group's claims liability arising from insurance contracts is dependent on management's selection of certain assumptions used by actuaries in calculating such amounts. These assumptions include among others, loss development factors, claims inflation and premium rate changes.

At each financial reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to current year provision.

The carrying values of claims payable under "Accounts payable and accrued expenses" amounted to ₦50.94 million and ₦101.39 million as at December 31, 2017 and 2016, respectively (see Note 16).

Determining Retirement Benefits Liability

The cost of defined retirement obligation as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligation are highly sensitive to changes in these assumptions. The assumptions are reviewed at each end of the reporting period.

Current service costs amounted to ₦1.89 million, ₦6.29 million and ₦16.83 million for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively. As at December 31, 2017 and 2016, net pension assets of the Group amounted to ₦20.67 million and ₦12.55 million, respectively. As at June 30, 2016, the net retirement benefits liability of the Group amounted to ₦75.70 million (see Note 24).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 24.

Assessing Realizability of Deferred Income Tax Assets

The Group reviews the carrying amounts of deferred income tax assets at each end of the reporting period and reduces it to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Judgments and estimation are required to determine the amount of deferred income tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable profits to allow all or part of its deferred income tax assets to be utilized.

Deferred income tax assets recognized in the books amounted to ₦66.66 million and ₦80.76 million as at December 31, 2017 and 2016, respectively (see Note 25).



The temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized, as the management has assessed that it is not probable that sufficient future taxable income will be available for which the benefit of the deferred income tax assets can be utilized, are disclosed in Note 25.

Assessing and Estimating Contingencies and Provisions

The Group is currently involved in various legal proceedings and assessments. The estimate of the probable costs for the resolution of these proceedings and assessments has been developed in consultation with inside and outside legal counsel handling the defense in these matters and is based upon the analysis of potential results. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings (see Note 30).

Total provision for probable losses recognized amounted to ₦234.64 million for the year ended June 30, 2016. Total reversal of provision for probable losses amounted to ₦106.47 million for the six months ended December 31, 2016. There were no provisions nor reversal for the year ended December 31, 2017 (see Note 30).

Estimating Fair Value of Options under the ESOWN

The Group initially measures the cost of equity-settled transactions using Cox-Ross-Rubenstein option pricing model to determine the fair value of the option at date of grant. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the volatility and dividend yield and making assumptions about them. For the year ended December 31, 2017 and June 30, 2016, personnel expense and the corresponding equity reserve recognized in relation to the ESOWN amounted to ₦33.34 million and ₦27.47 million, respectively (nil for the six months ended December 31, 2016). See Note 31 for further details on the ESOWN, including the assumptions used in the valuation.

4. Cash and Cash Equivalents

	2017	2016
	<i>(In Thousands)</i>	
Cash on hand and in banks	₦79,033	₦177,416
Cash equivalents	175,936	190,944
	₦254,969	₦368,360

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term investments that are made for varying periods of up to three (3) months, depending on the immediate cash requirements of the Group, and earn interest at the rate of 1.5% per annum on short-term investments.

Interest earned from cash in banks amounted to ₦0.24 million, ₦0.19 million and ₦0.57 million for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively. Interest earned from cash equivalents amounted to ₦1.14 million, ₦4.55 million and ₦2.77 million for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively (see Note 23).



5. Receivables

	2017	2016 (as restated, Note 2)
	<i>(In Thousands)</i>	
Trade debtors	₱350,265	₱160,549
Insurance receivables (Note 2)	128,550	180,237
Others	202,464	224,853
	681,279	565,639
Less allowance for impairment losses	299,734	315,883
	₱381,545	₱249,756

Trade debtors are primarily noninterest-bearing and are generally collectible on thirty (30) days' term.

Insurance receivables consist of premiums receivable, due from ceding companies, reinsurance recoverable on paid and unpaid losses - facultative, funds held by ceding companies and reinsurance accounts receivables and are generally on 90 to 360 days' term.

Other receivables include noninterest-bearing receivables of OLI from Cosco Land Corporation (CLC) which are due and demandable amounting to ₱160.45 million as at December 31, 2017 and 2016. These receivables are collateralized by the shares of stock of Cyber Bay owned by CLC. The receivables from CLC are fully provided with allowance.

Allowance for impairment losses pertains to specific and collective assessments. The movements of allowance for impairment losses on receivables are as follows:

	Trade debtors	Insurance receivables	Others	Total
	<i>(In Thousands)</i>			
At June 30, 2016	₱66,773	₱41,875	₱205,798	₱314,446
Provisions (Note 20)	94	3,021	–	3,115
Reclassification	–	–	(1,678)	(1,678)
At December 31, 2016	66,867	44,896	204,120	315,883
Provisions (Note 20)	20,101	36,114	4,125	60,340
Write-off	(39,570)	(32,598)	(4,321)	(76,489)
At December 31, 2017	₱47,398	₱48,412	₱203,924	₱299,734

Trade debtors written off pertains to receivable from merchandisers and retailers for the sale of tiles.

6. Inventories

	2017	2016
	<i>(In Thousands)</i>	
At NRV:		
Finished goods	₱7,380	₱8,057
Factory supplies and spare parts	–	18
	₱7,380	₱8,075



Movements in the allowance for inventory losses are as follows:

	2017	2016
	<i>(In Thousands)</i>	
Beginning balances	₱67,921	₱67,391
Write off	(33,440)	-
Provision	1,009	663
Recovery	(771)	(133)
	₱34,719	₱67,921

Inventories charged to operations amounted to ₱0.25 million and ₱5.34 million for the six months ended December 31, 2016 and year ended June 30, 2016, respectively (nil for the year ended December 31, 2017, see Note 22).

7. Real Estate Held for Sale and Development

	2017	2016
	<i>(In Thousands)</i>	
Land for development	₱237,973	₱237,973
Held for sale	42,533	42,533
	280,506	280,506
Allowance for impairment losses	16,042	16,042
	₱264,464	₱264,464

Land for development pertains to parcels of land located in Calamba, Laguna, Sto. Tomas, Batangas and San Vicente, Palawan. The composition of land for development as at December 31, 2017 and 2016 are as follows:

Land cost	₱212,558
Construction overhead and other related costs	22,898
Taxes	2,517
	₱237,973

There are no movements in the real estate held for sale and development account in 2017 and 2016.

On August 18, 2015, OPDI, a subsidiary, entered into a Deed of Absolute Sale with Majestic Landscape Corporation covering the sale of several parcels of land situated in Brgy. Sto. Tomas in the province of Batangas with an aggregate area of 124,780 square meters for a total consideration amounting to ₱203.83 million, inclusive of value added tax.

On June 15, 2016, OPDI also entered into a Deed of Absolute Sale with Park3 Realty and Development Corporation covering the sale of commercial lot with improvement located at J.P. Rizal corner P. Burgos St., Makati City with an aggregate area of 639 square meters for a total consideration amounting to ₱100.19 million.



8. AFS Financial Assets

	2017	2016
	(In Thousands)	
Listed equity securities (Note 19)	₱1,171,142	₱1,406,119
Nonlisted equity securities	6,526	65,213
Quoted debt securities	71,189	812,280
Unquoted debt securities	—	10,558
	1,248,857	2,294,170
Allowance for impairment losses	538,403	538,403
	₱710,454	₱1,755,767

AFS listed/quoted financial assets are carried at fair value with cumulative changes in fair values presented as a separate account in equity. Unquoted debt and equity financial assets are carried at cost, net of any impairment.

Certain AFS financial assets are reserved investments in accordance with the provisions of the Insurance Code as security for the benefit of policy holders and creditors of the FPIC.

There are no movements in the allowance for impairment losses both in 2017 and 2016.

