

# COVER SHEET

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SEC Registration Number

PRIME ORION PHILIPPINES, INC.

(Company's Full Name)

3 r d Floor Glorietta 5

Ayala Center Makati City

(Business Address: No. Street City/Town/Province)

**RHODORA ESTRELLA B. REVILLA**

(Contact Person)

**884-1106**

(Company Telephone Number)

### Amended SEC Form

1 2 3 1

Month Day  
(Fiscal Year)

1 7 - A

(Form Type)

0 4

Month Day  
(Annual Meeting)

(Secondary License Type, If Applicable)

**MSRD**

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

**SECURITIES AND EXCHANGE COMMISSION**  
**AMENDED SEC FORM 17-A, AS AMENDED**  
**ANNUAL REPORT PURSUANT TO SECTION 17**  
**OF THE SECURITIES REGULATION CODE AND SECTION 141**  
**OF CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended : **31 December 2017**
2. SEC Identification Number : **163671**      3. BIR Tax Identification No.: **000-804-342-000**
4. Exact name of registrant : **PRIME ORION PHILIPPINES, INC.**
5. **Mandaluyong, Philippines**  
Province, Country or other jurisdiction of  
incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. **3<sup>RD</sup> Floor Glorietta 5, Ayala Center, Makati City**      **1223**  
Address of principal office      Postal Code
8. **(632) 884-1106**  
Registrant's telephone number, including area code
9. **Unit 1014 Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City/  
1 July to 30 June**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA  
(As of 31 March 2018)

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common</b>	<b>4,923,084,883 shares</b>
<b>Consolidated Loans Payable</b>	<b>-0-</b>

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

Yes [  ]      No [  ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Name of Stock Exchange : **Philippine Stock Exchange**  
Number and Class of Securities Listed : **2,389,654,698 Common Shares**

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [  ]      No [  ]

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

Yes [  ]      No [  ]

13. Aggregate market value of the voting stock held by non-affiliates: **₱5,235,177,382.50**  
(as of 31 March 2018)

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by the court or the Commission.

Yes [  ]      No [  ]      **Not Applicable**

**DOCUMENTS INCORPORATED BY REFERENCE**

15. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the documents are incorporated:

**Not Applicable**

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## PART I - BUSINESS AND GENERAL INFORMATION

### Item 1. Business

#### A. Business Development

**Prime Orion Philippines, Inc.** (POPI/Company/Issuer), originally registered as *Philippine Orion Properties, Inc.*, was incorporated in 1989 as an investment holding company. The exchange of shares of the Company with First Lepanto Corporation paved the way for the entry of the Guoco Group of Hong Kong<sup>1</sup> [through its affiliate, Guoco Assets (Philippines), Inc. (GAPI)] as principal shareholder of the Company. Consequently, in 1994, the Company was renamed *Guoco Holdings (Philippines), Inc.* (GHPI).

With the termination of the Management Contract between GAPI and GHPI, GHPI changed its name to *Prime Orion Philippines, Inc.* on 4 January 2002.

On 24 February 2016, POPI entered into a Deed of Subscription with Ayala Land, Inc. (ALI) whereby ALI agreed to subscribe to 2.4 billion shares of stock of POPI at the price of P5.625 billion, from the increase in POPI's authorized capital stock from P2.4 billion to P7.5 billion which increase was approved by the Securities and Exchange Commission (SEC) on 4 July 2016. Of the ALI Subscription of 2.5 billion shares (equivalent to 51.06% of the total outstanding stock of the Company), 25% of the Purchase Price was paid initially, while the balance was paid on 21 November 2017.

At present, POPI, a subsidiary of ALI, has interests in real estate and property development and leasing of warehouses, through the following intermediate holding companies:

- (i) Orion Land Inc., organized in 1996, with authority to purchase, own, hold, lease and dispose of real properties;
- (ii) Orion I Holdings Philippines, Inc., organized in 1993, with authority to acquire, hold, own and use for investment or otherwise, to sell, assign and deal in any and all properties, of every kind and description; and

#### B. Business of Issuer

##### (i) Principal Products and Services

###### *Orion Land Inc. (OLI)*

- On 29 November 2017, OLI purchased a 5-storey shopping center and 6-storey BPO building located in Muntinlupa City.
- Tutuban Properties, Inc. (TPI), a wholly-owned subsidiary of OLI, organized in 1990, holds the lease and development rights over a 20-hectare market district in downtown Divisoria, the country's oldest and biggest trading district. On the property sits the Tutuban Center (the "Center"), an integrated wholesale and retail complex recognized as the premier shopper's bargain district in the Philippines. On 22 December 2009, TPI renewed its Contract of Lease with the Philippine National Railways (PNR) for another 25 years (5 September 2014 to 2039).
- On 1 April 2015, TPI entered into a Memorandum of Understanding with the Department of Transportation and Communications (DOTC) (now Department of Transportation or DOTR) and the PNR whereby the parties agreed to cooperate for the finalization and completion of the plans for DOTR's North South Railway Project (NSRP) within a period of six months. Discussions on the NSRP among DOTR, PNR and TPI are ongoing.

At present, TPI continues to revitalize the operations of the Center, with the upgrade of its buildings and facilities, rezoning of the mall and introduction of unique retail and wholesale concepts in Tutuban.

<sup>1</sup> Guoco Group is a regional conglomerate with operations in Singapore, Malaysia, Indonesia, Hong Kong and the United Kingdom, engaged in the businesses of real estate, manufacturing and financial services

TPI has completed the installation of a new air conditioning system, conversion to LED lighting system, construction of a materials recovery facility, repainting of building exterior, while the refurbishment of all restrooms is almost complete.

- Orion Property Development, Inc. (OPDI), another wholly-owned subsidiary, organized in 1993, handles property acquisition and horizontal development. Its present landholdings include: (i) about 31 hectares raw land in Kay-Anlog, Laguna (including those with pending Contracts to Sell); (ii) about 17 residential lots in The Homelands Subdivision in Calamba, Laguna, with a total area of about 2,682 sqm. and ridge area, with an area of 21,148 sqm.; (iii) Trellis Pocket Centre, a 747-sqm. commercial project located along National Highway, Calamba; (iv) additional 7,418 sqm. property known as the MARFA area at the back of The Homelands offered for sale and marketed as premier section of The Homelands; (v) industrial lot at Phase III of the Homelands, with an area of 31,087 sqm. and (vi) 58,800 sqm. property in San Vicente, Palawan.

*Orion I Holdings Philippines, Inc. (OIHPI)*

- Lepanto Ceramics, Inc. (LCI), a wholly-owned subsidiary, was into the manufacture of ceramic floor and wall tiles under the brand name Lepanto. However, LCI has ceased tile production in mid-November 2012 and is at present engaged in the lease of its warehouses. On September 2, 2016, its BOD approved the change in primary purpose of the LCI from tile manufacturing to leasing of warehouses and change of the corporation's name to "Lepanto Development Corporation". At present, about 97% of the warehouses have been leased. The leasing of the warehouses is managed by Laguna TechnoPark, Inc. (LTI).

- *FLT Prime Insurance Corporation (FPIC)*

FPIC, a 78.77%-owned subsidiary of POPI, was incorporated in 1977, and operates as a non-life insurance company. Unable to comply with the paid-up capital requirement for non-life insurance companies and in line with the shift in focus to real estate as the core business of the POPI Group, FPIC applied for, and was granted in April 2017, a servicing license by the Insurance Commission. As a servicing company, its authority is limited to: (i) accepting contract price payment from the policyholders; (ii) paying or settling claims under its non-life coverage; and/or (iii) such other related services.

Based on the Company's Consolidated Statement of Income (Loss) for the past year, the contributions of the above subsidiaries (on a per type of business basis) to the Company's consolidated Net Income are as follows:

Parent Company (holding company)	-100.34%
Real estate and property development	557.62%
Financial Services	-354.52%
Others	-2.76%
	-----
Total	100%

(ii) Percentage of Sales Contributed by Foreign Sales

The target market for products of the Company and its subsidiaries is the domestic market. It has no foreign sales.

(iii) Distribution Methods

TPI promotes leasing of its stalls through direct marketing.

Selling of real estate by OPDI is made either through: (i) direct selling to individual or corporate buyers, or (ii) brokers. Leasing of warehouses by LCI is outsourced to LTI.

FPIC no longer issues policies and is limited to servicing its existing policies.

(iv) New Products or Services

The Company has no new products or services except for the South Park mall and office which were acquired by OLI in November 2017.

(v) Competition

The Company competes with other investment holding companies in the Philippines in terms of investment prospects.

The Company's core businesses continue to compete in their respective industries. However, competition is kept on a domestic level. The Company's core businesses are as follows:

1. With the shift of LCI into leasing of its warehouses, LCI faces competition from other lessors of warehouses.
2. TPI operates the Center in Manila, known as the premier bargain center in the country. Its competitors include other mall operators/lessors in the Divisoria area and within Metro Manila. TPI's Night Market operations continue to draw customer traffic. TPI capitalizes on marketing events and promotional campaigns to enhance customer awareness about the Center.
3. OPDI faces competition with other land developers.
4. The competitors of South Park Mall and office are other mall operators and BPO offices in the Muntinlupa City and nearby areas.

(vi) Purchases of Raw Materials and Supplies

The Company's supplies are purchased on a competitive basis from many different sources and are readily available locally.

(vii) Customers

POPI has a broad market base for its product lines and is not dependent on a single customer or group of customers.

For its real estate and property development operations, Tutuban and Southpark customers include wholesalers, retailers, mall shoppers and BPO companies. OPDI's customers include middle income home buyers as well as real estate investors and developers. LCI's customers are mainly lessees of warehouses.

FPIC services its existing clients with unexpired policies.

(viii) Transactions with and/or Dependence on Related Parties

The Company has limited transactions and/or dependence on its shareholders and/or related parties in view of existing laws on disclosure and/or requirement for prior approval of appropriate government agencies.

(ix) Franchise

The Company's products are not covered by any franchise.

(x) Government Approvals for Principal Services

On 9 March 1977, FPIC, a 78.77%-owned subsidiary, was granted a license by the IC to operate as a non-life insurance company. In April 2017, FPIC was granted a servicing license by the Insurance Commission. As servicing company, its authority is currently limited to: (i) accepting contract price payment from the policyholders; (ii) paying or settling claims under its non-life coverage; and/or (iii) such other related services.

(xi) Effect of Existing or Probable Governmental Regulations

Governmental regulations expected to materially affect the operations or business of POPI and certain of its subsidiaries are as follows:

a) On TPI

Government approval on any proposed increase in the prices of electricity and water will have a material adverse impact on the operations of TPI as it will directly increase utilities and overhead expenses (including Common Usage Service Area expenses). However, with the improvements in the facilities, the adverse impact of such increase in prices of electricity and water will be tempered.

(xii) Research and Development Activities

There are no research and development activities undertaken by the Company or its other subsidiaries.

(xiii) Costs and Effects of Compliance with Environmental Laws

Operations may be affected in the coming years with the implementation of R.A. 8749 and other environmental laws. Compliance with such environmental laws may entail additional investments and/or upgrades in facilities of TPI.

(xiv) Employees

As of 31 December 2017, the employees of POPI are as follows:

Executives*	-	0
Manager	-	1
Supervisor	-	1
Rank & File	-	3
		-----
Total		5

\* The executives of POPI are employees of ALI.

The Company has no workers' union. The Company's subsidiaries, FPIC and LCI, previously had workers' unions. However, with the redundancy program implemented in October 2016 and May 2017 in LCI and FPIC, respectively, all employees of LCI have been separated, while FPIC, now a servicing company, has only ten (10) employees.

## Item 2. Properties

The operations of the Company and most of its subsidiaries are conducted at Unit 1014 Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The Company and its subsidiaries lease an office (with a total area of 111.36 sqm.) with a lease term until 14 April 2020.

LCI's warehouses are located in its 14-hectare property in Calamba, Laguna. TPI holds office at the 2<sup>nd</sup> Floor of Main Building (formerly Centermall) of the Tutuban Center at C.M. Recto Ave., Manila. FPIC leases a portion of the 16<sup>th</sup> floor of Pearlbank Centre located at 146 Valero St., Salcedo Village, Makati City.

TPI is the lessor of several retail spaces in Tutuban Center (comprised of Prime Block Mall, Cluster Building 2, Main Building I and II (formerly Centermall 1 and II), Robinsons' Supermarket and Department Store building and Parking Tower), with gross leasable area of about 60,000 square meters. The Center sits on about 8.5 hectares out of about 20 has. of real property owned by the PNR and covered by the lease of TPI. The area previously occupied by Cluster Building 1 which was gutted by fire in 2012, is presently being used as a parking area.

The lease of TPI with the PNR was renewed last 22 December 2009 for another 25 years (5 September 2014 to 4 September 2039). The Renewal of Contract of Lease (starting 2014) provides for an expanded leased area (land use), which would include: (a) Phase I- existing 8.5 has.; (b) Phase IIA- approximately 5.8 has. (for land use); and (c) Phase IIB- approximately 5.8 has. (air rights).

As of October 2016, PNR has turned over to TPI the following additional areas: (1) about 3.8 hectares of Phase IIA (land use), and (2) about 5.7 hectares of Phase IIB (air rights).

OPDI, which handles property acquisition and horizontal development, has the following properties/projects: (a) about 31 hectares raw land in Kay-Anlog, Laguna (including those with pending Contracts to Sell); (b) about 17 residential lots in The Homelands Subdivision in Calamba, Laguna, with a total area of about 2,682 sqm., and ridge area, with an area of 21,148 sqm.; (c) Trellis Pocket Centre, a 747-sqm. commercial project located along National Highway, Calamba; (d) additional 7,418 sqm. property known as the MARFA area at the back of The Homelands, marketed as the premier section of The Homelands Subdivision; (e) a 49.85 sqm. condominium unit at Makati Prime Tower (subject to notice of *lis pendens* registered by the property owner, Prime Tower Property Group, Inc., in connection with its case against its contractor, Titan-Ikeda Construction and Development Corporation), (f) a 31,087 sqm. industrial lot at Phase III of The Homelands; and (g) a 58,800 sqm. beach property in San Vicente, Palawan.

In August 2015, OPDI and THC sold its 33-has. property in Sto. Tomas, Batangas (including the portion subject of previous agreement with a third party). The transfer of the titles to the real properties is on-going. At present, THC's remaining property in Sto. Tomas, Batangas is a 1,095 sqm. property.

On 22 August 2017, the Company sold its 232.48 sqm. condominium unit at Eurovilla III located at Valero St., Makati City.

The South Park Mall and office, acquired by OLI in November 2017, have a gross leasable area of about 42,000 sqm. shopping space and 12,000 sqm. office space, respectively. The South Park mall and office lease the land from Avida Land, Corp. for a lease term of 25 years.

### Item 3. Legal Proceedings

- a. *"Lavine Loungewear vs. First Lepanto-Taisho Insurance Corp. (now FPIC), et. al."*  
Civil Case No. 68287  
G.R. No. 197219 / CA GR CV No. 90499

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A complaint for sum of money (representing insurance proceeds) with issuance of Temporary Restraining Order (TRO) and Injunction was filed on 24 January 2001 with the Pasig Regional Trial Court (RTC)-Branch 71, against the Company's subsidiary, FPIC, by its insured, Lavine Loungewear Mfg. Inc. (Lavine). Prior to the filing of the suit, there was an intra-corporate dispute between two groups of stockholders of Lavine, each group claiming to be the owner of Lavine and therefore entitled to receive the insurance proceeds. Since FPIC could not determine which group of Lavine stockholders to pay, FPIC only made partial payment on the claim.

On 2 April 2001, the RTC rendered a Decision finding FPIC liable to pay Lavine the amount of P18,250,000 with 29% interest per annum from October 1998 until full payment. A Special Order for Execution Pending Appeal was also issued by the Court. As a result, certain assets of FPIC were garnished/attached. FPIC then filed a Petition with prayers for TRO and Injunction with the Court of Appeals (CA)-10<sup>th</sup> Division, which reliefs were granted by the court.

On 29 May 2003, the CA-10<sup>th</sup> Division, in its Consolidated Decision, ruled as follows: (1) setting aside the RTC Decision dated 2 April 2001; (2) declaring null and void the Special Order dated 17 May 2002 and the Writ of Execution dated 20 May 2002; (3) remanding the case to the lower court for pre-trial conference on the Second Amended Answer-in-Intervention; and (4) payment of proceeds to Lavine (if adjudged entitled to said proceeds) be withheld until a decision on the rightful members of the Board of Directors of Lavine is issued by the intra-corporate court. The Intervenor Harish Ramnani (a party to the intra-corporate dispute) filed a Motion for Reconsideration (MR) with the CA-10<sup>th</sup> Division, to which FPIC filed its Opposition dated 15 July 2003 together with a Motion for Immediate Lifting of Garnishment.

On 20 April 2004, the CA resolved to lift the order of levy and notices of garnishment on the real and personal properties and bank deposits of FPIC which were made pursuant to the Special Order dated 17 May 2002 and Writ of Execution dated 20 May 2003 which were declared null and void by the CA.

A Petition for Review (PR) was filed by Intervenors with the Supreme Court (SC) to set aside the CA Decision of 29 May 2003. The SC, in its Decision dated 25 August 2005, affirmed the CA Decision dated 29 May 2003. Said SC Decision became final and executory.

Separately, FPIC filed an appeal with the CA of the RTC Decision dated 2 April 2001. The records of the case have been forwarded to the CA on 28 January 2008. FPIC filed its Appellant's Brief with the CA on 6 November 2008. Intervenor-appellees Harish Ramnani, et.al filed an Amended Motion to Dismiss (MTD) Appeal of Defendant Equitable PCI-Bank dated 14 November 2008. Intervenor-Appellees filed its Consolidated Brief dated 8 January 2009 to which FPIC filed its Appellant's Reply Brief dated 11 February 2009.

Meanwhile, on 6 January 2009, Villaraza Cruz Marcelo & Angangco (VCMA) filed its Entry of Appearance as counsel for appellant Banco de Oro Unibank, Inc. (now BDO Unibank, Inc. or BDO) (formerly Equitable PCI Bank) and filed an Opposition to the Amended MTD filed by Intervenor-appellees.

The CA, in its Resolution dated 8 May 2009, resolved as follows: (i) the MTD filed by Intervenor-appellees was denied; (ii) entry of appearance of counsel for BDO was noted; (iii) Appellee's Brief filed by Lavine on 10 February 2009 (which was one day late) was admitted in the interest of justice; (iv) Reply Brief of defendant appellants Rizal Surety and Insurance Co., Tabacalera Insurance Co. and FPIC (which was filed late) were admitted; (v) BDO given an inextendible period of 45 days from notice within which to file appellant's brief; and (vi) plaintiff-appellee's Consolidated Brief was admitted without prejudice to filing of an appellee's brief in response to appellant BDO.

The CA issued a Decision dated 30 September 2010 which affirmed the RTC Decision dated 2 April 2001 in all respects except that it exempted BDO from paying 10% of the actual damages due and demandable as and by way of attorney's fees. Briefly, the Decision ruled relative to FPIC that:

- (a) Intervention (by intervenors) was done and allowed so that the real representatives of party-plaintiff could sue on behalf of the latter;
- (b) FPIC is liable for P18,250,000.00 because the insurance proceeds totaled P169,300,000.00 with interest per lead adjuster's valuation;
- (c) FPIC must pay interest as it did not file an interpleader and consignment suit for this purpose;
- (d) FPIC liable to pay 29% interest (i.e., twice the interest ceiling of 14.5%) as provided under Section 243 of the Insurance Code of 1978; and
- (e) FPIC is liable for attorney's fees as it compelled plaintiff-appellee, through intervenors, to file the instant suit to collect money due from it.

On 5 November 2010, FPIC filed an MR of the CA Decision dated 30 September 2010. The CA issued a Resolution dated 9 June 2011 which affirmed the 30 September 2010 CA Decision subject to certain modifications. The modifications to the CA Decision which impact FPIC are as follows:

1. FPIC is liable for the sum of P10,145,760.11 with 6% interest p.a. from 26 November 2001 and 12% p.a. from finality of resolution until fully paid; and
2. Award of 10% attorney's fees is deleted.

Intervenors-Crossclaimants-Appellees filed a Motion for Partial Reconsideration (MPR) of the CA Resolution dated 9 June 2011, which was denied by the CA in its Resolution dated 5 September 2011 for lack of merit. The Motion for Extension of Time to File Petition for Review on Certiorari filed by Phil Fire, and the Appeal by Certiorari filed by plaintiff-appellee Lavine filed before the SC were duly noted.

FPIC filed its PR on Certiorari with the SC on 29 July 2011.

The SC issued a Resolution dated 1 February 2012 which resolved to:

- (1) note the withdrawal of appearance of Atty. Arturo S. Santos as counsel for intervenors-crossclaimants respondents Jose F. Manacop, et.al., with conformity;
- (2) note the entry of appearance of Atty. Ronaldo M. Caringal of Rivera Santos and Maranan, Unit 2902-D West Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City, as counsel for intervenors-crossclaimants-respondents Jose F.

- Manacop, et.al., with conformity, requesting that henceforth, all notices, orders and other papers relative to this case be forwarded to them at said address;
- (3) grant the motion by respondent BDO for extension of ten (10) days from 7 November 2011 within which to file a comment (re: appeal by certiorari dated 30 June 2011);
  - (4) note the comment of respondent FPIC re: petitioner's appeal by certiorari dated 30 June 2011;
  - (5) to require petitioner to file a Reply thereto within ten (10) days from notice hereof;
  - (6) grant the motion of respondent FPIC to consolidate G.R. No. 197227 with G.R. Nos. 1977219, 197244 and 198481;
  - (7) grant the respondents motion for extension of twenty (20) days from 18 November 2011 within which to file a comment on the PR;
  - (8) grant the second and third motion of respondent BDO for extension totaling twenty five days from 17 November 2011 within which to file comment (re: appeal by certiorari dated 30 June 2011);
  - (9) note the omnibus motion of respondent Phil Fire to be furnished with a copy of the petition for consolidation;
  - (10) note the comment of counsel for petitioner Lavine on the omnibus motion, stating that it has personally served a copy of the petition upon counsel for respondent Phil Fire at the address provided in the said omnibus motion, with attachments;
  - (11) note the comment of respondent Phil Fire on Lavine's petition for review on certiorari with prayer for the issuance of temporary restraining order;
  - (12) require petitioner to file a Reply thereto within ten (10) days from notice hereof;
  - (13) note the comment of counsel for respondent Rizal Surety on the petition for review on certiorari;
  - (14) require petitioner to file a Reply thereto within ten (10) days from notice hereof;
  - (15) note and consider as satisfactory the petitioner's compliance with the Resolution dated 8 August 2011 which required petitioner to submit a proper verification of the petition.

On 6 March 2013, petitioners Ashok C. Ramnani and Rolando M. Vaswani representing Lavine, filed a Supplement which prayed among others, for:

- a) annulling of the portion of the assailed CA Decision dated 30 September 2010 and Resolution dated 9 June 2011 insofar as it awarded monetary judgment in favor of intervenors;
- b) directing the RTC Pasig –Branch 158 to proceed with the trial of Civil Case no. 00-1554 and SEC Case No. 06-79 until finality to determine the legitimate representation of Lavine;
- c) confirming overpayment made by Lavine in favor of Equitable-PCI Bank (BDO) and affirming the remand of the case for purposes of computing the amount overpaid to said Bank;
- d) directing that any and all amounts determined after the computation, to be consigned to the lower court for safekeeping until and after the cases pending before Pasig RTC Br. 158 has been decided with finality; and
- e) issuing a writ of preliminary injunction to restrain the execution of the CA Decision and Resolution.

Petitioner Lavine and Chandru Ramnani filed a Manifestation with Motion (to Supplement Appeal by Certiorari) dated 11 September 2013. An Additional Supplement (Appeal by Certiorari) dated 26 September 2013 was filed by petitioners Ashok C. Ramnani and Rolando M. Vaswani representing Lavine.

The case is still pending resolution of the SC.

- b. *“Archipelago Philippine Ferries Corporation vs. FPIC,  
Yuen Po Seng, Amado A. Mauleon and Martial V. Careng”*  
Civil Case No. 12-061  
[RTC Muntinlupa Br. 276]  
CA-G.R. No. 150262/ GR No. 233305

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Status: Case dismissed; Motion for Reconsideration pending resolution

On 11 May 2012, a Complaint for specific performance of insurance contract, exemplary damages attorney's fees was filed by insured Archipelago Philippine Ferries Corporation against FPIC for payment of P13,622,000.62 for and as actual damages for loss of/damage to insured vessel M/V

*Maharlika Siete* (with 24% interest thereon until fully paid), exemplary damages of P1,000,000 and attorney's fees of P500,000, under Policy No. MH-NIL-HO-08-0000015-0 issued by FPIC.

FPIC filed its Answer with Special and Affirmative Defenses and Compulsory Counterclaim dated 15 June 2012. Co-respondent Careng filed a MTD dated 30 May 2012. Plaintiff filed its Comment/Opposition to the MTD to which defendant filed its Reply.

The Court in its Order dated 29 August 2012 denied the MTD filed by defendant Careng.

Plaintiff filed a Motion for the Issuance of a Writ of Preliminary Attachment (WPA) and/or Garnishment dated 27 September 2012 against defendants which was denied by the court.

The case was referred for mediation to the Philippine Mediation Center on 3 July 2013. As no settlement was reached, mediation proceedings were terminated. The preliminary conference before the Branch Clerk of Court for the pre-marking of documents and comparison of photocopies to be marked with originals was set on 8 August 2013.

Preliminary conference originally set on 22 August 2013 was reset to 17 October 2013. Pre-trial conference was set on 5 November 2013. In order to buy peace, FPIC offered P2.5 million to plaintiff Archipelago, which offer was rejected by plaintiff during the 14 December 2013 hearing.

Pre-trial was set on 19 February 2014. Hearing was set on 7 May 2014. FPIC filed a Motion to Amend Answer as well as Pre-trial Brief dated 30 April 2014. The Court granted the motion in its Order dated 2 June 2015.

On 5 August 2016, FPIC submitted the judicial affidavit of its witness, Mr. Amado A. Mauleon. Pre-trial conference set on 10 August 2016. Plaintiff was not present but filed an Urgent Motion to Reset Hearing. At the hearing on 10 August 2016, defendant Careng moved for dismissal of the case on the ground that the Plaintiff's Urgent Motion to Reset is a mere scrap of paper as it was filed in violation of the three-day notice rule. FPIC joined in the said motion for dismissal. Whereupon, the Court ordered the dismissal of the case. Plaintiff filed an MR of the Order dismissing the case. The RTC denied the MR.

Plaintiff filed a petition for certiorari dated 13 March 2017 with the CA on the ground that the dismissal of the case was too severe a sanction. The CA issued a Resolution dated 17 April 2017 which dismissed the petition since plaintiff pursued the wrong remedy. Plaintiff moved for reconsideration of the CA Resolution, The CA then issued Resolution dated 19 July 2017 which affirmed the earlier Resolution of the CA and denied the MR of plaintiff.

Plaintiff filed a PR on certiorari assailing the CA Resolutions with the SC. The SC Third Division issued a Resolution dated 11 October 2017 which denied the petition for failure to sufficiently show that the appellate court committed reversible error in the challenged resolutions as to warrant exercise of the SC of its discretionary appellate jurisdiction. Plaintiff filed an MR dated 11 December 2017 of the SC Resolution dated 11 October 2017. The Motion is pending resolution.

c. *FLT Prime Insurance Corporation vs. Solid Guaranty, Inc.*  
Civil Case No. 14-381  
(Makati RTC Branch 59)  
(For: Recovery of Sum of Money and Damages)

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On 2 April 2014, a complaint for recovery of sum of money and damages was filed by FPIC against its reinsurer, Solid Guaranty, Inc. (SGI), in view of the latter's refusal to pay the amount of P10,721,938.50 representing SGI's 45% share in the final settlement amount paid by FPIC to its assured Top Forest Developers, Inc..

Defendant SGI filed its Answer with Counterclaim dated 21 May 2014. Defendant filed a Motion to Set Case for Preliminary Hearing Based on Affirmative Defenses dated 21 May 2014, to which FPIC filed its Comment. The motion was set for hearing on 25 May 2014. However, the hearing set on 25 May 2014 was reset to 8 August 2014 which in turn was reset to 8 September 2014. The Court, in its Resolution dated 24 September 2014, denied the said motion for utter lack of merit.

Subsequently, Defendant filed an MTD which was denied by the court in its Resolution dated 8 September 2014. Defendant filed an MR of the Resolution dated 24 September 2014, which motion was set for hearing on 13 October 2014. FPIC filed its Opposition to the MR on 13 October 2014. The Motion was deemed submitted for resolution.

The case was referred to Judicial Dispute Resolution (JDR) hearing on 28 September 2015.

Meanwhile defendant filed Motion to Strike Out Plaintiffs Judicial Affidavits for having been filed out of time. On the hearing of said Motion last 14 August 2015, FPIC filed its Opposition with Alternative Motion to Allow Submission of and Admit Plaintiff's Judicial Affidavits dated 11 August 2015. Defendant was given 10 days to file its reply to the Opposition and FPIC given 10 days to file its rejoinder.

Case was scheduled for JDR hearing on 6 January 2016. As the parties did not reach any settlement, the JDR proceedings were terminated and the case was re-raffled from Branch 143 to Branch 145.

Meanwhile, the court imposed a fine on FPIC for failure to submit its Judicial Affidavits on time. FPIC filed a Motion To Set Aside the Fine imposed on FPIC in view of the Order of Branch 145 declaring that the affidavits were filed on time. FPIC filed a Request for Admission and Supplemental Request for Admission which have been submitted for resolution.

A mid-trial JDR was set on 4 May 2016 but was re-set to 1 June 2016. On 11 July 2016, the JDR was terminated as the parties did not arrive at any amicable settlement. The case was set for preliminary conference before the Branch Clerk of Court on 26 July 2016. Pre-trial proper was set on 11 August 2016. Presentation of FPIC's evidence was set on 23 September 2016.