Movements of unrealized valuation gain (losses) on AFS financial assets are as follows:

	Equity Holders	Non-controlling Interests	Total
	(In Thousands)		
At June 30, 2016	₱276,226	(₱1,208)	₱275,018
Gain (loss) recognized directly in equity	(105,576)	568	(105,008)
Gain transferred from equity to consolidated statement of income	(2,201)	—	(2,201)
At December 31, 2016	168,449	(640)	167,809
Loss recognized directly in equity	(147,060)	(883)	(147,943)
Gain transferred from equity to consolidated statement of income	(3,637)	—	(3,637)
At December 31, 2017	₱17,752	(₱1,523)	₱16,229

Proceeds from the sale of AFS financial assets amounted to ₱858.14 million, ₱2.18 million and ₱21.36 million for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively, with a corresponding gain on sale of ₱8.65 million, ₱1.71 million and ₱17.24 million for the same periods, respectively.

Interest earned from AFS financial assets amounted to ₱9.42 million, ₱6.79 million and ₱15.41 million for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively.

Dividend income received on AFS financial assets amounted to ₱1.15 million, ₱1.11 million and ₱2.50 million for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively.



9. Financial Assets at FVPL

In 2015, the Group has 143,600 redeemable preferred shares with a cost of ₦27.99 million designated as financial assets at FVPL upon initial recognition.

Fair value of financial assets at FVPL as at December 31, 2017, 2016 and June 30, 2016 amounted to ₦2.64 million, ₦13.10 million and ₦12.70 million, respectively, resulting to an unrealized gain (loss) of (₦0.46 million), ₦0.40 million and (₦0.43 million) for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively.

During the year ended December 31, 2017 and fiscal year ended June 30, 2016, 10,000 shares and 128,600 shares amounting to ₦10.12 million and ₦9.66 million were redeemed (nil as at December 31, 2016).

Dividend income earned from these shares amounted to ₦0.26 million for the year ended December 31, 2017 (nil for the six months ended December 31, 2016 and year ended June 30, 2016).

10. Other Current Assets

	2017	2016
	<i>(In Thousands)</i>	
CWTs	₦207,583	₦197,565
Input VAT	145,508	25,063
Prepayments	15,194	4,898
	368,285	227,526
Less allowance for impairment losses	8,326	2,636
	₦359,959	₦224,890

Creditable withholding taxes (CWTs) are available for offset against income tax payable in the future periods.

Input VAT pertains to VAT passed on from purchases of goods or services which is applied against output VAT.

Prepayments pertain to prepaid insurance, taxes and licenses and other prepaid expenses that are to be amortized over a period of one (1) year.

Movements in the allowance for impairment losses are as follows:

	2017	2016
	<i>(In Thousands)</i>	
Balances at beginning of year	₦2,636	₦2,852
Provisions	6,896	15
Recovery	(418)	(108)
Write-off	(788)	(123)
Balances at end of year	₦8,326	₦2,636



11. Investment in an Associate

This account consists of the 20% equity interest in BAIBI, a domestic insurance brokerage company. Movements in the carrying value of the investment is shown below.

	2017	2016
	<i>(In Thousands)</i>	
Acquisition costs:		
Balances at end of year	₱5,959	₱5,959
Accumulated equity in net losses:		
Balances at beginning of year	(3,418)	(3,407)
Equity in net loss	(43)	(11)
Balances at end of year	(3,461)	(3,418)
	2,498	2,541
Allowance for impairment loss	(610)	(610)
	₱1,888	₱1,931

Summarized of the financial statement information of the associate follows:

	2017	2016
	<i>(In Thousands)</i>	
Current assets	₱9,690	₱9,962
Noncurrent assets	21	21
Total liabilities	288	344
Revenue	1	6
Costs and expenses	57	118
Net loss	(215)	(55)

12. Investment Properties

	2017		
	Buildings and Improvements	Land and Improvements	Total
	<i>(In Thousands)</i>		
Cost			
At beginning of year	₱3,296,028	₱345,627	₱3,641,655
Additions	4,575,003	–	4,575,003
Disposals	(20,890)	–	(20,890)
Reclassification (Note 13)	22,629	–	22,629
At end of year	7,872,770	345,627	8,218,397
Accumulated Depreciation and Amortization			
At beginning of year	2,115,347	21,175	2,136,522
Depreciation and amortization (Notes 20 and 22)	84,580	714	85,294
Disposals	(14,147)	–	(14,147)
Reclassification (Note 13)	4,833	–	4,833



	2017		
	Buildings and Improvements	Land and Improvements	Total
<i>(In Thousands)</i>			
At end of year	₱2,190,613	₱21,889	₱2,212,502
Balance before impairment	5,682,157	323,738	6,005,895
Less: Allowance for impairment losses	9,490	—	9,490
Net book values	₱5,672,667	₱323,738	₱5,996,405

	2016		
	Buildings and Improvements	Land and Improvements	Total
<i>(In Thousands)</i>			
Cost			
At beginning of year	₱2,929,927	₱345,627	₱3,275,554
Additions	357,409	—	357,409
Reclassification (Note 13)	8,692	—	8,692
At end of year	3,296,028	345,627	3,641,655
Accumulated Depreciation and Amortization			
At beginning of year	2,078,800	20,751	2,099,551
Depreciation and amortization (Notes 22)	31,598	424	32,022
Reclassification (Note 13)	4,949	—	4,949
At end of year	2,115,347	21,175	2,136,522
Balance before impairment	1,180,681	324,452	1,505,133
Less: Allowance for impairment losses	12,834	—	12,834
Net book values	₱1,167,847	₱324,452	₱1,492,299

Based on the latest appraisal reports in 2016, as determined by an independent firm of appraisers, the appraised values of the investment properties amounted to ₱9.1 billion, respectively.

TPI

Investment properties of TPI substantially represent buildings, leasehold improvements and machinery and equipment on the land leased from PNR which are utilized in the Company's mall operations and held for rentals.

The appraised property is located along Claro M. Recto Avenue, within Tondo, Manila. The hierarchy in which the fair value measurement in its entirety is recognized is at Level 3. Based on the lease contract, TPI leases a land consisting of 69 lots, containing an aggregate area of 200,830 square meters.

The appraised value was estimated using the Sales Comparison Approach. This is a comparative approach to the value of the property that considers the sale of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.



The method used to determine the value of other land improvements and building, machinery and equipment is the Cost Approach. This is a comparative approach to the value of the property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is replica of, or equivalent to the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction or replacement cost of the subject property or asset, less total accumulated depreciation.

LCI

On July 1, 2014, LCI transferred its land and improvements and buildings and improvements at revalued amounts to investment property valued at deemed cost. The transfer was made in accordance with PAS 40, *Investment Property* since the properties were held by LCI to earn rentals and for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

OLI

On November 29, 2017, POPI's wholly-owned subsidiary, OLI, acquired a commercial building composed of a 5-storey shopping center and a 6-storey business processing outsourcing office with a gross leasable area of 60,000 square meters located along National Road, Alabang, Muntinlupa City, from ALI, for a total consideration of ₱4.798.0 million. The amount is equivalent to the fair value of the properties based on the appraisal report by an independent appraiser.

Revaluation increment recognized on these assets amounted to ₱225.6 million, ₱233.2 million and ₱237.0 million as at December 31, 2017, December 31, 2016 and June 30, 2016, respectively. Revaluation increment realized through depreciation and transferred to deficit (net of related tax) amounted to ₱7.6 million, ₱3.8 million and ₱7.6 million as at December 31, 2017, December 31, 2016 and June 30, 2016, respectively.

Movement of revaluation increment are as follows:

	2017	2016
	<i>(In Thousands)</i>	
Beginning balance	₱233,206	₱237,011
Transfer of realized valuation increment	(7,611)	(3,806)
Balances at end of year	₱225,595	₱233,205

As at December 31, 2017 and December 31, 2016, the net book values of TPI's, OLI's and LCI's investment properties follow:

	2017	2016
	<i>(In Thousands)</i>	
At net book value:		
Original cost	₱4,868,862	₱285,059
Revaluation reserve (OCI)	225,595	233,205
Revaluation reserve (closed to retained earnings)	236,083	236,083
	₱5,330,540	₱754,347

In accordance with the general requirement under PFRS 1, the Group closed out the "Revaluation Reserve" on TPI's investment properties account to retained earnings which pertains to the remaining balance of the deemed cost adjustment on investment properties account which arose when it transitioned to PFRS.



Rental revenue from investment properties amounted to ₱501.82 million, ₱245.37 million and ₱467.93 million for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively. Direct operating expenses incurred for investment properties amounted to ₱351.73 million, ₱176.27 million and ₱406.93 million for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016, respectively, and include depreciation, real property taxes and repairs and maintenance (see Note 22).

On August 18, 2015, TPIHC, a subsidiary, sold its investment properties located at Sto Tomas, Batangas with an aggregate area of 191,414 square meters for a total consideration of ₱270.58 million. On September 7, 2015, the Group also sold its investment properties located in Mandaue City, Cebu for ₱432.57 million.

In September 2017, POPI sold its condominium unit located at Leviste Street, Salcedo Village, Makati City for a total consideration of ₱20.0 million, exclusive of value added tax.

Gain on sale of these properties recognized for the year ended December 31, 2017 and fiscal yearended June 30, 2016 amounted to ₱16.40 million and ₱578.97 million, respectively (nil for the six months ended December 31, 2016).

13. Property and Equipment

	2017					
	Leasehold Improvements	Machinery and Transportation Equipment	Furniture, Fixtures and Equipment	Hotel Equipment	Total	
(In Thousands)						
Cost						
At beginning of year	₱7,227	₱2,032,920	₱19,483	₱83,662	₱8,588	₱2,151,880
Additions	2,201	24,990	—	2,199	—	29,390
Disposals	—	(1,294,134)	(13,665)	(12,201)	(8,588)	(1,328,588)
Retirements	(3,666)	(239,466)	(2,971)	(24,386)	—	(270,489)
Reclassification (Note 12)	—	(7,966)	—	—	—	(7,966)
At end of year	5,762	516,344	2,847	49,274	—	574,227
Accumulated Depreciation and Amortization						
At beginning of year	7,024	2,009,975	17,361	61,592	7,734	2,103,686
Depreciation and amortization (Notes 20 and 22)	317	5,043	499	6,240	240	12,339
Disposals	—	(1,282,106)	(12,842)	(803)	(7,974)	(1,303,725)
Retirements	(3,666)	(239,466)	(2,974)	(24,383)	—	(270,489)
Reclassifications (Note 12)	—	(4,833)	—	—	—	(4,833)
At end of year	3,675	488,613	2,044	42,646	—	536,978
Net Book Values	₱2,087	₱27,731	₱803	₱6,628	₱—	₱37,249

	2016						
	Leasehold Improvements	Machinery and Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	Total	
(In Thousands)							
Cost							
At beginning of year	₱7,227	₱2,026,421	₱26,358	₱65,160	₱8,692	₱8,588	₱2,142,446
Additions	—	6,499	—	18,502	—	—	25,001
Disposals	—	—	(6,875)	—	—	—	(6,875)
Reclassification (Note 12)	—	—	—	—	(8,692)	—	(8,692)
At end of year	7,227	2,032,920	19,483	83,662	—	8,588	2,151,880
Accumulated Depreciation and Amortization							
At beginning of year	6,966	2,009,382	21,944	60,203	4,840	7,321	2,110,656

(Forward)



	2016						
	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	Total
<i>(In Thousands)</i>							
Depreciation and amortization (Note 20 and 22)	₱58	₱593	₱569	₱1,389	₱109	₱413	₱3,131
Disposals	—	—	(5,152)	—	—	—	(5,152)
Reclassification (Note 12)	—	—	—	—	(4,949)	—	(4,949)
At end of year	7,024	2,009,975	17,361	61,592	—	7,734	2,103,686
Less: Allowance for impairment loss (Note 20)	—	12,028	—	—	—	—	12,028
Net Book Values	₱203	₱10,917	₱2,122	₱22,070	₱—	₱854	₱36,166

Gain on sale of property and equipment was recognized for the year ended December 31, 2017, six months ended December 31, 2016 and year ended June 30, 2016 amounting to ₱31.74 million, ₱2.09 million and ₱5.97 million, respectively.

As at December 31, 2017 and 2016, the Group continues to utilize fully depreciated property and equipment with an aggregate acquisition cost amounting to ₱13.00 million and ₱36.69 million, respectively.

14. Software Costs

	2017	2016
<i>(In Thousands)</i>		
Cost:		
Beginning balances	₱40,589	₱37,508
Additions	591	3,081
Retirements	(10,323)	—
Ending balances	30,857	40,589
Accumulated amortization:		
Beginning balances	32,956	31,292
Amortization (Note 20)	3,317	1,664
Retirements	(10,323)	—
Ending balances	25,950	32,956
Net book values	₱4,906	₱7,633

15. Other Noncurrent Assets

	2017	2016
<i>(In Thousands)</i>		
Deferred input VAT	₱437,959	₱39,296
Refundable deposits (Note 29)	37,369	17,838
Advances to suppliers and contractors	10,000	13,637
Spare parts and supplies	1,966	5,662
Deferred acquisition cost (Note 1)	580	18,141

(Forward)



	2017	2016
	<i>(In Thousands)</i>	
Prepaid rent and other expenses	₱228	₱3,811
Deferred reinsurance premiums (Note 1)	—	17,618
Foreclosed property (Note 12)	—	14,663
Others	595	1,113
	₱488,697	₱131,779

Deferred input VAT arises from the purchase of capital goods by the Group for amortization for a period of 5 years.

Deferred acquisition cost pertains to the unamortized acquisition costs incurred during the period that are related to securing new insurance contracts and or renewing existing insurance contracts.

Deferred reinsurance premiums pertain to the unexpired periods of the reinsurance premiums ceded at the end of the reporting period.

Refundable deposits pertain to deposits made to utility companies, other suppliers and various miscellaneous deposits.

Spare parts and supplies pertain to supplies, materials and spare parts for office and building maintenance of TPI.

Prepaid expenses comprise of advances to insurance companies for personal accident, term life and fire, advance rental and deposits to lessors which shall be applied in the future.

Others consist mainly of various assets that are individually immaterial.

16. Accounts Payable and Accrued Expenses

	2017	2016
	<i>(In Thousands)</i>	
Accrued expenses (Notes 29 and 30)	₱404,448	₱296,150
Trade payables	76,311	118,256
Claims payables (Note 2)	50,936	101,388
Nontrade payables	42,319	40,701
Due to reinsurers and ceding companies	11,121	18,346
Reserves for unearned premiums	2,088	88,422
Others	6,005	16,311
	₱593,228	₱679,574

Claims payables pertain to the estimated ultimate cost of incurred but not settled claims as at the reporting period.

Reserves for unearned premiums are portion of the premiums that relates to unexpired periods.

Accrued expenses include janitorial, security, utilities and other accrued expenses.



Due to reinsurers and ceding companies refers to the balance of premium and claims with respect to accepted and ceded reinsurance agreement whether directly or through brokers.

The terms and conditions of the above payables are as follows:

- Trade payables and accrued expenses are noninterest-bearing and are normally settled on thirty (30) days' term.
- All other payables are noninterest-bearing and have an average term of one (1) year.