FPIC filed Motion for Inhibition of the Judge which was granted by the court on 2 November 2016. Case was re-raffled to RTC 59.

Defendant filed a MTD while FPIC filed a Motion for Summary Judgment. On 26 July 2017, the court issued a Resolution which denied Defendant's MTD and granted FPIC's Motion, and judgment was rendered in favor of plaintiff FPIC and ordered defendant to pay the amount of P10,721,938.50 with interest for the delay at the rate of 13.71% per annum commencing on 7 January 2011 or thirty days after the Advance Facultative Cash Call was made on the defendant on 8 December 2013 until fully paid, attorney's fees in the amount of P500,000.00, and costs of suit.

Defendant filed a Motion for Recusal and Motion for Partial Reconsideration (MPR) (Grant of Plaintiff's Motion for Summary Judgment). The RTC denied both motions in its Order dated 8 December 2017. Defendant filed a Notice of Appeal. In its Order dated 18 January 2018, the RTC gave due course to the appeal.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

The following items were approved during the annual meeting of the stockholders held on 13 January 2017:

- a. Minutes of the Special Stockholders' Meeting on 20 October 2015
- b. Annual Report for Fiscal Year 2014-2015 (including the Consolidated Audited Financial Statements (FS) for the Fiscal Year ended 30 June 2015)
- c. Annual Report for Fiscal year 2015-2016 (including the Consolidated Audited FS for the Fiscal Year ended 30 June 2016)
- d. Election of Directors (including the Independent Directors)
- e. Appointment of External Auditor and Fixing of its Remuneration
- f. Amendment of the By-laws:
  - i. Change of the place of the annual stockholders' meeting from "municipality" to "city" where the principal office of the company is located, and the date of the annual stockholders' meeting from "second Monday of November" to "second Friday of April" (Section 1, Article II)
  - ii. Inclusion of Chief Operating Officer as officer of the Corporation (Sections 1 and 5, Article IV)

- iii. Inclusion of Chief Finance Officer as officer of the Corporation (Sections 1 and 10, Article IV)
- iv. Change of financial year from fiscal year to calendar year (Section 1, Article V)
- v. Delegation of authority to the Board of Directors to amend the By-laws (Section 1, Article VII)
- g. Fixing of the Fiscal Year 2016 Compensation and Bonus of the Members of the Board of Directors and Fixing of the Per Diem of Directors per Committee Meeting Attended for Fiscal Year 2016
- h. Fixing of the Per Diem of Directors per Board of Directors' Meeting and Committee Meeting Attended starting Fiscal Year 2017.

Except for the above matters taken up during the annual stockholders' meeting, there was no other matter submitted to a vote of the security holders of the Company during the period covered by this report.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

#### A. Market Information

The Company's Common Shares are listed and principally traded in the PSE. The high and low sales prices\* of the Company's securities for each quarter are indicated in the table below:

	<u>High</u>	<u>Low</u>
<b>Calendar Year 2018</b> (Jan. to Dec. 2018)		
1 <sup>st</sup> Quarter (Jan. to March 2018)	₱4.10	₱2.04
<b>Fiscal Year 2017</b> (1 July 2016 to 31 Mar. 2017)**		
1 <sup>st</sup> Quarter (Jul. 2016- Sept. 2016)	₱2.16	₱1.81
2 <sup>nd</sup> Quarter (Oct. 2016 to Dec. 2016)	1.97	1.85
3 <sup>rd</sup> Quarter (Jan. 2017 to Mar. 2017)	2.17	1.91
2 <sup>nd</sup> Quarter (Apr. 2017 to June 2017) **	2.37	1.85
3 <sup>rd</sup> Quarter (July 2017 to Sept. 2017) **	2.45	2.03
4 <sup>th</sup> Quarter (Oct. 2017 to Dec. 2017) **	2.23	2.04
<b>Fiscal Year 2016</b> (1 July 2015-30 June 2016)		
1 <sup>st</sup> Quarter (Jul. 2015—Sept.2015)	₱2.54	₱1.54
2 <sup>nd</sup> Quarter (Oct. 2015-Dec. 2015)	2.15	1.71
3 <sup>rd</sup> Quarter (Jan. 2016-Mar.2016)	2.28	1.68
4 <sup>th</sup> Quarter (Apr. 2016-Jun 2016)	2.00	1.74

\* provided by PSE Corporate Planning and Research Department

\*\* On 10 April 2017, the SEC approved the amendment of the Company's fiscal year from July to June to 1 January to 31 December every year

Stock price as of latest practicable trading date of 16 April 2018 is ₱3.50 per share.

#### B. Holders

The number of shareholders of record as of 31 March 2018 was 805. The following are the top 20 stockholders of the Company (as of 31 March 2018) based on the list provided by the Company's Stock and Transfer Agent, BDO Unibank, Inc.-Trust and Investments Group:

	<b>Name</b>	<b>Number of Shares</b>	<b>Percentage (%)</b>
1.	Ayala Land, Inc.	2,703,340,543 <sup>^</sup>	54.911
2.	PCD Nominee Corporation (Filipino)	1,012,895,854	20.574
3.	Orion Land Inc.	538,976,671 <sup>^</sup>	10.948
4.	Lepanto Consolidated Mining Co.	180,000,000	3.656
5.	F. Yap Securities, Inc.	159,065,100	3.231
6.	PCD Nominee Corporation (non-Filipino)	46,093,277	0.936
7.	ESOWN Administrator 2018	26,629,700	0.541
8.	YHS Holdings Corporation	22,900,000	0.465
9.	Caridad Say	22,370,000	0.454
10.	Victor Say	21,500,000	0.437
11.	SEC Account FAO: Various Customers of Guoco Securities (Philippines), Inc.	18,076,380	0.367
12.	David C. Go	16,000,000	0.325
13.	David Go Securities Corp. A/C # 1085	11,816,000	0.240
14.	Vichelli Say	10,000,000	0.203
15.	David Go Securities Corp.	8,645,000	0.176
16.	Quality Investments & Securities Corp.	8,010,000	0.163
17.	ESOWN Administrator 2015	6,800,485	0.138
18.	Coronet Property Holdings Corp.	6,000,000	0.122
19.	Federal Homes, Inc.	5,492,000	0.112
20.	Eleonor Go	5,400,000	0.110

<sup>^</sup>includes direct and indirect shares

C. Dividends

There were no dividend declarations for the years 2015 to 2017.

D. Recent Sale of Securities

The Company has not sold any unregistered securities within the past three fiscal years.

The Company issued common shares under its Employees Stock Ownership Plan which is discussed in Part III, Item 10-D below.

**Management's Discussion and Analysis or Plan of Operation**

**Fiscal Year ended 31 December 2017\***

**Consolidated Results of Operations**

The Group ended the year with a consolidated net income of P18.6 million. Last year, the Group reported a net loss of P414.9 million which includes provision for probable losses of P235 million.

Consolidated revenues amounted to P630.2 million, lower by 27% from the previous year's P860.1 million. Decrease in consolidated revenues was mainly attributable to lower insurance premiums due to non-issuance of policies effective 1 April 2017. Decline in revenue from FPIC was tempered by higher rental revenues from Tutuban Center and Lepanto warehouse.

Total cost and expenses at P693.0 million decreased by 43% compared to 2016 as a result of lower claims and losses and personnel cost. Underwriting Costs decreased due to non-renewal of policies. Personnel cost decreased on account of the implementation of redundancy program in 2016. Depreciation and amortization expenses decreased due to the write-off of certain plant property and equipment.

The Group also reported gain on sale of investment property located in Makati City.

\* On 10 April 2017, the SEC approved the change in the Company's fiscal year to 1 January to 31 December each year.

### **Tutuban Properties, Inc. (TPI)**

TPI registered a net income of P73.6 million during the year compared to a net loss of P287.8 million last year. Revenues from mall operations increased from P439.9 million to P448.6 million, on account of better occupancy and higher parking income. Cost and expenses at P378.8 million significantly decreased from P781.5 million last year largely due to lower personnel cost as a result of the redundancy program implemented in 2016.

### **Lepanto Ceramics, Inc. (LCI)**

LCI posted a net income of P42.8 million compared to the net loss of P1.4 million last year due to better rental revenue, from sale of scraps and interest income.

Rental revenues grew by 58%, from P26.8 million last year to P42.2 million in 2017 as a result of better occupancy and higher rent per sqm

### **FLT Prime Insurance Corporation (FPIC)**

FPIC posted a net loss of P68.7 million compared to last year's net loss of P43.8 million. This was due to the provision for impairment loss of the Accounts Receivables.

### **Financial Condition**

Total Assets of the Group was recorded at P8.9 billion and P6.0 billion as of 31 December 2017 and 31 December 2016, respectively. Increase in Total Assets was due acquisition of Southpark Mall and Office last November 2017. Cash and cash equivalents, proceeds from disposal of Available-for-Sale (AFS) financial assets and collection of amounts owed by related parties were used to fund purchase of Southpark, building improvements and acquisition of POPI shares from existing shareholders. Accordingly, investment property increased as a result of the purchase of Southpark Mall. Other noncurrent assets increased due to deferred input value added tax.

The increase in Total Liabilities was mainly due to additional rental and security deposits for Tutuban and Lepanto. Increase in Total Equity was due to full payment of the subscription of Ayala Land, Inc. (ALI) in POPI shares.

### **Financing Through Loans**

As of 31 December 2017, the Group has no outstanding loan from any financial institution.

### **Prospects for the future**

The Group will focus on maximizing value of the 20-hectare Tutuban property in Manila by turning around the profitability of Tutuban Center.

The short term plan involves major upgrade of facilities and improvement of mall operations which are now in full swing. The mid to long term development entails expanding the gross leasable areas of the mall and introducing complementary mixed-use components. In addition, the Group is in close coordination with government for the finalization of the North-South Commuter Rail masterplan whose terminal station shall be in Tutuban Center.

LCI's 14-hectare property in Calamba, Laguna will continue to serve as a warehouse facility for various locators.

**Key Variable and Other Qualitative and Quantitative Factors**

Ratios	Formula	31-December-17	31-December-16	30-June-2016
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.91:1 2,373,733/ 816,981	5.28: 1 4,332,343/ 821,086	2.09:1 5,130,567 / 2,451,173
Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Equity}}$	0.23:1 1,666,689/ 7,218,381	0.37: 1 1,606,651/ 4,355,679	1.09 :1 3,318.487/ 3,045,405
Capital Adequacy Ratio	$\frac{\text{Equity}}{\text{Total Assets}}$	0.81: 1 7,218,381/ 8,923,545	0.72: 1 4,355,679/ 6,014,700	0.48 :1 3,045,405 / 6,416,823
Book Value per Share	$\frac{\text{Equity}}{\text{Total \# of Shares}}$	1.47 7,218,381/ 4,896,455	0.89 4,355,679/ 4,896,455	1.28 3,045,405 / 2,378,638
Income per Share	$\frac{\text{Net Income}}{\text{Total\# of Shares}}$	0.004 18,551/ 4,896,455	-0.0002 -1,055 / 4,896,455	0.004 11,638 / 2,378,638

**Current ratio** shows the Group's ability to meet its short term financial obligation. As of 31 December 2017, the Group has P2.91 worth of current assets for every peso of current liabilities as compared to P5.28 as of 31 December 2016. The Group has sufficient current assets to support its current liabilities as of the period.

**Debt to Equity ratio** indicates the extent of the Group's debt which is covered by shareholders' fund. It reflects the relative position of the equity holders. The higher the ratio, the greater the risk being assumed by the creditors. A lower ratio generally indicates greater long term financial safety. Compared to 31 December 2016, debt-to-equity ratio was 38% higher due to full payment of ALL subscription.

**Capital Adequacy Ratio** is computed by dividing the Total Stockholders' Equity over Total Assets. It measures the financial strength of the Group. As of 31 December 2017, the Group's Capital Adequacy Ratio is 0.81 slightly lower than 0.72 as of 31 December 2016.

**Book value per share** measures the recoverable amount in the event of liquidation if assets are realized at book value. As of 31 December 2017, the Group has book value per share of P1.47, 65% higher compared to 31 December 2016. The increase in book value was due to increase in capital stock.

**Income per share** is calculated by dividing net income by the weighted average number of shares issued and outstanding. As of 31 December 2017, the Group reported a P0.004 income per share as compared to net loss of P0.0002 last year.

**(i) Any known trends, demands, commitments, events or uncertainties that will have a material impact on issuer's liability.**

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company and its subsidiaries' liquidity increasing or decreasing in any material way.

**(ii) Events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation**

There are no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

**(iii) Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.**

There are no known off-balance sheet transactions, arrangements, obligations (including contingent obligations), during the period.

**(iv) Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.**

The Group has not entered into any new commitments for capital expenditures.

**(v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales or revenues or income from continuing operations should be described.**

There are no known trends, events or uncertainties that have material impact on net sale/revenues/income from continuing operation.

**(vi) Any significant elements of income or loss that did not arise from the registrant's continuing operations.**

The Group did not recognize income or loss during the period that did not arise from continuing operations.

**(vii) Causes of Any Material Changes from Period to Period of FS which shall include vertical and horizontal analyses of any material item (5%).**

Causes of any material changes from period to period of FS is included in the Financial Condition.

**(viii) Any seasonal aspects that had a material effect on the financial condition or results of operations.**

There are no known seasonal aspects that had a material effect on the financial condition or results of operations.

**For the Period of July to December 2016**

**Consolidated Results of Operations**

For the six-month period of July to December 2016, Prime Orion Philippines, Inc. ("POPI" or "the Group") reported a consolidated net loss of P1.06 million compared to a net income of P11.64 million as of the fiscal year (FY) ended 30 June 2016.

Consolidated Revenues for the six-month period amounted to P372.54 million compared to P1.04 billion as of 30 June 2016 due to the sale of real property in FY 2016. Consolidated Revenues decreased due to discontinued operations of OMI, OSI, TPI hotel and café, and land title services in September 2016. Lower gain on sale of Available-for-Sale (AFS) financial assets further tempered Consolidated Revenues for the period. During the six-month period, Total Cost and Expenses was lower by 59% due to lower personnel cost as a result of the implementation of the redundancy program in October 2016 and decrease in commission and underwriting expense.

**TPI**

TPI registered a net income of P12.53 million during the six-month period ended 31 December 2016 compared to a net loss of P306.05 million as of FY ended 30 June 2016. Rental revenues for the six-month period was P208.79 million compared to the P414.97 million revenue for FY 2016, while income from parking was 29% higher than in FY 2016. Operating expenses was lower due to the implementation of the redundancy program.

## **LCI**

For the six-month period ended 31 December 2016, LCI posted a net loss of P147,674.00, which was 99.52% lower than the net loss of P31.27 million as of the year ended 30 June 2016.

In terms of Revenue, LCI posted Revenue of P21.84 million for the six-month period compared to P35.63 million as of 30 June 2016 due to rental revenue from leasing warehouse spaces. Operating Expenses was lower at P25.07 million compared to P74.78 million as of 30 June 2016 due to lower personnel cost as a result of the redundancy program and lower expenses from its leasing operations.

## **FPIC**

For the six-month period, FPIC recorded a positive bottom line of P3.40 million compared to a net loss of P20.5 million for the same period in 2015. This was on account of the 29% decrease in General and Administrative expenses.

## **Financial Condition**

Total Assets of the Group recorded at P6.04 billion and P6.42 billion as of 31 December 2016 and 30 June 2016, respectively. Decrease in Cash and Cash equivalents was due to acquisition of property, plant and equipment and investment properties. Decrease in AFS Financial Assets was due to decline in market value of shares of stocks and redemption of investments in trust funds. Decrease in Receivables was due to collection of insurance receivables.

The decrease in Total Liabilities from P3.32 billion as of 30 June 2016 to P1.6 billion as of 31 December 2016 was mainly due to reclassification of Deposit for future stock subscription into Equity, and adjustment in net retirement benefit liability. Accounts Payable and Accrued Expenses decreased due to settlement of outstanding payables.

## **Financing Through Loans**

As of 31 December 2016, the Group has no outstanding loan from any financial institution.

## **Fiscal Year 2016 (As restated)**

### **Consolidated Results of Operations**

The Group ended the fiscal year with a consolidated net income of P11.64 million. Last year, the Group reported a net loss of P262.2 million which includes an impairment loss of P236 million to account for the decline in value of 1.388 billion shares of Cyber Bay Corporation.

Consolidated revenues amounted to P1,037.1 million, higher by 50% from the previous year's P692.4 million. Increase in consolidated revenues was mainly attributable to the sale of land in Sto. Tomas and J.P. Rizal St., Makati City. Likewise, rental revenue improved by 13% compared to last year owing to the 4% improvement in overall occupancy for Tutuban Center and increase in rental rates.

Total cost and expenses increased by 81% attributable to the increase in cost of real estate sales coupled by higher operating expense and cost of goods and services. Increase in operating expenses was due to increase in personnel cost as a result of the implementation and grant of 29.3 million POPI shares under the Employees Stock Ownership Plan and higher professional fees. Likewise, general provisions for clean-up activities was also recognized during the year. Higher cost of goods and services was due to additional rental to PNR arising from the turnover of leasable land in Phase II with an area of 8.8 hectares.

The Group also reported gain on sale of investment property located in Mandaue, Cebu City and proportionate gain on sale of Sto. Tomas land in the amount of P584.9 million.

## **TPI**

During the year, revenues from mall operations grew by 5%, from P408.7 million to P431.1 million driven by the growth in Night Market operations, parking income and improvement in rental rates and occupancy.

Excluding one-time adjustments, general and administrative expense ratio to revenue was higher by 1.6% compared to the same period last year mainly attributed to professional fees. Direct operating expenses also increased due to additional rental arising from the turnover by PNR of leasable land and air rights totaling 8.8 hectares. TPI registered a net loss of P306.05 million as against last year's net income of P14.9 million.

## **LCI**

Since the shift of LCI business from manufacturing to leasing of industrial warehouses, rental revenue grew by 82%, to about P33.4 million during the year. Disposal of existing machineries and equipment is on-going, and renovation of existing structures will be implemented to increase leasable space. LCI posted a net loss of P28.7 million compared to P31 thousand last year. The net loss is attributable to cost of repair and renovations of existing facility and set-up of provision for impairment of plant and machineries used for tile manufacturing. Conversion of existing facilities into leasable industrial spaces is in progress. Renovation of existing structures and disposal of existing machineries and equipment is on-going to increase leasable space. The existing facility will be able to provide leasable space of about 80,000 square meters.

## **FPIC**

Gross premiums written (GPW) for the fiscal year 2016 of P292.8 million has resulted to a 1% growth compared to the P290.6 million GPW last year. The motor car and property lines registered a combined growth of 1% compared to 2015 figures.

On the Underwriting cost, the total incurred expenses for the fiscal year 2016 is P198.4 million. This represented a 13% increase compared to last year of P173.7 million attributed to the increase in claims and losses. General and administrative expenses of P107.9 million registered an increase of P38.7 million, which is about 56% increase from last year. The increase was on account of provisions for doubtful accounts and share based expenses. FPIC posted a net loss of P59.5 this fiscal year.

## **Financial Condition**

Total Assets of the Group stood at P6.4 billion compared to last year's P4.5 billion. Increase in Total Assets was primarily due to the payment of deposit for future stock subscription by Ayala Land, Inc. (ALI). Higher cash and cash equivalents were sourced from the proceeds of sale of real estate and investment property. Net decrease in available-for-sale (AFS) financial assets was due to redemption of Unit Investment Trust Funds (UITFs) negated by the improvement in market value of stocks during the period. Decrease inventories was due to disposal of the remaining stocks. Current Assets was higher than Total Current Liabilities, which stood at P5.2 billion and P1.0 billion, respectively. Real estate held for sale and development and investment property decreased by 38% and 12%, respectively. Decrease in property, plant and equipment and software costs represents depreciation and amortization during the period. Provision for impairment on machinery and equipment was recognized during the year. Noncurrent assets decreased due to reclassification of payment to PNR in prior years as expense.

Total Liabilities of the Group increased due to recording of deposit for future stock subscription by ALI. Accounts Payable and accrued expenses increased by 34% due to set-up of general provision for clean-up activities. Net decrease in Retirement benefits liability was due to contribution to the retirement fund as of the period. There was a decrease in Subscription Receivables as some shareholders fully paid their subscription to the Company. Unrealized valuation gain on AFS financial assets mainly due to higher market value as of the reporting period. In November 2015, the Company granted to qualified employees an Employee Stock Ownership Plan at an option price of P1.00 per share. Corresponding equity reserve was recorded under Equity section of the Statement of Financial Position amounting to P27.5 million.

### **Financing Through Loans**

As of 30 June 2016, the Group has no outstanding loan from any financial institution.

### **Prospects for the future**

The Group will focus on maximizing value of the 20-hectare Tutuban property in Manila by turning around the profitability of Tutuban Center.

The short term plan involves major upgrade of facilities and improvement of mall operations which are now in full swing. The mid to long term development entails expanding the gross leasable areas of the mall and introducing complementary mixed-use components. In addition, the Group is in close coordination with government for the finalization of the North-South Commuter Rail masterplan whose terminal station shall be in Tutuban Center.

LCI's 15-hectare property in Calamba, Laguna will continue to serve as a warehouse facility for various locators.

### **Key Variable and Other Qualitative and Quantitative Factors**

<b>Ratios</b>	<b>Formula</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Current Ratio	$\frac{\text{Current Assets}}{\text{Current liabilities}}$	2.10:1 5,153,105 / 2,451,173	3.52:1 2,870,126 / 815,492
Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Equity}}$	1.08 :1 3,318,487 / 3,067,943	0.64 : 1 1,714,830 / 2,673,903
Capital Adequacy Ratio	$\frac{\text{Equity}}{\text{Total Assets}}$	0.476 :1 3,067,943 / 6,439,361	0.599:1 2,673,903 / 4,461,073
Book Value per Share	$\frac{\text{Equity}}{\text{Total \# of shares}}$	1.290 3,067,943 / 2,378,638	1.129 2,673,903 / 2,367,149
Income per Share	$\frac{\text{Net Income}}{\text{Total \# of Shares}}$	0.005 11,638 / 2,378,638	-0.111 -262,236 / 2,367,149

**Current ratio** shows the Group's ability to meet its short term financial obligation. As of 30 June 2016, the Group has P2.10 worth of current assets for every peso of current liabilities as compared to P3.52 as of June 30, 2015. The Group has sufficient current assets to support its current liabilities as of the period.

**Debt to Equity ratio** indicates the extent of the Group's debt which is covered by shareholder's fund. It reflects the relative position of the equity holders. The higher the ratio, the greater the risk being assumed by the creditors. A lower ratio generally indicates greater long term financial safety. Compared to 30 June 2015, debt to equity ratio increased by 68% as a result of the increase in total liabilities due to deposit of future stock subscription coupled by an income recognized during the period.

**Capital Adequacy Ratio** is computed by dividing the Total Stockholders' Equity over Total Assets. It measures the financial strength of the Group. As of 31 March 2016, the Group's Capital Adequacy Ratio is 0.476 compared to last year's 0.599. Decrease was attributable to higher Assets as of the period.

**Book value per share** measures the recoverable amount in the event of liquidation if assets are realized at book value. As of 30 June 2016, the Group has book value per share of P1.290 higher by 14% compared to 30 June 2015.

**Income per share** is calculated by dividing net income by the weighted average number of shares issued and outstanding. As of 30 June 2016, the Group reported a P0.005 income per share as compared to last year's P0.111 loss per share.

**(i) Any known trends, demands, commitments, events or uncertainties that will have a material impact on issuer's liability.**

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company and its subsidiaries liquidity increasing or decreasing in any material way.

**(ii) Events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation**

There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

**(iii) Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.**

There are no known off-balance sheet transactions, arrangements, obligations (including contingent obligations), during the period.

**(iv) Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.**

The Company has not entered into any material commitment for capital expenditure.

**(v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales or revenues or income from continuing operations should be described.**

There are no known trends, events or uncertainties that have material impact on net sale/revenues/income from continuing operation.

**(vi) Any significant elements of income or loss that did not arise from the registrant's continuing operations.**

The Group did not recognize income or loss during the period that did not arise from continuing operations.

**(vii) Causes of Any Material Changes from Period to Period of FS which shall include vertical and horizontal analyses of any material item (5%).**

Causes of any material changes from period to period of FS is included in the Financial Condition.

**(viii) Any seasonal aspects that had a material effect on the financial condition or results of operations.**

There are no known seasonal aspects that had a material effect on the financial condition or results of operations.

## **Fiscal Year 2015**

### **Consolidated Results of Operations**

The Group ended the fiscal year with a consolidated net loss of P262.2 million. This includes an impairment loss of P236 million attributed to the decline in value of 1.388 billion shares of Cyber Bay Corporation. Last year's reported Net Income of P205.9 million was due to the recognition of recovery from insurance and gain on sale of Available-for-Sale (AFS) financial assets.

Consolidated Revenues amounted to P692.4 million, lower by 16% from previous year's revenue of P824.7 million. Decrease in Revenues was due to lower gain on sale of AFS financial assets. Revenue from insurance business grew by 6% as fire and accident and health (A&H) lines continue to spearhead growth increasing by 9% and 46%, respectively, during the year. On the other hand, overall occupancy for Tutuban Center slightly improved but was negated by lower rental rates consequently reducing Rental Revenue by 2%. Sales from tile business, mainly sourced from the remaining inventories, dropped by 61%.

Total Cost and Expenses decreased by 7% as cost of goods and services went down by 8%. This includes decrease in cost of sales of and share in common usage service area (CUSA) related expenses of about 75% and 23%, respectively, brought about by lower sales from LCI and reduced power and water consumption. Likewise, Operating Expenses decreased due to lower taxes and licenses.

In March and June, the PNR turned over to TPI a total of 8.8 hectares of Phase II (land and air rights) of the leased property and in turn, TPI paid the corresponding rental of about P115 million. The turnover of the additional land will be a major component in the redevelopment of Tutuban Center which is envisioned to integrate the NSRP of the DOTC with the LRT 2 West line.

#### **TPI**

TPI reported a Net Income of P14.9 million during the year compared to P194.0 million Net Income last year. Last year's income was due to the recognition of recovery from insurance. Revenue from mall operations improved by 2%, from P411.9 million to P421.8 million. Overall occupancy improved, however, the decrease in average rental rate negatively impacted Rental Revenue by 2%.

On cost and expenses, there was a slight decrease on CUSA related expenses from P235.0 million to P234.0 million driven by reduced electricity and water usage. Operating expenses increased due to the higher professional fees.

#### **LCI**

LCI posted a Net Loss of P31 thousand during the year. Operating cost was compensated by the reversal of accrued interest of about P23 million and gain on disposal of unutilized equipment. Last year's net income was due to the recognition of gain from condonation of debt as a result of approval by the court of the Rehabilitation Plan. Sales from tile business was mainly sourced from the remaining inventories.

#### **FPIC**

FPIC's Net Premiums Earned grew by 8%, from last year's P210.6 million to P226.8 million. This was attributable to the 9% and 46% growth on fire and A&H lines, respectively. On the other hand, Commission Income decreased by 17%. FPIC registered a Net Income of P0.9 million compared to last year's net loss of P15.6 million.

Revenues posted a 6% increase compared to last year, from P222.1 million to P236.5 million. Underwriting Cost decreased by 7% due to lower excess of loss treaty cover and claims.

### **Financial Condition**

Total Assets of the Group stood at P4.5 billion compared to last year's P4.8 billion. Reduction in Total Assets was attributable to the decline in market value of AFS financial assets. Decrease in Cash and Cash Equivalents was due to transfer to AFS financial assets. Decrease in Receivables was due to collection of Insurance Receivables. Current Assets was higher than Total Current Liabilities, which stood at P2.9 billion and P0.8 billion, respectively. Inventories decreased due to sale of remaining stocks. The increase in Investment properties was due to reclassification of land, buildings and improvements previously recorded as property, plant and equipment (PPE) at revalued amounts. Correspondingly, PPE decreased. Other Non-Current Assets increased due to advance rental paid to PNR as a result of the turn over to TPI of about 8.8 hectares of Phase II A (land) and B (air rights).

The decrease in total Group Liabilities was due to the impact of the reclassification of the revaluation increment on PPE on Deferred Income Tax Liabilities. Net decrease in Retirement Benefits Liability was due to increase in contribution to the retirement fund as of the period. Moreover, rental and other deposits increased due to advance rental by tenants. Decrease in Unrealized Valuation Gain on AFS financial assets was due to the effect of the impairment loss recognized during the year.

### **Financing Through Loans**

As of 30 June 2015, the Group has no outstanding loan from any financial institution.

### **Prospects for the future**

The entry of Ayala Land, Inc. will provide the expertise and resources that will optimize the development of the Group's property assets, particularly Tutuban Center. The immediate focus of the planned redevelopment of the entire 20-hectare property will now include the Tutuban Transfer Station which will serve as the interconnection for the government's massive NSRP and the LRT 2 West Station extension.

After the sale of the 31-hectare Sto. Tomas, Batangas and the 1-hectare Mandaue, Cebu properties, the Group will now focus on the conversion of the 15-hectare property in Calamba, Laguna, which houses LCI, into an industrial complex and attain 100% utilization as a warehouse facility within the next two years.

### **Key Variable and Other Qualitative and Quantitative Factors**

<b>Ratios</b>	<b>Formula</b>	<b>30-Jun-15</b>	<b>30-Jun-14</b>
Current Ratio	$\frac{\text{Current Assets}}{\text{Current liabilities}}$	3.52:1 2,870,126 / 815,492	3.93:1 3,298,691 / 840,410
Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Equity}}$	0.64 :1 1,714,830 / 2,673,903	0.56 : 1 1,711,654 / 3,042,197
Capital Adequacy Ratio	$\frac{\text{Equity}}{\text{Total Assets}}$	0.599 :1 2,673,903 / 4,461,073	0.630:1 3,042,197 / 4,825,990
Book Value per Share	$\frac{\text{Equity}}{\text{Total \# of shares}}$	1.129 2,673,903 / 2,367,149	1.285 3,042,197 / 2,367,149
Income per Share	$\frac{\text{Net Income}}{\text{Total \# of Shares}}$	-0.111 -262,236 / 2,367,149	0.087 205,903 / 2,367,149

**Current ratio** shows the Group's ability to meet its short term financial obligation. As of 30 June 2015, the Group has P3.52 worth of Current Assets for every peso of Current Liabilities as compared to P3.93 as of 30 June 2014. The Group has sufficient current assets to support its current liabilities as of the period.