17. Rental and Other Deposits

	December 31, 2017			December 31, 2016		
	Due within One Year	Beyond One Year	Total	Due within One Year	Beyond One Year	Total
	(In Thousands)					
Rental deposits	₱48,725	₱27,889	₱76,614	₱18,530	₱19,049	₱37,579
Security deposits	103,681	92,570	196,251	91,496	24,559	116,055
Customer deposits	14,097	3,304	17,401	1,704	11,798	13,502
Construction bond	18,103	5,442	23,545	2,922	2,433	5,355
Other deposits	791	8,945	9,736	6,515	2,143	8,658
	₱185,397	₱138,150	₱323,547	₱121,167	₱59,982	₱181,149

Deposits include rental, security, customer, construction bond and other deposits paid by tenants to the Group on the leased properties which are refundable at the end of the contract.

Customer deposits consist of priority premiums paid by tenants which serve as their reservation deposits.

18. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities, which are under common control with the reporting enterprises and its key management personnel, directors or its stockholders. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Parent Company and its subsidiaries, in their normal course of business, have entered into transactions with related parties principally consisting of interest and noninterest-bearing advances with no fixed repayment terms and are due and demandable.

Account balances with related parties, other than intra-group balances which were eliminated in consolidation, are as follows:



As at and for the year ended December 31, 2017

Category	Amount of transactions	Outstanding Balance	Terms	Conditions
<i>Amounts owed by related parties</i>				
<i>Affiliates</i>				
Airswift Transport, Inc.				
Principal Interest	₱1,846	₱— 1,846	To be settled in cash, 42-day; 2.55%	Unsecured, not impaired, and unguaranteed
North Triangle Hotel Ventures, Inc.				
Principal Interest	49	— 49	To be settled in cash, 42-day; 2.55%	Unsecured, not impaired, and unguaranteed
Cebu Property Ventures Dev't. Corporation				
Principal Interest	8,700	8,700	To be settled in cash, 22-day; 2.55%	Unsecured, not impaired, and unguaranteed
Amaia Land Corporation				
Principal Interest	36,907	36,800 107	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Ayala Land Metro North, Inc.				
Principal Interest	35,005	35,000 5	To be settled in cash, 30-day; 2.65%	Unsecured, not impaired, and unguaranteed
Avida Land Corporation				
Principal Interest	93,863	93,800 63	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Arvo ommercial Corporation				
Principal Interest	6,004	6,000 4	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Summerhill Commercial				
Principal Interest	119,524	119,000 524	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Ten Knots Philippines, Inc.				
Principal	29,354	29,000	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Interest		354		
Accendo Commercial Corpooration				
Principal	10,000	10,000	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Southgateway Development Corp.				
Principal Interest	50,006	50,000 6	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired and unguaranteed
Ayala Land, Inc.				
	1,005	1,005	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
Guoman Philippines, Inc.				
	1,675	1,675	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
ALI Commercial Center				
	4	4	To be settled in cash and collectible on demand	Unsecured, non-interest bearing, not impaired, and unguaranteed
Associate BAIBI				
	-	2		
Total	393,944			
Allowance for impairment losses	(1,625)			
Net	₱392,319			



As at and for the six months ended December 31, 2016

Category	Amount of transactions	Outstanding Balance	Terms	Conditions
<i>Amounts owed by related parties</i>				
<i>Affiliates</i>				
Airswift Transport, Inc.				
Principal Interest	₱656,170	₱651,300 4,870	To be settled in cash, 42-day; 2.55%	Unsecured, not impaired, and unguaranteed
North Triangle Hotel Ventures, Inc.				
Principal Interest	238,106	237,500 606	To be settled in cash, 42-day; 2.55%	Unsecured, not impaired, and unguaranteed
Ten Knots Development Corporation				
Principal Interest	186,511	186,400 111	To be settled in cash, 22-day; 2.55%	Unsecured, not impaired, and unguaranteed
Amaia Land Corporation				
Principal Interest	76,990	76,900 90	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Ayala Land Metro North, Inc.				
Principal	150,000	150,000	To be settled in cash, 30-day; 2.65%	Unsecured, not impaired, and unguaranteed
Avida Land Corporation				
Principal Interest	58,557	58,500 57	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Soltea Commercial Corporation				
Principal Interest	25,043	25,000 43	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Summerhill Commercial				
Principal	25,500	25,500	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Ten Knots Philippines, Inc.				
Principal	31,000	31,000	To be settled in cash, 30-day; 2.55%	Unsecured, not impaired, and unguaranteed
Guoman Philippines, Inc.				
Associate BAIBI	1,625	1,675	To be settled in cash and collectible on demand To be settled in cash and collectible on demand	Unsecured, noninterest- bearing, not impaired, and unguaranteed Unsecured, noninterest- bearing, not impaired, and unguaranteed
Total		1,449,553		
Allowance for impairment losses		(1,625)		
Net		₱1,447,928		

There are no movements in allowance for impairment losses on amounts owed by related parties as at December 31, 2017 and 2016.

This assessment is undertaken at each financial year-end by examining the financial position of the related parties and the market in which the related parties operate.

Other transactions with related parties include the following:

- a. OLI's acquisition of commercial building from ALI (see Note 1).
- b. On June 27, 2017, OLI acquired 512,480,671 shares of POPI for a total consideration of ₱1.26 billion. This is presented as "Shares held by subsidiary" in the consolidated statement of financial position.

On November 14, 2016, LCI and Laguna Technopark Inc. (LTI) entered into a marketing and operations management agreement, whereby LTI shall be in-charge of the marketing and operations management of LCI. LTI shall receive a management fee equivalent to five percent (5%) of the monthly gross revenues. Likewise, for every new lessee, LCI shall pay LTI a commission equivalent to one month's rent of the lessee.



The Parent Company entered into a service agreement with AyalaLand Malls, Inc., and AyalaLand Malls Northeast, Inc. to provide specialized jobs/services/work to the Group. The term of the agreement shall be 3 years starting November 1, 2016 until October 31, 2019 and January 1, 2017 until December 31, 2018, respectively.

The Parent Company and TPI entered into a master service agreement with Aprisa Business Process Solutions, Inc. to provide data processing services. The agreement is effective from January 1, 2017 until December 31, 2017.

Compensation of key management personnel which pertains mostly to salaries and wages amounted ₱75.0 million for the year ended June 30, 2016 (nil for the year ended December 31, 2017 and six months ended December 31, 2016).

19. Subscription Payable

On April 25, 1995, Central Bay, a wholly-owned subsidiary of Cyber Bay, entered into a Joint Venture Agreement with the Philippine Reclamation Authority (PRA; formerly Public Estates Authority) for the complete and entire reclamation and horizontal development of a portion of the Manila-Cavite Coastal Road and Reclamation Project (the Project) consisting of three partially reclaimed and substantially eroded islands (the Three Islands) along Emilio Aguinaldo Boulevard in Parañaque and Las Piñas, Metro Manila, with a combined total area of 157.8 hectares, another area of 242.2 hectares contiguous to the Three Islands and, at Central Bay's option as approved by the PRA, an additional 350 hectares, more or less, to regularize the configuration of the reclaimed area.

On March 30, 1999, the PRA and Central Bay executed an Amended Joint Venture Agreement (AJVA) to enhance the Philippine Government's share and benefits from the Project which was approved by the Office of the President of the Philippines on May 28, 1999.

On July 9, 2002, the Supreme Court (SC) (in the case entitled "Francisco Chavez vs. Amari Coastal Bay and Reclamation Corp.") issued a ruling declaring the AJVA null and void.

Accordingly, PRA and Central Bay were permanently enjoined from implementing the AJVA. On July 26, 2002, Central Bay filed a Motion for Reconsideration (MR) of said SC decision. On May 6, 2003, the SC En Banc denied with finality Central Bay's MR. On May 15, 2003, Central Bay filed a Motion for Leave to Admit Second MR. In an En Banc Resolution of the SC dated July 8, 2003, the SC resolved to admit the Second MR of Central Bay.