**Debt to Equity ratio** indicates the extent of the Group's debt which is covered by shareholders' fund. It reflects the relative position of the equity holders. The higher the ratio, the greater the risk being assumed by the creditors. A lower ratio generally indicates greater long term financial safety. Compared to 30 June 2014, debt to equity ratio increased by 14% as a result of the decline in market value of AFS financial assets.

**Capital Adequacy Ratio** is computed by dividing the Total Stockholders' Equity over Total Assets. It measures the financial strength of the Group. As of 30 June 2015, the Group's Capital Adequacy Ratio is 0.599 compared to last year's 0.630. Decrease was attributable to the decline in market value of AFS financial assets affecting the Total Equity.

**Book value per share** measures the recoverable amount in the event of liquidation if assets are realized at book value. As of 30 June 2015, the Group has book value per share of P1.129, lower by 12% compared to 30 June 2014.

**Income per share** is calculated by dividing net income by the weighted average number of shares issued and outstanding. As of 30 June 2015, the Group reported a P0.111 loss per share as compared to last year's P0.087 income per share.

**(i) Any known trends, demands, commitments, events or uncertainties that will have a material impact on issuer's liability.**

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way.

**(ii) Events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation**

There are no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

**(iii) Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.**

There are no known off-balance sheet transactions, arrangements, obligations (including contingent obligations), during the period.

**(iv) Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.**

The Group has not entered into any material commitment for capital expenditure.

**(v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales or revenues or income from continuing operations should be described.**

There are no known trends, events or uncertainties that have material impact on net sale/revenues/income from continuing operation.

**(vi) Any significant elements of income or loss that did not arise from the registrant's continuing operations.**

The Group did not recognize income or loss during the period that did not arise from continuing operations.

**(vii) Causes of Any Material Changes from Period to Period of FS which shall include vertical and horizontal analyses of any material item (5%).**

Causes of any material changes from period to period of FS are included in the Financial Condition.

**(viii) Any seasonal aspects that had a material effect on the financial condition or results of operations.**

There are no known seasonal aspects that had a material effect on the financial condition or results of operations.

**Item 7. Financial Statements**

The 2016 audited consolidated financial statements for the period of July to December 2016 and the 2017 audited consolidated financial statements and schedules are filed with this report as indicated in the Index to Exhibits.

**Item 8. Information on Independent Accountant and Other Related Matters**

1) External Audit Fees and Services

(a) *Audit and Audit-Related Fees*

- (1) The aggregate fees billed by the auditors for CY 2017 amounted to about P1.565 million while the auditor's fee for FY 2016 amounted to about P1.344 million.
- (2) There are no known assurance and related services rendered by the external auditor aside from the services stated below for CY 2017 and FY 2016.

(b) *Tax Fees*

There were no tax advisory services rendered by the external auditor in 2017.

For FY 2016, the external auditor also rendered tax advisory services and knowledge transfer workshop (in connection with Employees Stock Ownership Program valuation) to the Company, for which the Company paid P908,000.00 as professional fees.

(c) *All Other Fees*

Except for professional fees for review of the valuation for the Company's subsidiary, FPIC, and for the Agreed Upon Procedure (AUP) report for OLI as shown below, there were no Other Services rendered by external auditor for FY 2017.

Audit and Audit-Related Fees are as follows:

	<b>CY 2017 (Jan. to Dec. 2017)</b>	<b>July 2016 to Dec. 2016</b>	<b>FY 2016 (July 2015 to June 2016)</b>
Professional Fees	P1,397,500.00	P820,000.00	P1,200,000.00
Value Added Tax	167,700.00	98,400.00	144,000.00
<b>Total Audit Fees</b>	<b>P1,565,200.00</b>	<b>P918,400.00</b>	<b>P1,344,000.00</b>

The non-audit services fees are as follows:

	<b>CY 2017 (Jan. to Dec. 2017)</b>	<b>July 2016 to Dec. 2016</b>	<b>2016 (July 2015 to June 2016)</b>
Professional Fee- Tax Advisory	-	-	P 225,000.00
Knowledge Transfer Workshop (ESOWN Valuation)	-	-	650,000.00
Professional fees – Review of valuation (FPIC)	P 75,000.00	-	-
Professional Fees- OLI AUP Report	60,000.00	-	-

Value Added Tax	16,200.00	-	105,000.00
Total Non-Audit Fees	₱151,200.00	-	₱ 980,000.00

- (d) The Audit and Risk Committee (“Audit Committee”) performs oversight functions over the Corporation’s external auditors in accordance with the Company’s Manual of Corporate Governance<sup>1</sup> (“Manual”). It reviews and approves all reports of the external auditors prior to presentation to the Board of Directors for approval. The Audit and Risk Committee discusses with the external auditor the scope and expenses for the audit prior to conduct of the audit. It evaluates and recommends to the Board of Directors the external auditors of the Company for the ensuing fiscal year.
- 2) Pursuant to the General Requirements of SRC Rule 68 (3)(b)(iv)(ix) (Qualification and Reports of Independent Auditors), Sycip Gorres Velayo & Co. (SGV) has been re-appointed as the external auditor of the Company for 2017 by the Board of Directors of the Company, upon the recommendation of its Audit and Risk Committee.

Ms. Dhonabee Señeres is the Partner-in-Charge assigned to handle the Company's accounts since audit year 2016.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There has been no resignation, dismissal or change in the external auditor of the Company during the fiscal year and the past two (2) FYs. Neither was there any disagreement with external auditor on matters relating to accounting principles or practices or financial disclosures for the same period.

**PART III- CONTROL AND COMPENSATION INFORMATION**

Item 9. Directors and Executive Officers of the Registrant

a) Directors and Officers

The incumbent directors of the Company are as follows:

Bernard Vincent O. Dy  
Felipe U. Yap  
Jose Emmanuel H. Jalandoni  
Maria Rowena M. Tomeldan  
Augusto D. Bengzon  
Victor C. Say  
Nathanael C. Go  
Rex Ma. A. Mendoza - Independent director  
Renato O. Marzan - Independent director

All the directors except Mr. Augusto D. Bengzon were elected on 13 January 2017 during the annual stockholders’ meeting of the Company. Mr. Bengzon was elected on 18 July 2017 vice Mr. Tsang Cho Tai who resigned on 27 June 2017.

Under the Company's By-laws, the directors serve for a term of one year until the election and acceptance of their qualified successors.

Below are the write-ups (including the position in the Company, nationality and age) and the directorships/officerships of the incumbent directors (as of 31 January 2018). Except as indicated, the directors have held their directorships/ officerships listed below for at least five (5) years to the present.

**Bernard Vincent O. Dy**, Filipino, 54, has been the Chairman of the Board of Directors of the Company since February 24, 2016. He is the President & Chief Executive Officer of ALI, a publicly listed company. He is also a Director of other publicly listed companies namely: Cebu Holdings, Inc., Cebu Property Ventures and Development Corporation, and MCT Bhd of Malaysia. His other significant positions include: Chairman of Ayala Property Management Corporation, Makati Development Corporation, Amaia Land Corporation, AyalaLand Commercial Reit, Inc., Bellavita Land Corporation, Ayagold Retailers, Inc., Station Square East Commercial Corporation, Aviana Development Corp., Cagayan De Oro Gateway Corp., BGSouth Properties, Inc., BGNorth Properties, Inc., BGWest Properties, Inc., Portico Land Corp. and Philippine Integrated Energy Solutions, Inc.; Vice Chairman of Ayalaland Estates, Inc., Ayala Greenfield Development Corporation, Alviera Country Club, Inc. and the Junior Golf Association of the Philippines; Director and President of Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc. Berkshires Holdings, Inc., Fort Bonifacio Development Corporation, Aurora Properties Incorporated, Vesta Property Holdings, Inc., Ceci Realty Inc., Alabang Commercial Corporation and Accendo Commercial Corp.; President of the Hero Foundation Incorporated and Bonifacio Art Foundation, Inc.; Director of Alveo Land Corp., Amicassa Process Solutions, Inc., Whiteknight Holdings, Inc., AyalaLand Medical Facilities Leasing, Inc., Serendra, Inc., Alveo-Federal Land Communities, Inc., ALI Eton Property Development Corporation and Nuevocentro, Inc.; Member of Ayala Foundation, Inc. and Ayala Group Club, Inc. Prior to being President & Chief Executive Officer, he was the Head of the Residential Business, Commercial Business and Corporate Marketing and Sales of ALI. In 2015, he was inducted as member of the Advisory Council of the National Advisory Group for the Police Transformation Development of the Philippine National Police. He earned a degree of B.B.A Accountancy from the University of Notre Dame in 1985 and took his Master's Degree in Business Administration in 1985 and in International Relations in 1995, both at the University of Chicago.

**Felipe U. Yap**, Filipino, 80, was Chairman of the Board of Directors of the Company from 2000 to February 2016. He has been Vice Chairman from February 2016 to date. He is the Chairman and Chief Executive Officer of three publicly listed companies, namely: Lepanto Consolidated Mining Company (since 1988), Manila Mining Corporation (since 1992), and Zeus Holdings, Inc. (since 1998). He is also the Chairman of the Board of Far Southeast Gold Resources, Inc., Lepanto Investment and Development Corporation, Diamant Manufacturing and Trading Corporation, Diamond Drilling Corporation of the Philippines, Shipside, Inc., Kalayaan Copper-Gold Resources, Inc., and Yapster e-Conglomerate, Inc.. Mr. Yap is a director of, among others, Manila Peninsula Hotel, Inc., Philippine Associated Smelting & Refining Corp. (PASAR), FLT Prime Insurance Corporation, Orion Land Inc. and Tutuban Properties, Inc. Mr. Yap was Chairman of the Board of the Philippine Stock Exchange from March 2000 to March 2002. He graduated with a degree in B.A. Philosophy from the University of San Carlos in Cebu. Mr. Yap is one of the few "Mining Man of the Year" awardees, a distinction granted to him by the Philippine Institute of Mining, Metallurgy and Geology in 1993.

**Jose Emmanuel H. Jalandoni\***, Filipino, 50, has been a Director and President of the Company since February 24, 2016. He is a Senior Vice President and member of the Management Committee of Ayala Land, Inc. He is the Group Head of ALI's commercial businesses including malls, offices, hotels, resorts and ALI Capital. He is also a director of Cebu Holdings, Inc., a publicly listed company. His other significant positions include: Chairman of AyalaLand Offices, Inc., AyalaLand Hotels and Resorts Corp., ALI Capital Corp., ALI Makati Hotel and Residences, Inc., ALI Makati Hotel Property, Inc., ALI Triangle Hotel Ventures, Inc., Arcasouth Hotel Ventures, Inc., Ayala Hotels, Inc., Ayalaland Medical Facilities Leasing, Inc., Bay Area Hotel Ventures, Inc., Bonifacio Hotel Ventures, Inc., Capitol Central Hotel Ventures, Inc., Circuit Makati Hotel Ventures, Inc., Cebu Insular Hotel Company, Inc., Directpowerservices, Inc., Econorth Resort Ventures, Inc., Ecosouth Hotel Ventures, Inc., Ecozone Power Management, Inc., Enjay Hotels, Inc., Greenhaven Property Ventures, Inc., Integrated Eco-resort, Inc., Makati North Hotel Ventures, Inc., North Eastern Commercial Corp., North Triangle Hotel Ventures, Inc., Northgate Hotel Ventures, Inc., One Makati Hotel Ventures, Inc., Orion Land, Inc., Sentera Hotel Ventures, Inc., Sicogon Island Tourism Estate Corp., Sicogon Town Hotel, Inc., Laguna Technopark, Inc., Central Block Developers, Inc., Arca South Integrated

Terminal Inc., ALI Commercial Center, Inc., Soltea Commercial Corp., Southcrest Hotel Ventures, Inc., Tutuban Properties, Inc. and Whiteknight Holdings, Inc. He is also a director of OCLP Holdings, Inc., Alabang Commercial Corporation, Station Square East Commercial Corporation, Accendo Commercial Corporation, Philippine Integrated Energy Solutions, Inc., ALI Eton Property Development Corporation, Philippine Familymart CVS, Inc., Ayagold Retailers, Inc., Ayala Property Management Corporation, Ayalaland Commercial Reit, Inc., Bacuit Bay Development Corp., Berkshires Holdings, Inc., Bonifacio Land Corporation, Cagayan de Oro Gateway Corp., Chirica Resorts Corporation, Columbus Holdings, Inc., Ecoholdings, Inc., Emerging City Holdings, Inc., Fort Bonifacio Development Corporation, Lio Resort Ventures, Inc., Lio Tourism Estate Management Corp., Makati Cornerstone Leasing Corp., Makati Development Corporation, North Liberty Resort Ventures Inc., Pangulasian Island Resort Corp., Paragua Eco-Resort Ventures, Inc., Regent Horizons Conservation Company, Inc., Ten Knots Development Corporation and Ten Knots Phils, Inc. He joined ALI in 1996 and held various positions in the company. He graduated with a degree of Bachelor of Science in Legal Management from Ateneo de Manila University in 1989. He earned his Master's Degree in Business Administration from Asian Institute of Management in 1992. He is a Chartered Financial Analyst.

\*resigned as President/CEO of the Company on 19 February 2018

**Augusto D. Bengzon**, Filipino, 54, has served as director of the Company since July 18, 2017. He joined Ayala Land, Inc. in December 2004 and currently serves as its Senior Vice President, Chief Finance Officer, Chief Information Officer, Chief Compliance Officer & Treasurer. He is a Director of another publicly listed company, Cebu Holdings, Inc. and the Treasurer of Cebu Property Ventures & Development Corporation. His other significant positions include: Chairman of Aprisa Business Process Solutions Inc.; Vice Chairman of CMPI Holdings Inc.; Director, Treasurer & Compliance Officer of Anvaya Cove Golf and Sports Club Inc.; Director & President of CMPI Land Inc.; Director & Assistant Treasurer of Ayala Greenfield Development Corporation; Director and Treasurer of ALI Eton Property Development Corporation, Amaia Land Corp., Aurora Properties Inc., Ayala Property Management Corporation, Bellavita Land Corp., BGNorth Properties Inc., BGSouth Properties Inc., BGWest Properties Inc., Ceci Realty Inc., Next Urban Alliance Development Corp., Philippine Integrated Energy Solutions Inc. and Vesta Property Holdings Inc.; Director of ALINet.Com, Inc., Alviera Country Club, Inc., Ayalaland Commercial Reit, Inc., Ecozone Power Management Inc., Laguna Technopark Inc., Makati Development Corporation and Nuevocentro Inc.; Treasurer of Avida Land Corp., Hero Foundation Incorporated and Roxas Land Corporation. Prior to joining ALI, he was Vice President and Credit Officer at Citibank N.A. where he spent sixteen years in various line management roles covering Treasury, Corporate Finance and Relationship Management. He received his Bachelor of Science degree in Business Management from the Ateneo de Manila University and is a graduate of the Philippine Trust Institute. He was granted the Andres K. Roxas scholarship at the Asian Institute of Management where he received his Master's in Business Management degree.