On November 11, 2003, the SC rendered a 7-7 split decision on Central Bay's Second MR. Because of the new issues raised in the SC's latest resolution that were never tried or heard in the case, Central Bay was constrained to file on December 5, 2003 a Motion for Re-deliberation of the SC's latest resolution which motion was denied with finality by the SC. With the nullification of the AJVA, Central Bay has suspended all Project operations.

On August 10, 2007, in view of the failure by the PRA to comply with its obligations and representations under the AJVA, Cyber Bay and Central Bay have filed their claims for reimbursement of Project expenses in the amount of ₱10.2 billion with the PRA. Cyber Bay and Central Bay provided the PRA with the summary and details of their claims on September 5, 2007.



On July 15, 2008, Cyber Bay sent a follow-up letter to the PRA. The PRA, in its letter dated July 18, 2008, informed Cyber Bay that its claim is still being evaluated by the PRA.

As at December 31, 2017 and 2016, the Parent Company has unpaid subscription in Cyber Bay amounting to ₱481.68 million, which is presented as “Subscriptions Payable” in the consolidated statements of financial position. The movement in investment in Cyber Bay under “AFS financial assets” is as follows:

	2017	2016
	<i>(In Thousands)</i>	
Beginning balance	₱1,304,815	₱1,415,863
Changes in fair value	(152,691)	(111,048)
	1,152,124	1,304,815
Allowance for impairment losses	527,478	527,478
	₱624,646	₱777,337

20. Operating Expenses

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	<i>(In Thousands)</i>		
Personnel expenses (Notes 21 and 31)	₱84,998	₱204,417	₱229,466
Rental (Note 29)	11,136	10,561	20,641
Taxes and licenses	13,935	2,889	80,207
Depreciation and amortization (Notes 13 and 14)	11,121	13,313	48,210
Professional and legal fees	18,521	30,649	71,171
Provision for impairment losses (Notes 5 and 13)	60,340	3,115	49,168
Janitorial and security services	18,031	5,845	7,570
Marketing expenses	385	1,311	12,718
Communication and transportation	3,058	3,583	8,662
Supplies and repairs	1,995	2,104	5,932
Insurance	4,908	1,469	4,203
Representations	286	422	2,210
Membership dues and subscription	1,379	956	3,066
Others	18,390	10,726	11,935
	₱248,483	₱291,360	₱556,944

Others include system cost for the year ended December 31, 2017 and the six months ended December 31, 2016 (see Note 18).



21. Personnel Expenses

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	(In Thousands)		
Compensation and employee benefits (Note 31)	₱83,105	₱198,753	₱214,426
Retirement expense (Note 24)	1,893	6,292	16,825
	₱84,998	₱205,045	₱231,251

22. Cost of Goods Sold and Services

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	(In Thousands)		
Rental and utilities (Note 29)	₱149,558	₱75,908	₱268,575
Share in CUSA related expenses	74,315	59,067	92,816
Taxes and licenses	17,707	7,394	12,523
Contracted services	15,105	6,712	10,435
Depreciation and amortization (Notes 12, 13 and 14)	89,829	23,504	31,529
Materials used and changes in inventories (Note 6)	—	247	5,337
Personnel expenses (Notes 21 and 31)	—	628	1,785
Others	5,214	2,812	7,237
	₱351,728	₱176,272	₱430,237

23. Interest Income (Expense) and Bank Charges - net

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	(In Thousands)		
Interest income:			
Cash equivalents (Note 4)	₱1,143	₱4,547	₱2,772
Amounts owed by related parties (Note 18)	36,938	15,846	—
Retirement benefits liability (Note 24)	813	—	—
Cash in banks (Note 4)	240	190	569
Receivables (Note 5)	—	—	11,013
	39,134	20,583	14,354
Interest expense and bank charges:			
Interest expense	1,673	—	—
Bank charges	47	517	331
Retirement benefits liability (Note 24)	—	1,631	3,664
	1,720	2,148	3,995
	₱37,414	₱18,435	₱10,359



24. Retirement Benefits Liability

The Group has a funded, noncontributory retirement plan covering all its regular employees. The plan provides for retirement, separation, disability and death benefits to its members. The normal retirement benefit is based on a percentage of the employees' final monthly salary for every year of credited service.

The latest independent actuarial valuation dated November 28, 2017 was determined using the projected unit credit method in accordance with PAS 19.

The following tables summarize the funded status and amounts recognized in the consolidated statements of financial position, and the components of the net retirement benefit costs recognized in the consolidated statements of income for the retirement plan:

	2017	2016
	<i>(In Thousands)</i>	
Retirement benefits liability (asset):		
Present value of obligation (PVO)	₱613	₱20,630
Fair value of plan assets	(21,280)	(33,179)
Unfunded (Overfunded) obligation	(₱20,667)	(₱12,549)
 December 31,		
2017	December 31,	June 30,
(One Year)	(Six Months)	(One Year)
<i>(In Thousands)</i>		
Retirement benefits costs:		
Current service cost (Note 21)	₱1,893	₱6,292
Interest cost (income) - net (Note 23)	(813)	1,631
	₱1,080	₱7,923
		₱20,489

Movements in the retirement benefits liability (asset) are as follows:

	2017	2016
	<i>(In Thousands)</i>	
Balances at beginning of year		
Balances at beginning of year	(₱12,549)	₱75,704
Retirement benefits costs	1,080	7,923
Actuarial gains - net	(6,006)	(14,780)
Actual contributions	–	(4,217)
Benefits paid out of own plan	(1,643)	(34,985)
Settlement gain	(1,415)	(42,194)
Balances at end of year	(₱20,667)	(₱12,549)



Changes in the PVO are as follows:

	2017	2016
	<i>(In Thousands)</i>	
Balances at beginning of year	₱20,630	₱159,862
Current service cost	1,893	6,292
Interest cost	245	3,135
Benefits paid	(14,194)	(92,501)
Actuarial gain	(1,987)	(13,964)
Settlement gain	(5,974)	(42,194)
Balances at end of year	₱613	₱20,630

Changes in fair value of plan assets are as follows:

	2017	2016
	<i>(In Thousands)</i>	
Balances at beginning of year	₱33,179	₱84,158
Actual contributions	—	4,217
Interest income	1,058	1,504
Actuarial gain (loss) on plan assets	(406)	816
Benefits paid	(12,551)	(57,516)
Balances at end of year	₱21,280	₱33,179

The categories of plan assets as a percentage of fair value of the total plan assets are as follows:

	2017	2016
Cash	13.87%	11.47%
Fixed income	84.96%	76.78%
Others	1.17%	11.75%
	100.00%	100.00%

The plan assets are invested in different financial instruments and do not have any concentration risk. The asset allocation of the plan is set and reviewed from time to time by the Trustee taking into account the membership profile and the liquidity requirements of the plan. This also considers the expected benefit cash flows to be matched with asset durations.

The Group do not expect to contribute to the retirement plan in 2018.

The principal assumptions used to determine pension for the Group are as follows:

	December 31, 2017	December 31, 2016	June 30, 2016
Discount rates	5.65% to 5.89%	5.37% to 5.93%	5.03% to 5.30%
Salary increase rate	5.00%	6.50%	7.00%



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

	Increase (decrease) in significant assumptions	Increase (decrease) in defined benefit obligation
<i>December 31, 2017</i>		
Discount rate	+1% (1%)	(₱73,907) 87,712
Future salary increases	+1% (1%)	93,539 (79,712)
<i>December 31, 2016</i>		
Discount rate	+1% (1%)	(4,460,486) 4,741,036
Future salary increases	+1% (1%)	4,460,486 (4,183,303)
<i>June 30, 2016</i>		
Discount rate	+1% (1%)	(2,502,500) 2,941,292
Future salary increases	+1% (1%)	2,994,291 (2,594,950)

Amounts for the current and previous four (4) years are as follows:

	December 31, 2017	December 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014
<i>(In Thousands)</i>					
Defined benefit obligation	₱613	₱20,630	₱159,862	₱271,321	₱242,467
Plan assets	21,280	(33,179)	84,158	174,346	143,282
Unfunded obligation	(20,674)	(12,549)	75,704	96,975	99,185
Experience adjustment on plan liabilities - loss (gain)	(1,987)	(16,469)	2,863	(664)	(21,676)
Experience adjustment on plan assets - gain (loss)	(406)	816	6,583	40	4,565
Change in actuarial assumptions	(158)	(252)	(15,288)	9,454	(3,919)



25. Income Taxes

The Group's current provision for income tax as at December 31, 2017, December 31, 2016 and June 30, 2016 represents regular corporate income tax.