**Maria Rowena Victoria M. Tomeldan\*\***, Filipino, 56, has been a director of the Company since February 26, 2016. She is the Vice President and Head of Ayala Malls Group, Ayala Land, Inc. She is also the President of Laguna TechnoPark, Inc (LTI), an industrial park owned and operated by Ayala Land, Inc. and Mitsubishi Corporation; presently in charge of all industrial park developments of Ayala Land. Her other significant positions include: Chairman and President of AMSI, Inc., Orion Property Development, Inc., Orion I Holdings Philippines, Inc., Lepanto Ceramics, Inc, Orion Maxis, Inc., Orion Solutions, Inc., FLT Prime Insurance Corporation, Orion Beverage Inc., ZHI Holdings, Inc., Luck Hock Venture Holdings, Inc., OE Holdings, Inc., TPI Holdings Corporation, Ayala Theatres Management, Inc., Ayalaland Malls, Inc. Ayalaland Malls Northeast, Inc., Ayalaland Malls Vismin, Inc., Bay City Commercial Ventures Corp. and Five Star Cinema, Inc.; Chairman of the Board of Directors of Primavera Towncenter, Inc., Leisure and Allied Industries Phils., Inc., Cavite Commercial Towncenter, Inc., Subic Bay Town Center, Inc., South Innovative Theater Management, Inc., Northbeacon Commercial Corporation, Westview Commercial Ventures Corp., North Ventures Commercial Corp., Arca South Commercial Ventures Corp., Arvo Commercial Corporation, Ayalaland Metro North, Inc., Capitol Central Commercial Ventures Corp., North Triangle Depot Commercial Corporation, Soltea

Commercial Corp. and Summerhill Commercial Ventures Corp.; Vice Chairman of the Board of Directors of Lagoon Development Corporation.; Director of ALL-CII Development Corporation, Alabang Commercial Corporation Ayalaland Commercial Reit, Inc., Makati Cornerstone Leasing Corp., North Eastern Commercial Corp. and Serendra, Inc.; President of ALI Commercial Center Inc.; Executive Vice President of Accendo Commercial Corp.; Member of Bonifacio Global City Estate Association, Inc.; and Governor of the Ayala Center Estate Association, Inc. Presently, she is a board member of the International Council of Shopping Centers (ICSC) - Asia Advisory Board and is a 2015 ICSC Trustees Distinguished Service Awardee. She was a cum laude graduate of Bachelor of Arts in Economics from the University of the Philippines in 1983 and earned her Masters in Business Administration (MBA) degree from the same university in 1988. She finished the Executive Development Program at the Aresty Institute of Executive Education in Wharton University, Pennsylvania, USA in 2005.

\*\*elected as President/Chief Executive Officer of the Company on 19 February 2018

**Victor C. Say**, Filipino, 72, has been a Director of the Company since 1989. He served as an independent director of the Company from 2009 to 24 February 2016. His other significant positions include: Chairman of the Board of Onetree Holdings, Inc.; and Director of Kolin Philippines, Inc., Seven of Us Foods, Inc., Laview Security Phils., Inc., WiMAX Philippines, Inc. (since 2017) and Toaster Brainworks Lab., Inc. (since 2017). He is a holder of a degree in Business Administration, major in Management from Mapua University. He has extensive business experience having worked in securities broker firms and many companies. He was a member of the Board of the then Manila Stock Exchange.

**Nathanael C. Go**, Filipino, 42, is President of United Harvest Corporation, Mighty and Strong (MAS) Food Corporation and United Chemicals Technology Corporation. Mr. Go obtained his Bachelor of Science degree in Foreign Service, major in International Politics from Georgetown University, Washington D.C. and graduated magna cum laude, Phi Beta Kappa. He holds a Master of Arts in International Political Economy from the University of Warwick, Coventry, United Kingdom as a British Chevening scholar. He worked as Division Manager for the Public Affairs Practice of Burson-Marsteller at Beijing, China. He also worked in the Policy and Strategy Office of the National Security Council of the Republic of the Philippines.

**Rex Ma. A. Mendoza**, Filipino, 55, has been an Independent Director of the Company since February 26, 2016 and its Lead Independent Director since July 18, 2017. He is the President and CEO of Rampver Financials, a financial services firm and the leading non-bank mutual funds distributor in the country. He currently serves as an Independent Director of Globe Telecom, Inc. (publicly listed company), and a Director of Esquire Financing, Inc., TechnoMarine Philippines, Seven Tall Trees Events, Inc., the Cullinan Group, and Mobile Group, Inc. He was previously the Senior Adviser to the AIA Group CEO for Marketing and Distribution. AIA Group Limited is the leading Pan-Asian insurance company and is the parent firm of the Philippine American Life and General Insurance Company (PhilamLife). Prior to this position, he was the President and Chief Executive Officer of Philam Life, Chairman of The Philam Foundation, Inc. and Vice Chairman of BPI Philam Life Assurance Company. Prior to rejoining Philam Life, he was Senior Vice President and Chief Marketing and Sales Officer of Ayala Land, Inc. He was also Chairman of Ayala Land International Sales, Inc., President of Ayala Land Sales, Inc., and Avida Sales Corporation. He earned his Master's Degree in Business Management with distinction from the Asian Institute of Management in 1986 and was one of the 10 Outstanding Graduates of his batch at the University of the Philippines where he obtained a BSBA degree with a double major in marketing and finance in 1983. He was awarded Most Distinguished Alumnus of the University of the Philippines' Cesar E.A. Virata School of Business last December 2013. He is also a fellow with distinction at the Life Management Institute of Atlanta, Georgia, USA, a Registered Financial Planner and a four-time member of the Million Dollar Round Table. Mr. Mendoza was a professor of Marketing and Computational Finance at the De La Salle University Graduate School of Business. He taught strategic marketing, services marketing and services strategy. He has served as Chairman of the Marketing Department and was awarded as one of the University's most outstanding professors.

**Renato O. Marzan**, Filipino, 69, is currently the Chairman of the Board of Directors of UBS Securities Philippines, Inc. (USPI), a wholly owned subsidiary of UBS AG. He has been an independent director of the USPI since May 2010. He is consultant to a number of private corporations. In 2011, he served as a member of the Board of Directors of the Zamboanga Economic Zone Authority. He was with the Ayala Group of Companies, from February 1978 to December 2008. At the time of his retirement from Ayala Corporation on December 31, 2008, he was the General Counsel, Managing Director and the Group Head of the Corporate Governance and Legal Affairs group. In such capacity, he exercised direct supervision and oversight over the Legal Division, Office of the Corporate Secretary, the Compliance Unit and the Internal Audit of the corporation. He played a pivotal role in the adoption and implementation of the principles and best practices of good corporate governance in the Ayala group of companies. It was during his watch that the Ayala publicly listed companies were recognized by different organizations/institutions, local and foreign, as “best” in corporate governance. During his career in Ayala, he served as a director and corporate secretary of a number of companies within the Ayala Group. He graduated magna cum laude with a degree of Bachelor of Arts major in Philosophy in 1969, and cum laude with a degree of Bachelor of Laws in 1973, both from San Beda College. Prior to joining Ayala in 1978, he was in the practice of law.

Below is the personal data and directorships/officerships of Mr. Tsang Cho Tai who was elected as director on 13 January 2017 and served until 27 June 2017:

**Tsang Cho Tai (Allan Tsang)**, British, 66, is currently a non-executive director of Lam Soon (Hong Kong) Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (HKSE). He was the General Manger, Business Planning of Guoco Management Company Limited, a wholly-owned subsidiary of Guoco Group Limited (GGL) (listed on the Main Board of the HKSE) and Chief Financial Officer of GGL. He was a director of Guoco Assets (Philippines), Inc. and Pepsi-Cola Products Philippines, Inc. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants as well as associate member of the Institute of Chartered Accountants in England and Wales.

### **Management/Key Officers**

Maria Rowena M. Tomeldan*	-	President
Ruby P. Chiong	-	Treasurer
Roann F. Hinolan-Batoon**	-	Chief Operating Officer
Rhodora Estrella B. Revilla	-	Chief Finance Officer/ Compliance Officer
June Vee D. Monteclaro-Navarro	-	Corporate Secretary
Nimfa Ambrosia L. Perez-Paras	-	Assistant Corporate Secretary
Marthe Lois V. Cordia	-	Assistant Corporate Secretary

\*member of the Board of Directors; elected as President on 19 February 2018 replacing Mr. Jose Emmanuel H. Jalandoni

\*\* resigned as COO on 19 February 2018

The personal data and directorships/officerships of the officers of the Company as of 31 January 2018 are listed below:

**Ruby P. Chiong**, Filipino, 51, has been the Treasurer of the Company since February 24, 2016. She is the Chief Finance Officer of Ayala Land Inc.’s Commercial Business Group. Her other positions include: Director and Treasurer of ALI Commercial Center, Inc., ALI Prime Realty Corporation, AMSI, Inc., Arca South Commercial Ventures Corp., Arvo Commercial Corporation, Ayalaland Metro North, Inc., Ayalaland Offices, Inc., Bay City Commercial Ventures Corp., Capitol Central Commercial Ventures Corp., Cavite Commercial Towncenter, inc., Central Block Developers, Inc., Chirica Resorts Corporation, First Gateway Real Estate Corp., Five Star Cinema, Inc., Glensworth Development, Inc., Hillsford Property Corp., Lepanto Ceramics, Inc., Lio Resort Ventures, Inc., Makati Cornerstone Leasing Corp., North Eastern Commercial Corp., North Liberty Resort Ventures, Inc., North Triangle Depot Commercial Corporation, Leisure and Allied Philippines, Inc., North Ventures Commercial Corp., Northgate Hotel Ventures, Inc., One Dela Rosa Property Development, Inc., Orion Property Development, Inc., Pangulasian

Island Resort Corp., Paragua-Eco Resort Ventures, Inc., Primavera Town Center, Inc., Regent Horizon Conservation Company, Inc., South Innovative Theater Management, Inc., Southcrest Hotel Ventures, Inc., Subic Bay Town Center, Inc., Summerhill Commercial Ventures Corp., Sunnyfield E-Office Corporation, TPI Holdings Corporation, Tutuban Properties, Inc., UP North Property Holdings, Inc., Westview Commercial Ventures Corp., Ten Knots Development Corporation, Ayala Theatres Management, Inc., Laguna Technopark, Inc., Direct Powers Services, Inc., Ecozone Power Management, Inc., FLT Prime Insurance Corporation; Director and President of Bacuit Bay Development Corp., Ecoholdings Company, Inc. and Ten Knots Phils., Inc.; Director and Vice President of ALI Capital Corp.; Director, Treasurer and Chief Finance Officer of Ayalaland Commercial Reit, Inc. and Northbeacon Commercial Corporation; Director of Ayalaland Hotels and Resorts Corp, Ayalaland Malls, Inc., ALI Makati Hotel and Residences, Inc., ALI Triangle Hotel Ventures, Inc., ALI Makati Hotel Property, Inc., Arca South Integrated Terminal, Inc., Arcasouth Hotel Ventures, Inc., Ayalaland Malls Northeast, Inc., Ayalaland Malls Vismin, Inc., Ayalaland Medical Facilities Leasing, Inc., Bay Area Hotel Ventures, Inc., Bonifacio Hotel Ventures, Inc., Capitol Central Hotel Ventures, Inc., Cebu Insular Hotel Company, Inc., Circuit Makati Hotel Ventures, Inc., Econorth Resort Ventures, Inc., Ecosouth Resort Ventures, Inc., Enjay Hotels, Inc., Greenhaven Property Ventures, Inc., Makati North Hotel Ventures, Inc., North Triangle Hotel Ventures, Inc., One Makati Hotel Ventures, Inc., Sentera Hotel Ventures, Inc., Sicogon Town Hotel, Inc. and Whiteknight Holdings Inc.; Treasurer of Alabang Commercial Corporation, Lio Tourism Estate Management Corp., Soltea Commercial Corp. and Station Square East Commercial Corporation. Prior to being Chief Finance Officer in ALI, she was an Associate Director of Corporate Strategy at Ayala Corporation. She earned a degree of BS in Business Administration and Accountancy from the University of the Philippines, Diliman in 1987 and took her Master's Degree in Management at the Asian Institute of Management in 1996.

**Roann F. Hinolan-Batoon\***, Filipino, 41, served as the Chief Operating Officer of the Company since her election on January 13, 2017. Her other positions include: Senior Division Manager for Business Development, Ayala Land, Inc., Director of Ayalaland Metro North, Inc., Bay City Commercial ventures Corp., Lepanto Ceramics, Inc, North Triangle Depot Commercial Corporation, North Ventures Commercial Corp., Orion Land Inc., Orion Property Development, Inc., Summerhill Commercial Ventures, Inc., TPI Holdings Corporation, and Tutuban Properties, Inc.. She earned her Bachelor of Science degree in Accountancy from the University of St. La Salle, Bacolod City in 1998.

\*resigned as COO on 19 February 2018

**Rhodora Estrella B. Revilla**, Filipino, 44, has served as the Chief Finance Officer and Compliance Officer of the Company since February 24, 2016. She is a Chief Finance Officer of Ayala Land Inc.'s Ayala Malls Group. Her other positions include: Treasurer of Ayalaland Malls, Inc., Ayalaland Malls VisMin, Inc., Ayalaland Malls NorthEast, Inc. and Orion Land Inc.; Director and Chief Finance Officer of FLT Prime Insurance Corporation, Lepanto Ceramics Inc., Orion Property Development Inc., and TPI Holdings Corporation; and Chief Finance Officer of Bay City Commercial Ventures Corp., Cavite Commercial Towncenter Inc., North Ventures Commercial Corp., Subic Bay Town Center Inc., Westview Commercial Ventures Corp., Arvo Commercial Corporation, and Soltea Commercial Corp. and Tutuban Properties Inc. She joined ALI in 2007 and held various Finance positions in the company. She graduated with a degree in Bachelor of Science in Accountancy from Ateneo de Naga University in 1994. She is a Certified Public Accountant.

**June Vee D. Monteclaro-Navarro**, Filipino, 46, has served as the Corporate Secretary of the Company since February 24, 2016. She is the Assistant Corporate Secretary and the General Counsel of Ayala Land, Inc. She is a Director (management position) and Corporate Secretary of AG Counselors Corporation. Currently, she holds the position of Director of Ayalaland Commercial Reit, Inc.; Corporate Secretary of Alveo Land Corp., Avida Land Corp., ALI-Eton Property Development Corporation, Cebu Holdings, Inc., and Cebu Property Ventures and Development Corporation. Prior to joining ALI in 2007, she was a Senior Associate at SyCip Salazar Hernandez & Gatmaitan. She graduated from the University of St. La Salle in Bacolod with a Bachelor of Arts with a Major in Economics

and a Bachelor of Commerce with a Major in Data Processing in 1993. She earned her Bachelor of Laws degree from the University of the Philippines in 1997.