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	(In Thousands)		
Current	₱10,649	₱3,340	₱21,478
Final	1,030	1,465	2,599
Deferred	8,439	(18,638)	(16,963)
	₱20,118	(₱13,833)	₱7,114

The reconciliation of the statutory income tax rates to the effective income tax rates follows:

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
At statutory tax rates	30.0%	30.0%	30.0%
Additions to (reductions in)			
income taxes resulting from:			
Movements in unrecognized deferred income tax assets	(2.8)	(133.3)	(78.6)
Expired NOLCO	(15.3)	–	(27.3)
Interest income already subjected to final taxes	(3.2)	3.9	(1.3)
Nondeductible expenses	14.0	(30.0)	(56.5)
Expired MCIT	(1.9)	–	(0.3)
Other nontaxable income	(2.3)	240.8	128.1
At effective tax rates	18.5%	111.4%	(5.9%)

The significant components of the deferred income tax liabilities - net of the Group are as follows:

	2017	2016
	(In Thousands)	
Deferred income tax assets:		
Deferred rent	₱17,991	₱16,964
Allowance for impairment losses on receivables	15,015	11,898
Retirement benefits liability	–	–
PAS 17 rent expense	24,997	15,574
MCIT	5,484	5,484
NOLCO	–	28,097
Others	3,175	2,747
	₱66,662	₱80,764



	2017	2016
	<i>(In Thousands)</i>	
Deferred income tax liabilities:		
Revaluation increment on property and equipment	(₱96,684)	(₱99,946)
Recovery on insurance	(98,382)	(98,382)
Remeasurement gain on retirement benefits liability	(2,190)	(2,190)
Unrealized gain on valuation of AFS financial assets	(775)	(1,592)
Accrued rent income	(1,684)	–
Revaluation reserve on investment properties	(64,338)	(68,663)
Undepreciated capitalized interest	(6,466)	(6,466)
Retirement plan assets	(4,311)	(4,311)
Unrealized gain on valuation of FVPL	–	(114)
	(274,830)	(281,664)
	(₱208,168)	(₱200,900)

Deferred income tax assets are recognized only to the extent that taxable income will be available against which the deferred income tax assets can be used. The Group reassesses the unrecognized deferred income tax assets on the following deductible temporary differences, NOLCO and MCIT and recognizes the previously unrecognized deferred income tax assets to the extent that it has become probable that future taxable income would allow the deferred income tax assets to be recovered.

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	<i>(In Thousands)</i>		
NOLCO	₱210,300	₱479,879	₱413,585
Allowance for impairment losses on receivables, other current assets, inventories and others	569,027	870,504	1,914,683
Retirement benefits liability	–	–	5,122
Gain on remeasurement of retirement benefits plan	–	–	87,823
Unamortized past service cost	–	–	53,438
MCIT	8,649	8,649	2,945
Incurred but not reported losses	–	–	3,003
Accrued rent	–	–	108
Unrealized foreign exchange losses	–	–	444

As at December 31, 2017, the Company has NOLCO and MCIT that can be claimed as deduction from future taxable income and tax due, respectively:

Year Incurred	Expiration Date	NOLCO	MCIT
2015	2018	₱34,163	₱410
2016	2019	172,137	3,475
2017	2020	–	3,599
		₱206,300	₱7,484



The following are the movements in NOLCO as at December 31, 2017, December 31, 2016 and June 30, 2016:

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	(In Thousands)		
Balances at beginning of year	₱533,179	₱461,275	₱354,391
Additions	-	177,976	308,459
Expirations/Application	(326,879)	(106,072)	(201,575)
	₱206,300	₱533,179	₱461,275

The following are the movements in MCIT as at December 31, 2017, December 31, 2016 and June 30, 2016:

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	(In Thousands)		
Balances at beginning of year	₱8,830	₱5,669	₱2,602
Additions	857	3,340	4,194
Expirations/Application	(2,203)	(179)	(1,127)
	₱7,484	₱8,830	₱5,669

26. Earnings Per Share

The following table presents information necessary to calculate basic earnings per share:

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	(In Thousands)		
a. Net income attributable to equity holders of the Parent	₱33,142	(₱330)	₱29,505
b. Weighted average number of shares	4,155,983	4,896,455	2,378,638
Basic earnings per share (a/b)	₱0.01	₱0.00	₱0.01

27. Shares Held by a Subsidiary

On June 27, 2017, Orion Land Inc., a wholly owned subsidiary of POPI, acquired 512,480,671 shares of POPI with a cost of P1.26 billion. This is presented as Shares held by subsidiary in the consolidated statement of financial position as at December 31, 2017.



28. Segment Information

Business Segments

The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit.

The industry segments where the Parent Company and its subsidiaries and associates operate and are as follows:

- Holding company
- Real estate - property development and leasing
- Financial services - insurance and related brokerage

The chief operating decision-maker has been identified as the Chief Finance Officer (CFO). The CFO reviews the Group's segment reports in order to assess performance. Management has determined the operating segments based on these reports. The Group does not report its results based on geographical segments because the Group operates only in the Philippines.

The amount of segment assets and liabilities are based on measurement principles that are similar with those used in measuring assets and liabilities in the consolidated statement of financial position which is in accordance with PFRS.



Financial information about the operations of these business segments is summarized as follows:

December 31, 2017

	Holding Company	Real Estate and Property Development	Financial Services	Others	Total	Elimination	Total
Revenue and income	₱7,165	₱505,095	₱119,566	₱9,704	₱641,530	(₱10,975)	₱630,555
Cost and expenses	(49,780)	(447,475)	(181,691)	(839)	(679,785)	(13,183)	(692,968)
Other income (charges)	38,371	68,522	(5,273)	324	101,944	(862)	101,082
Income (loss) before income tax	(4,244)	126,142	(67,398)	9,189	63,689	(25,020)	38,669
Provision for income tax	1371	17,845	1,343	2	20,561	(443)	20,118
Net income (loss)	(5,615)	108,297	(68,741)	9,187	43,128	(24,577)	18,551
Segment assets	8,461,509	9,103,886	235,514	47,300	17,848,209	(8,924,664)	8,923,545
Segment liabilities	678,330	1,351,102	90,715	198,121	2,318,268	(651,579)	1,666,689

December 31, 2016 (As restated)

	Holding Company	Real Estate and Property Development	Financial Services	Others	Total	Elimination	Total
Revenue	₱1,629	₱252,624	₱117,134	₱315	₱371,702	(₱90)	₱371,612
Cost and expenses	(91,038)	(343,015)	(128,731)	(3,596)	(566,380)	90	(566,290)
Other income (charges)	73,139	90,847	9,133	6,670	179,789	—	179,789
Income (Loss) before income tax	(16,270)	456	(2,464)	3,389	(14,889)	—	(14,889)
Provision for income tax	2,352	(17,124)	939	—	(13,833)	—	(13,833)
Net income (loss)	(18,622)	17,580	(3,403)	3,389	(1,056)	—	(1,056)
Segment assets	4,349,421	3,062,987	489,472	45,814	7,947,694	(1,932,994)	6,014,700
Segment liabilities	668,086	1,098,165	278,876	196,313	2,241,440	(634,833)	1,606,607

Geographical Segments

The Group does not have geographical segments.



29. Long-term Lease

On August 28, 1990, TPI, a subsidiary, through a Deed of Assignment, acquired all the rights, titles, interests and obligations of Gotesco Investment, Inc. on a contract of lease of the land owned by PNR for the Tutuban Terminal and where the TPI's mall is located. The contract provided for a payment of a guaranteed minimum annual rental, 12% escalation rate every two (2) years, additional ₱10 million every two (2) years, plus a certain percentage of gross sales. The lease covers a period of twenty five (25) years until 2014 and is automatically renewable for another twenty five (25) years, subject to compliance with the terms and conditions of the lease agreement.

On December 22, 2009, TPI renewed its lease contract with PNR for another twenty five (25) years beginning September 5, 2014, the end of the original lease agreement. Related rent expense charged to operations amounted to ₱149.56 million, ₱74.42 million and ₱264.74 million as at December 31, 2017, December 31, 2016 and June 30, 2016, respectively (see Note 22).

As at December 31, 2017 and 2016, the aggregate annual commitments on these existing lease agreements for the succeeding years are as follows:

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	(In Thousands)		
Less than one (1) year	₱140,529	₱140,529	₱118,907
More than one (1) year but not more than five (5) years	702,647	702,647	447,675
More than five (5) years	2,201,626	2,342,156	2,941,659
	₱3,044,802	₱3,185,332	₱3,508,241

OLI by Assignment of Lease executed between ALI and Avida Land Corporation on November 29, 2017 has assumed a lease agreement with Avida to lease a land located along National Road, Muntinlupa City with an area of approximately 19,311 square meters (sqm) for the construction, development and operation thereon of a commercial retail development for a period of 50 years.

The lease agreement provides for a rental fee equivalent to 1.5% of gross rental income which will be paid on a monthly basis.

Group as a Lessor

The Group has entered into commercial property leases on its buildings. These leases have remaining terms of one (1) year to less than five (5) years except for one (1) tenant with lease term of fifteen (15) years. Renewals are subject to the mutual consent of the lessor and the lessee.

Tenants are required to post security deposits, which shall be refunded, without interest, within sixty (60) days after the expiration of the lease period, deducting the amount of damages to the leased premises, if any. The discounted amount of noncurrent rental deposits amounted to ₱82.73 million as at December 31, 2016 and June 30, 2016.

Accretion of interest amounted to ₱1.67 million and ₱0.53 million nil for the year ended December 31, 2017 and for the fiscal year ended June 30, 2016 (six months ended December 31, 2016).



30. Provisions and Contingencies

The Group, in the ordinary course of business, is involved in various legal proceedings and that assessments are either pending decision by the courts or under negotiation. Management and its legal counsels believe that the eventual outcome of these lawsuits or claims will not have a material effect on the consolidated financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. Total provisions (reversal) recognized amounted to (₱106.47 million) and ₱234.64 million for the six months ended December 31, 2016 and June 30, 2016, respectively (nil as at December 31, 2017). As at December 31, 2017 and 2016, the related liability amounted to ₱114.69 million and ₱128.17 million, respectively (see Note 16).

The information normally required under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of the proceedings.

31. Share-based Payments

In 2015, the Group introduced the ESOWN Plan (the Plan) wherein grantees (employees within POPI Group) may subscribe in whole or in part to the shares awarded to them based on a discounted market price, but in no case lower than the par value, that was determined at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. To subscribe, the grantee must be an employee, officer or director of the Group as of June 30, 2015. In case the grantee resigns, unsubscribed shares are cancelled and returned to the plan pool, while the subscription payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the ten (10)-year period. The plan does not allow sale or assignment of the shares.

The BOD of POPI approved the allocation of 32 million shares (first tranche) for ESOWN plan which will be taken from the remaining unissued shares (with grant date in 2016) and the increase in authorized of stock of POPI, which was approved by the SEC in July 2016 as discussed in Note 1.

In 2017, notice of grant for the 218 million shares (second tranche of ESOWN plan) was issued to employees for the right to subscribe to the common shares of POPI at ₱1.68 per share.

The fair values of these options are estimated on the date of grant using the Cox-Ross-Rubenstein option pricing model.

The assumptions used to determine the fair value of the stock options are as follows:

	June 30, 2016	December 31, 2017
Share price at date of grant	₱1.76	₱2.12
Risk free interest rate	4.0915%	5.6818%
Annualized volatility	56.00%	49.68%
Annual dividend yield	0%	0%
Exit rates		
Termination for cause	0%	0%
Voluntary Resignation	0.1462%	0%
Involuntary Separation	0.1462%	7.29%



The resulting personnel expense recognized for the year ended December 31, 2017 and June 30, 2016 amounted to ₦33.34 million and ₦27.47 million, respectively (nil for the six months ended December 31, 2016, see Note 21).

32. Financial Risk Management Objectives, Policies and Capital Management

The Group has various financial instruments such as cash and cash equivalents, receivables, amounts owed by/to related parties, AFS financial assets, FVPL investments, deposits under other current assets and subscriptions payable. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group. The Group has other financial liabilities such as accounts payable and accrued expenses and rental and other deposits, which arise directly from its operations.

The main risks from the use of financial instruments are credit risk, liquidity risk, foreign currency risk, equity price risk and interest rate risk. The Group's BOD reviews and approves policies for managing these risks as summarized below.

Credit Risk

The Group's credit risk originates from the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due.

The Group trades only with recognized, reputable and creditworthy third parties and/or transacts only with institutions and/or banks which have demonstrated financial soundness. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

The Group's gross maximum exposure to credit risk of its financial assets, which mainly comprise of cash and cash equivalents, excluding cash on hand, receivables, amounts owed by related parties and AFS financial assets arises from default of the counterparty which has a maximum exposure equal to the carrying amount of these instruments at reporting period.

Credit quality of neither past due nor impaired financial asset

The credit quality of financial assets is being managed by the Group by grouping its financial assets into two: (a) High grade financial assets are those that are current and collectible; (b) Standard grade financial assets need to be consistently followed up but are still collectible. The tables below show the credit quality by class of financial assets based on the Group's credit rating system:

December 31, 2017

	<u>Neither past due nor impaired</u>		<u>Past due or individually impaired</u>	<u>Total</u>
	<u>High grade</u>	<u>Standard grade</u>		
<i>(In Thousands)</i>				
<i>Loans and Receivables:</i>				
Cash and cash equivalents	₦254,881	₦-	₦-	₦254,881
Receivables:				
Trade debtors	263,694	91	86,480	350,265
Insurance receivables	—	—	128,550	128,550
Others	10,063	1,659	190,741	202,463

(Forward)



	<u>Neither past due nor impaired</u>	<u>Standard grade</u>	<u>Past due or individually impaired</u>	<u>Total</u>
	<u>High grade</u>			
Amounts owed by related parties	₱392,319	₱-	₱1,625	₱393,944
Deposits (under "Other noncurrent assets")	36,961	---	408	37,369
<i>AFS Financial Assets:</i>				
Quoted debt securities	71,189	---	---	71,189
	₱1,029,107	₱1,750	₱407,804	₱1,438,661

December 31, 2016

	<u>Neither past due nor impaired</u>	<u>Standard grade</u>	<u>Past due or individually impaired</u>	<u>Total</u>
	<u>High grade</u>			
<i>(In Thousands)</i>				
<i>Loans and Receivables:</i>				
Cash and cash equivalents	₱367,962	₱-	₱-	₱367,962
Receivables:				
Trade debtors	11,787	61,671	87,091	160,549
Insurance receivables	24,630	9,387	167,856	201,873
Others	39,443	---	199,048	238,491
Amounts owed by related parties	1,447,928	---	1,625	1,449,553
Deposits (under "Other noncurrent assets")	17,430	---	408	17,838
<i>AFS Financial Assets:</i>				
Quoted debt securities	812,280	---	---	812,280
Unquoted debt securities	10,558	---	---	10,558
	₱2,732,018	₱71,058	₱456,028	₱3,259,104

The tables below show the aging analyses of financial assets per class that the Group held as at December 31, 2017 and 2016. A financial asset is past due when a counterparty has failed to make payment when contractually due.