**Nimfa Ambrosia L. Perez-Paras**, Filipino, 52, has served as the Assistant Corporate Secretary of the Company since February 24, 2016. She is a Senior Counsel of Ayala Group Legal. She is the Assistant Corporate Secretary of listed companies namely: Ayala Land, Inc., Cebu Holdings, Inc. and Cebu Property Ventures and Development Corporation. She handles various corporate secretarial functions for affiliates of the Company and for a number of companies within the Ayala Group. She was the Assistant Corporate Secretary of Integrated Micro-Electronics, Inc. from April 2014 to April 2015. Prior to joining Ayala Group Legal in February 2014, she was a State Counsel at the Department of Justice. She also worked at the Regional Trial Courts of Makati and Quezon City. In the private sector, she worked as Legal Counsel for Coca-Cola Bottlers Philippines, Inc., RFM Corporation, and Roasters Philippines, Inc. She graduated with a Bachelor of Laws degree from Manuel L. Quezon School of Law in 1990.

**Marthe Lois V. Cordia**, Filipino, 35, served as Assistant Corporate Secretary of the Company since January 13, 2017. She is Senior Counsel of Ayala Group Legal and the Deputy Counsel for Special Projects. Her other positions include: Assistant Corporate Secretary of Arvo Commercial Corporation, Cavite Commercial Towncenter, Inc., FLT Prime Insurance Corporation, North Triangle Depot Commercial Corporation, North Ventures Commercial Corp., Northbeacon Commercial Corporation, Orion Land Inc., Orion Property Development, Inc., Soltea Commercial Corp., Subic Bay Town Center, Inc. Tutuban Properties, Inc.. Prior to joining Ayala Group Legal in October 2013, she was Senior Associate at Divina Law. She earned her Bachelor of Laws degree from the University of Santo Tomas in 2007.

b) Significant Employees

The Company's entire work force is considered as significant employees. The entire work force is expected to work as a team to attain the Company's objectives. There is no employee who is expected to make individually on his own a significant contribution to the business of the Company.

c) Family Relationships

There are no family relationships (up to fourth civil degree) either by consanguinity or affinity among the abovenamed directors and executive officers.

d) Involvement in Certain Legal Proceedings

The abovementioned directors and executive officers have not been involved in any of the following events or legal proceedings that occurred during the past five (5) years up to the date of filing of this proxy statement which are material to an evaluation of the ability and integrity of the said directors and executive officers:

- a. Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time;
- b. Any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- c. Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- d. Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, to have violated a securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

The details of material pending legal proceedings for the past five (5) years to which the Company or any of its subsidiaries or affiliates is a party are discussed in Part 1, Item 3 above.

**Item 10. Executive Compensation**

A. General

Directors. Article III Sections 7, 12 and 13 of the Company's By-laws provide:

7. Compensation of Directors – Each director shall receive, for his services as such director such amount as may be fixed by the stockholders for each regular or special meeting of the Board actually attended by him; provided, that nothing herein contained shall be construed to preclude any director from serving the company in any other capacity and receiving such compensation therefor as may be fixed from time to time by the Board of Directors.

xxx

12. Per diems- subject to the approval of the stockholders, the Board of Directors shall be authorized to fix the per diems of directors attending board meetings, executive committee meetings, and other committee meetings. The amounts per diem shall however be guided by reasonableness and industry practice.

13. An amount equivalent to five percent (5%) of net income before tax in each year shall be paid and distributed at the Board's discretion, to the members of the Board of Directors and the Executive Committee and officers of the Corporation.

No director has been contracted and compensated by the Company for services other than as director.

Officers. Article III Section 8 of the Company's By-laws provide:

8. Officers of the Company, xxx The Board of Directors shall fix the compensation of the officers and agents of the Company.

Below is the summary on the aggregate compensation paid or accrued during the last two (2) fiscal years and the ensuing fiscal year to the Company's Chief Executive Officer and four (4) other most highly compensated executive officers.

**Summary Compensation Table**  
 Annual Compensation

Name	Fiscal Year	Salary (in ₱000s)	Bonus (in ₱000s)	Other Annual Compensation (in ₱000s)
Jose Emmanuel H. Jalandoni^ (President)	2018 2017 2016	-	-	-
Roann F. Hinolan-Batoon^ (Chief Operating Officer)	2018 2017	-	-	-
Ruby P. Chiong^ (Treasurer)	2018 2017 2016	-	-	-
Rhodora Estrella B. Revilla^ (Chief Finance Officer/ Compliance Officer)	2018 2017 2016	-	-	-
Yuen Po Seng* (former President)	2015-2016	-	-	-
Ronald P. Sugapong* (former SVP-Treasurer/CFO)	2015-2016	-	-	-

Daisy L. Parker* (former SVP-Chief Legal Counsel)	2015-2016	-	-	-
Ma. Rhodora P. dela Cuesta** (former VP-Legal Dept.)	2015-2016	-	-	-
Edwin M. Silang *** (former AVP-Group HR)	2016-2017 2015-2016	-	-	-
CEO and four most highly compensated Exec. Officers	2015-2016 2017**** 2018**** (projected)	₱ 27,336.72 - -	₱ 5,302.76 - -	₱ 0.00 - -
All officers and directors as a group unnamed	2015-2016 2017**** 2018**** (projected)	₱ 38,376.72 - -	₱ 13,702.76 - -	₱ 0.00 - -

^On 24 February 2016, Mr. Jose Emmanuel H. Jalandoni, Ms. Ruby P. Chiong, and Ms. Rhodora Estrella B. Revilla were elected as President, Treasurer, and Chief Finance Officer of the Company, respectively. Ms. Roann H. Batooon was elected Chief Operating Officer (COO) on 13 January 2017 together with aforementioned officers of the Company. They are officers of ALI and receive no salaries or compensation from the Company from the time of their election to date. Mr. Jalandoni and Ms. Batooon resigned as President and COO of the Company, respectively, on 19 February 2018.

\*separated from employment effective 26 March 2016

\*\* separated in October 2016; resigned as Assistant Corporate Secretary effective 14 November 2016

\*\*\* separated on 7 March 2017

\*\*\*\* The President and top 3 officers do not receive salaries or benefits from the Company.

#### B. Compensation of Directors

On 14 November 2016, the Board of Directors approved the directors' per diem of PhP40,000.00 and PhP30,000.00 per board of directors' meeting and committee meeting attended, respectively, starting fiscal year 2017. The fixing of the directors' compensation, bonus and per diem, for 2017 as approved by the Board of Directors, was approved by the stockholders at their meeting last 13 January 2017.

Aside from director's fee, the two (2) of the Company's Directors were granted and availed of, the subscription grants under the Employees Stock Ownership Plan (ESOWN) of the Company (covering 250 million shares of the Company). The details of the ESOWN is discussed in Item D– Options Outstanding below.

The present members of the Board who are executive officers of the Company receive no compensation or per diems or ESOWN grants from the Company.

#### C. Employment Contracts/Termination of Employment/Change-in Control Arrangements

The Company has no arrangement with regard to the compensation of its non-executive directors other that the compensation received as stated above.

The present executive officers of the Company are regular employees of ALI and do not receive any compensation from the Company. They receive compensation corresponding to their position/rank as provided in their respective standard engagement/employment contracts with ALI.

There are no special terms or compensatory plans or arrangements relative to the resignation, termination of employment of such executive officers other than under the retirement plan and ESOWN of the Company. However, to date, no incumbent executive officer has been granted an ESOWN benefit or retirement benefit.

Further, the Company has no change-in-control arrangements with its executive officers.

**D. Options Outstanding**

On 13 August 2015, the Board of Directors of the Company approved the Terms and Conditions of its ESOWN covering 250 million shares of the Company for its directors and employees as of 30 June 2015. The Company filed a request for exemption from the registration requirements under Section 10.2 of the SRC for 32 million shares under its ESOWN Tranche 1. On 10 November 2015, the SEC granted exemption from the registration requirements of the Company's 32 million shares under ESOWN Tranche 1. In December 2015, the Company applied for the listing of 29,305,800 shares subscribed under ESOWN Tranche 1. On 29 December 2017, the PSE approved for listing 22,505,315 fully paid shares of the Company under ESOWN Tranche 1.

In January 2017, the Company filed a request for exemption from registration requirements under Section 10.2 of the SRC for the Company's 218 million shares under ESOWN Tranche 2. On 3 October 2017, the SEC approved the Company's request for exemption. The Company issued the Notice of Grant for Tranche 2- First Availment starting 2 November 2017 to its grantees which include some of the present employees and two (2) directors of the Company as well as former directors and employees of the POPI Group.

Below is the schedule of shares subscribed by the present directors of the Company under ESOWN Tranche 1 and Tranche 2-First Availment at the exercise price of P1.00 per share and P1.68 per share, respectively:

	No. of Common Shares Subscribed by Directors*	Grant Date
ESOWN- Tranche 1	6,656,000	November 2015
ESOWN Tranche 2- First Availment	8,944,000	November 2017
Total	15,600,000	

\*subscribed by two directors; these shares are partially paid, not listed and not tradeable

No ESOWN shares were granted to the executive officers of the Company in 2017.

**Item 11. Security Ownership of Certain Beneficial Owners and Management**

**A. Security Ownership of Record and Beneficial Owners of more than 5% as of 31 March 2018**

Title of Class	Name & address of record owner & relationship with issuer	Name of Beneficial Owner & relationship with record owner	Citizenship	No. of Shares Held	Percent (%)
Common	Ayala Land, Inc. (ALI) <sup>1</sup> 31/F Tower One and Exchange Plaza, Ayala Triangle, Makati City -Stockholder	ALI <sup>2</sup>	Filipino	-2,703,340,543 (direct)	54.91
Common	PCD Nominee Corporation (Filipino) G/F MSE Bldg., Ayala Ave., Makati City	PCD Participants acting for themselves or for their customers <sup>3</sup>	Filipino	1,012,895,854	20.57
Common	Orion Land Inc. (OLI) Unit 1014 Tower One and Exchange Plaza, Ayala Triangle, Makati -Stockholder/ subsidiary	OLI <sup>4</sup>	Filipino	-512,480,671 (direct) -26,496,000 (indirect)	10.95

<sup>1</sup> Ayala Land, Inc. is the parent of the Company.

<sup>2</sup> Under the By-Laws and the Corporation Code, the ALI Board has the power to decide how ALI's shares are to be voted.

<sup>3</sup> Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD Participant.

<sup>4</sup> OLI is a wholly-owned subsidiary of the Company. The OLI Board has the power to decide how these shares are to be voted.

**B. Security Ownership of Directors and Management as of 31 March 2018**

(Based on report of the stock and transfer agent, BDO Unibank, Inc. and PDTC list)

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial ownership	Citizenship	Percent of Class (%)
<b>Directors</b>				
Common	Bernard Vincent O. Dy	2 (direct)	Filipino	0.00%
Common	Felipe U. Yap	3,010,000 (direct) 8,400,000 (indirect)*	Filipino	0.232%
Common	Jose Emmanuel H. Jalandoni**	2 (direct)	Filipino	0.00%
Common	Maria Rowena M. Tomeldan	2 (direct)	Filipino	0.00%
Common	Augusto D. Bengzon	1 (direct)		
Common	Victor C. Say	21,500,000 (direct) 9,200,000 (indirect)*	Filipino	0.623%
Common	Nathanael C. Go	1,025,000 (direct) 24,375,000 (indirect)	Filipino	0.516%
Common	Rex Ma. A Mendoza	1 (direct)	Filipino	0.00%
Common	Renato O. Marzan	1 (direct)		
<b>Officers</b>				
Common	Ruby P. Chiong	0	Filipino	0.00%
Common	Roann Hinolan-Batoon***	0	Filipino	0.00%
Common	Rhodora Estrella B. Revilla	0	Filipino	0.00%
Common	June Vee D. Monteclaro-Navarro	0	Filipino	0.00%
Common	Nimfa Ambrosia L. Perez-Paras	0	Filipino	0.00%
Common	Marthe Lois V. Cordia	0	Filipino	0.00%
	<b>Total</b>	<b>67,510,009</b>		<b>1.371%</b>

\*includes subscriptions under the Employees Stock Ownership Plan- Tranche 1 and Tranche 2-First Availment

\*\*resigned as President of the Company on 19 February 2018; in his stead, Ms. Maria Rowena M. Tomeldan was elected President on same date

\*\*\*resigned as Chief Operating Officer of the Company on 19 February 2018

**C. Voting Trust Holders of 5% or More**

There are no voting trust holders of 5% or more of the common shares.

**D. Changes in Control of the Registrant since beginning of last Fiscal Year**

There were no changes in control of the Registrant in 2017.

**Item 12. Certain Relationships and Related Transactions**

- (1) There has been no transaction during the last two years, or proposed transactions, to which the Company/Registrant was or is to be a party, in which any of the following persons had or is to have a direct or indirect material interest:
- Any director or executive officer of the Registrant;
  - Any nominee for election as a director;
  - Any security holder named in Sections 1.a and 1b above; and
  - Any member of the immediate family (including spouse, parents, children, siblings, and in-laws) of any of the persons named in the immediately preceding subparagraphs (a), (b) and (c).

The 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 as disclosed in Note 18 of the Notes to Consolidated Financial Statements.

The Company has no relationship that enables the parties to negotiate terms of material transactions other than on an arm's length basis.

(2) Parent Company/Major Holders

As of 31 March 2018, ALI owns 54.91% of the total outstanding capital stock of the Company.

## **PART IV- CORPORATE GOVERNANCE**

### **Item 13. Corporate Governance**

#### Compliance with Corporate Governance

On 31 May 2017, the Company submitted a new Manual on Corporate Governance (the "Manual") based on the new Code of Corporate Governance for Publicly-Listed Companies as provided in SEC Memorandum Circular No. 19, Series of 2016.

In compliance with its Manual, the Company has elected two independent directors to the Company's Board. The Company has the following Board committees: (1) Executive Committee, (2) Audit and Risk Committee, (3) Compensation and Remuneration Committee, (4) Corporate Governance and Nomination Committee, (5) Sustainability Committee and (6) Inspectors of Proxies and Ballots Committee. The Board and the committees have their own Charters and hold regular meetings. A self-assessment system has been adopted to measure or determine the level of compliance of the Board with the Manual.

The Company established its official website, [www.primeorion.com](http://www.primeorion.com), on 16 June 2008. This website is updated regularly and contains all the corporate information on the business and management of the Group, policies, corporate governance reports and disclosures of the Company.

The Company and its operating subsidiaries prepare and adhere to their respective business plans, budget and marketing plans. The Management prepares and submits to the Board, on a regular basis, financial and operational reports which enable the Board and Management to assess the effectiveness and efficiency of the Company and its operating subsidiaries. The Audit and Risk Committee reviews the quarterly and annual financial statements before their submission to the Board.