December 31, 2017

	<u>Neither past due nor impaired</u>	<u>Past due but not impaired</u>					<u>Total</u>
	<u>Less than 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>Over 90 days</u>	<u>Individually impaired</u>		
<i>(In Thousands)</i>							
<i>Loans and Receivables:</i>							
Cash and cash equivalents	₱254,881	₱-	₱-	₱-	₱-	₱-	₱254,881
Receivables:							
Trade debtors	263,785	6,906	4,207	6,158	14,961	54,248	350,265
Insurance receivables	—	—	—	—	73,790	54,760	128,550
Others	11,722	—	—	—	15	190,726	202,463
Amounts owed by related parties	392,319					1,625	393,944
Deposits (under "Other noncurrent assets")	36,961	—	—	—	—	408	37,369
<i>AFS Financial Assets:</i>							
Quoted debt securities	71,189	—	—	—	—	—	71,189
Unquoted debt securities	—	—	—	—	—	—	—
	₱1,030,857	₱6,906	₱4,207	₱6,158	₱88,766	₱301,767	₱1,438,661



December 31, 2016

	Neither past due nor impaired	Past due but not impaired					Individually impaired	Total			
		Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days						
(In Thousands)											
<i>Loans and Receivables:</i>											
Cash and cash equivalents	₱367,962	₱-	₱-	₱-	₱-	₱-	₱-	₱367,962			
Receivables:											
Trade debtors	73,459	—	—	—	19,863	67,227	160,549				
Insurance receivables	34,018	4,094	7,640	503	105,851	49,768	201,874				
Others	39,443	160	—	—	—	198,887	238,490				
Amounts owed by related parties	1,447,928					1,625	1,449,553				
Deposits (under "Other noncurrent assets")	17,430	—	—	—	—	408	17,838				
<i>AFS Financial Assets</i>											
Quoted debt securities	812,280	—	—	—	—	—	812,280				
Unquoted debt securities	10,558	—	—	—	—	—	—	10,558			
	₱2,803,078	₱4,254	₱7,640	₱503	₱125,714	₱317,915	₱3,259,104				

Liquidity Risk

Liquidity risk arises when there is a shortage of funds and the Group as a consequence could not meet its maturing obligations.

In the management of liquidity, the Group monitors and maintains a level of cash deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2017 and 2016 based on contractual undiscounted payments:

December 31, 2017

	On demand	Less than 3 months	3 to 6 months		Over 1 year	Total				
			6 to 12 months							
(In Thousands)										
<i>Loans and Receivables:</i>										
Cash and cash equivalents	₱254,881	—	—	—	—	₱254,881				
Trade debtors	266,231	17,271	14,961	—	54,249	352,711				
Insurance receivables	—	—	73,790	—	54,760	128,550				
Others	11,687	—	15	—	190,725	202,427				
Amounts owed by related parties	392,319	—	—	—	1,625	393,944				
Deposits (under "Other noncurrent assets")	172	—	—	—	480	580				
<i>AFS Financial Assets</i>										
Quoted debt securities	71,189	—	—	—	—	71,189				
Unquoted debt securities	—	—	—	—	—	—				
	₱996,479	₱17,271	₱88,766	₱—	₱301,839	₱1,404,282				
Accounts payable and accrued expenses										
Subscription payable	₱367,452	₱74,219	₱31,256	₱74,212	₱8,345	₱555,484				
Rental and other deposits	481,675	—	—	—	—	481,675				
	169,161	10,908	8,985	8,320	155,461	352,836				
	₱1,018,288	₱85,126	₱40,242	₱82,533	₱163,806	₱1,389,995				



December 31, 2016

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
<i>(In Thousands)</i>						
<i>Loans and Receivables:</i>						
Cash and cash equivalents	₱367,962	—	—	—	—	₱367,962
Trade debtors	160,549	—	—	—	—	160,549
Insurance receivables	201,87	—	—	—	—	201,87
Others	238,499	—	—	—	—	238,499
Amounts owed by related parties	1,449,603	—	—	—	—	1,449,603
Deposits (under "Other noncurrent assets")	2,308	—	—	—	—	2,308
<i>AFS Financial Assets</i>						
Quoted debt securities	812,280	—	—	—	—	812,280
Unquoted debt securities	10,558	—	—	—	—	10,558
	₱3,041,759	₱—	₱—	₱—	₱—	₱3,041,759
Accounts payable and accrued expenses	₱352,490	₱50,294	₱1,440	₱236,869	₱—	₱641,093
Subscription payable	481,675	—	—	—	—	481,675
Rental and other deposits	43,904	11,813	—	13,030	112,402	181,149
	₱878,069	₱62,107	₱1,440	₱249,899	₱112,402	₱1,303,917

Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as the result of change in the levels of equity indices and the value of individual stock. The equity price risk exposure arises from the Group's investment in stocks. Equity investment of the Group is categorized as AFS financial assets.

The Group measures the sensitivity to its equity securities by using Philippine Stock Exchange index fluctuations and its effect to respective share prices.

The Group's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

The basic sensitivity analysis assumes that the stock's standard deviation on its historical yield for the past one year provides the basis for reasonably possible change in prices of the stock investment. The Group establishes the relative range of stock investment yields based on historical standard deviation for one year.

The following table demonstrates the sensitivity to reasonable possible change in equity prices, with all other variables held constant:

	Change in Equity price index	Effect on Equity
<i>(In Thousands)</i>		
December 31, 2017		
Upper Limit	+12.36%	₱472
Lower Limit	(12.36%)	(472)
 December 31, 2016		
Upper Limit	+18.42%	₱28,435
Lower Limit	(18.42%)	(28,435)

The impact on the Group's equity already excludes the impact on transactions affecting the consolidated statements of income.



Capital Management

The primary objective of the Group's capital management is to optimize the use and earnings potential of the Group's resources and considering changes in economic conditions and the risk characteristics of the Group's activities.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes as at December 31, 2017 and 2016.

As at December 31, 2017 and 2016, the Group considers the following accounts as capital:

	2017	2016
(In Thousands)		
Capital stock	₱4,652,268	₱2,765,590
Additional paid-in capital	3,942,404	1,598,654
	₱8,594,672	₱4,364,244

The Group is not subject to externally imposed capital requirements..

33. Financial Instruments

The following method and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such values at December 31, 2017 and 2016 are set out below:

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents approximates its fair values due to the short-term maturity of this financial instrument.

Receivables, Accounts Payable and Accrued Expenses and Amounts owed by Related Parties

The carrying amounts receivables, accounts payable and accrued expenses and amounts owed by related parties approximate their fair values due to their short-term nature.

Rental and Other Deposits

Current portion of rental and other deposits the carrying amounts approximates its fair value due to the short-term maturity of this financial instrument. The fair values noncurrent security deposit recorded under 'Rental and other deposits' are determined by discounting future cash flows using the applicable rates of similar types of instruments.

AFS Financial Assets

AFS equity financial assets that are listed are based on their bid prices as at December 31, 2017 and 2016. AFS debt financial assets that are quoted are based on market prices. Unquoted debt and nonlisted AFS financial assets are based on latest available transaction price at the end of the reporting period.

Financial Assets at FVPL

Listed equity securities designated as financial assets at FVPL are based on their bid prices.