There was no material deviation from the Manual. The Company continues to work on its systems and procedures to improve compliance with the principles and practices of good corporate governance.

Pursuant to SEC Memorandum Circular No. 15, series of 2017, the Company will submit its Integrated Annual Corporate Governance Report (I-ACGR) on or before 30 May 2018. The I-ACGR will be posted in the Company's website.

## **PART V - EXHIBITS AND SCHEDULES**

### **Item 14. Exhibits and Reports on SEC Form 17-C**

(a) *Exhibits* - See accompanying Index to Exhibits.

The following exhibits are filed with this report:

- Audited Consolidated Financial Statement for the period of July to December 2016 and
- 2017 Audited Consolidated Financial Statements

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

(b) Reports on SEC Form 17-C

During the period covered by this report, the reports on Form 17-C (Current Report) filed with the SEC are as follows:

Date Reported	Subject of Disclosure
16 January 2017	Results of the ASM and Organizational Meeting of the Board
16 January 2017	Clarification of News Article "POPI to spend 15 B in Tutuban Project"
3 February 2017	Certifications of Independent Directors
12 April 2017	Approval of the Securities and Exchange Commission of the Amendment of By-laws, as follows: <ul style="list-style-type: none"> <li>a. Change in the date of the annual meetings of stockholders from "2<sup>nd</sup> Monday of November" to "second Friday of April or if falls on a holiday, the following business day, or any day approved by the Board of Directors (Art. II, Section 1);</li> <li>b. Inclusion of Chief Finance Officer as officer of the Company and provision on the responsibilities of the CFO (Article IV, Sections 1 and 10);</li> <li>c. Change in the financial year from fiscal year (1 July to 30 June) to calendar year (1 January to 30 December) (Article V, Section 1); and</li> <li>d. Delegation of authority to the Board of Directors to amend or repeal the By-laws or adopt new By-laws (Article VII, Section1)</li> </ul>
18 July 2017	Results of the Board meeting held on 18 July 2017
8 August 2017	Issuance of Common Shares to Grantees under the Employees Stock Ownership Plan on 24 July 2017
30 August 2017	Correct Number of Issued and Outstanding Shares
27 September 2017	Acquisition of Orion Land Inc. (OLI) of 10 million shares in POPI from the Company's subsidiaries
24 November 2017	Participation of directors and officers in a corporate governance seminar on 16 November 2017
15 December 2017	Results of the Board meeting held on 15 December 2017
15 December 2017	Participation of Director in a corporate governance seminar
22 December 2017	Participation of Director in a corporate governance seminar

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report to be signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on JUN 05 2018.

**PRIME ORION PHILIPPINES, INC.**

Issuer  
By:

**MARIA ROWENA M. TOMELDAN**  
President/Chief Executive Officer

**RHODORA ESTRELLA B. REVILLA**  
Chief Finance Officer

**JUNE VEE D. MONTECLARO-NAVARRO**  
Corporate Secretary

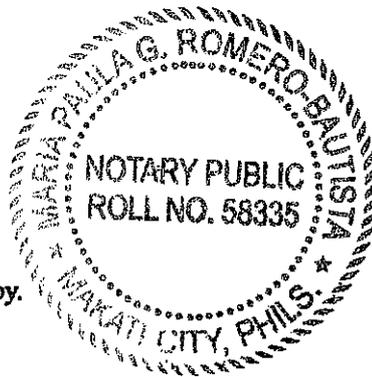
**JUN 05 2018**

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of \_\_\_\_\_ 2018 at Makati City, affiants exhibited to me their passports as competent evidence of their identities, as follows:

<u>Names</u>	<u>Competent Evid. of Identity</u>	<u>Date/Place of Issue</u>
Maria Rowena M. Tomeldan		
June Vee D. Monteclaro-Navarro		
Rhodora Estrella B. Revilla		

Doc. No. 200 ;  
Page No. 41 ;  
Book No. W ;  
Series of 2018.

Notarial DST pursuant to  
Sec. 188 of the Tax Code  
affixed on Notary Public's copy.



**MARIA PAULA G. ROMERO-BAUTISTA**  
Notary Public - Makati City  
Appt. No. 153 until December 31, 2019  
Roll of Attorneys No. 58335  
IBP No. 026373 - 01/11/2018 - Makati City  
PTR No. 6628678MD - 01/11/2018 - Makati City  
MCLE Compliance No. V-0017192-03/28/2016  
3<sup>rd</sup> Floor Tower One and Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines

**PRIME ORION PHILIPPINES, INC.**  
**INDEX TO EXHIBITS**  
Form 17 – A- Item 7

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<b>Exhibit Number</b>	<b>Page No.</b>
(3) Plan of Acquisition, Reorganization, Arrangements, Liquidation or Succession	*
(5) Instruments Defining the Rights of Security Holders, including Indentures	*
(8) Voting Trust Agreement	*
(9) Material Contracts	*
(10) 2017 Consolidated Financial Statements of POPI and Subsidiaries (with notarized Statement of Management Responsibility)	*
2016 Consolidated Financial Statements of POPI and Subsidiaries for the period of July to December 2016 (with notarized Statement of Management Responsibility)	*
(13) Letter re Change in Certifying Accountant	*
(16) Report Furnished to Security Holders	*
(18) Subsidiaries of the Registrant	41
(19) Published Report regarding Matters Submitted to Vote of Security Holders	*
(20) Consent of Experts and Independent Counsel	*
(21) Power of Attorney	*
(29) Additional Exhibit	*

\* These Exhibits are either not applicable to the Company or require no answer.

**Exhibit (18)**  
**Subsidiaries of the Registrant**

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As of 31 December 2017, POPI has the following wholly-owned subsidiaries:

<b>Name</b>	<b>Jurisdiction</b>
Orion Land Inc.	Philippines
Tutuban Properties, Inc.	Philippines
TPI Holdings Corporation*	Philippines
Orion Property Development, Inc.	Philippines
Orion Beverage, Inc.*	Philippines
Orion I Holdings Philippines, Inc.*	Philippines
Lepanto Ceramics, Inc.	Philippines
Orion Solutions, Inc.*	Philippines
OE Holdings, Inc.*	Philippines
Orion Maxis Inc.*	Philippines

\*for dissolution

**PRIME ORION PHILIPPINES, INC.**

Index to Consolidated Financial Statements and Supplementary Schedules  
Form 17-A, Item 7

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**2017 Consolidated Financial Statements**

Statement of Management's Responsibility for Financial Statements  
Report of Independent Public Accountants  
Consolidated Statements of Financial Position as of December 31, 2017  
December 31, 2016 (as restated) and June 30, 2016 (as restated)  
Consolidated Statements of Income for the Years Ended December 31, 2017  
December 31, 2016 (six months) (as restated) and June 30, 2016 (one year)  
Consolidated Statements of Comprehensive Income as of December 31, 2017  
December 31, 2016 (six months) and June 30, 2016 (one year, as restated)  
Consolidated Statements of Changes in Equity as at December 31, 2017  
December 31, 2016 and June 30, 2017  
Consolidated Statements of Cash Flows as of December 31, 2017  
December 31, 2016 (six months) and June 30, 2017 (one year)  
Notes to Consolidated Financial Statements

**2016 Consolidated Financial Statements (July to December 2016)**

Statement of Management's Responsibility for Financial Statements  
Report of Independent Public Accountants  
Consolidated Statements of Financial Position as of  
December 31, 2016 and June 30, 2016  
Consolidated Statements of Income for December 31, 2016 (six months)  
June 30, 2016 (one year) and June 30, 2015 (one year)  
Consolidated Statements of Comprehensive Income as of  
December 31, 2016 (six months), June 30, 2016 (one year)  
and June 30, 2015 (one year)  
Consolidated Statements of Changes in Equity as at June 30, 2015  
June 30, 2016 and December 31, 2016  
Consolidated Statements of Cash Flows as of December 31, 2016 (six months)  
June 30, 2016 (one year) and June 30, 2015 (one year)  
Notes to Consolidated Financial Statements  
Independent Auditor's Report on Supplementary Schedules with  
Schedule of Effective Standards and Interpretations under the PFRS

**Supplementary Schedules to 2017 Consolidated Financial Statements**

Report of Independent Public Accountants on Supplementary Schedules  
Schedule I: Tabular Schedule of Effective Standards and Interpretations  
Under the PFRS Pursuant to SRC Rule 68, as Amended  
Schedule II: Reconciliation of Retained Earnings Available for Declaration  
Schedule III: Financial Ratios  
Schedule IV: Map of the Relationships of the Companies within the Group

Supplementary Schedules Under Annex 68-E

- A. Financial Assets
- B. Amounts Receivable from Directors, Officers, Employees,  
Related Parties and Principal Stockholders (Other than Affiliates)
- C. Amounts Receivable from Related Parties which are  
Eliminated During Consolidation of Financial Statements
- D. Intangible Assets-Other Assets
- E. Long-Term Debt
- F. Indebtedness to Affiliates and Related Parties (Long-Term  
Loans from Related Companies)
- G. Guarantees of Securities to Other Issuers
- H. Capital Stock

# PrimeOrion Philippines, Inc.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

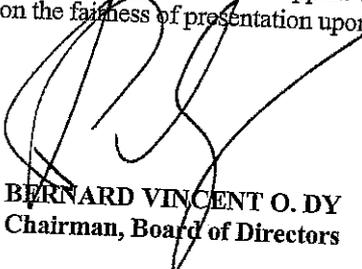
The management of Prime Orion Philippines, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company and its subsidiary in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
BERNARD VINCENT O. DY  
Chairman, Board of Directors

  
MARIA ROWENA M. TOMELDAN  
President and Chief Executive Officer

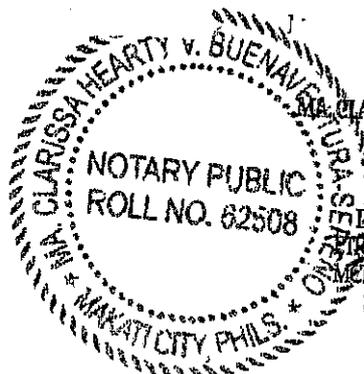
  
RHODORA ESTRELLA B. REVILLA  
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 19 2018 at MAKATI CITY, affiants exhibiting to me their respective Passports, to wit:

<u>Name</u>	<u>Passport No.</u>	<u>Date &amp; Place of Issue</u>
Bernard Vincent O. Dy		
Maria Rowena M. Tomeldan		
Rhodora Estrella B. Revilla		

Doc. No. 29 :  
Page No. 7 :  
Book No. I :  
Series of 2018.

Notarial DST pursuant to  
Sec. 188 of the Tax Code  
affixed on Notary Public's copy



  
CLARISSA HEARTY v. BUENAVENTURA-SERENO  
Notary Public - Makati City  
Appt. No. 151 until December 31, 2019  
Roll of Attorneys No. 62508  
IBP No. 026984 - 01/15/2018 - Makati City  
IBP No. 6837734MD - 01/15/2018 - Makati City  
MCLE Compliance No. V-00107502 - 09/30/2015  
3<sup>rd</sup> Floor Tower One and Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines

**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.



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)

	<b>December 31</b>	<b>June 30</b>	
	2017	2016 (As restated, Note 2)	2016 (As restated, Note 2)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents (Notes 4 and 32)	<b>₱254,969</b>	₱368,360	₱1,306,884
Receivables (Notes 5 and 32)	<b>381,545</b>	249,756	1,899,299
Inventories (Note 6)	<b>7,380</b>	8,075	8,836
Real estate held for sale and development (Note 7)	<b>264,464</b>	264,464	264,464
Available-for-sale (AFS) financial assets (Notes 8, 19 and 32)	<b>710,454</b>	1,755,767	1,397,514
Amounts owed by related parties (Note 18)	<b>392,319</b>	1,447,928	52
Financial assets at fair value through profit or loss (Notes 9 and 32)	<b>2,643</b>	13,103	12,703
Other current assets (Note 10)	<b>359,959</b>	224,890	240,815
<b>Total Current Assets</b>	<b>2,373,733</b>	4,332,343	5,130,567
<b>Noncurrent Assets</b>			
Investment in an associate (Note 11)	<b>1,888</b>	1,931	1,942
Investment properties (Note 12)	<b>5,996,405</b>	1,492,299	1,163,169
Property and equipment (Note 13)	<b>37,249</b>	36,166	19,507
Software costs (Note 14)	<b>4,906</b>	7,633	6,216
Net pension assets (Note 24)	<b>20,667</b>	12,549	-
Other noncurrent assets (Note 15)	<b>488,697</b>	131,779	95,422
<b>Total Noncurrent Assets</b>	<b>6,549,812</b>	1,682,357	1,286,256
<b>TOTAL ASSETS</b>	<b>₱8,923,545</b>	₱6,014,700	₱6,416,823
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses (Notes 16 and 30)	<b>₱593,228</b>	₱679,618	₱903,561
Current portion of rental and other deposits (Note 17)	<b>185,397</b>	121,167	108,391
Current portion of deferred rent income (Note 29)	<b>18,929</b>	9,603	32,971
Amounts owed to related parties (Note 18)	<b>19,427</b>	10,698	-
Deposit for future stock subscriptions (Note 1)	<b>-</b>	-	1,406,250
<b>Total Current Liabilities</b>	<b>816,981</b>	821,086	2,451,173
<b>Noncurrent Liabilities</b>			
Rental and other deposits - net of current portion (Note 17)	<b>138,150</b>	59,982	67,162
Deferred rent income - net of current portion (Note 29)	<b>21,715</b>	43,008	21,799
Net retirement benefits liability (Note 24)	<b>-</b>	-	75,704
Deferred income tax liabilities - net (Note 25)	<b>208,168</b>	200,900	220,974
Subscriptions payable (Note 19)	<b>481,675</b>	481,675	481,675
<b>Total Noncurrent Liabilities</b>	<b>849,708</b>	785,565	867,314
<b>Total Liabilities</b>	<b>₱1,666,689</b>	₱1,606,651	₱3,318,487

(Forward)



	<b>December 31</b>	<b>June 30</b>	
	<b>2017</b>	2016 (As restated, Note 2)	2016 (As restated, Note 2)
<b>Equity Attributable to Equity Holders of the Parent</b>			
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)			
	<b>₱4,652,268</b>	₱2,765,589	₱2,130,576
Additional paid-in capital	<b>3,942,404</b>	1,598,654	829,904
Equity reserves (Notes 3 and 31)	<b>60,810</b>	27,469	27,469
Shares held by a subsidiary (Note 27)	<b>(1,279,026)</b>	(21,916)	(21,916)
Revaluation increment (Note 12)	<b>225,595</b>	233,206	237,011
Unrealized gain on AFS financial assets (Note 8)	<b>17,748</b>	168,449	276,226
Loss on remeasurement of retirement benefits (Note 24)	<b>(46,259)</b>	(51,859)	(66,639)
Deficit	<b>(355,159)</b>	(363,913)	(367,226)
	<b>7,218,381</b>	4,355,679	3,045,405
<b>Non-controlling Interests</b>	<b>38,475</b>	52,370	52,931
<b>Total Equity</b>	<b>7,256,856</b>	4,408,049	3,098,336
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱8,923,545</b>	₱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)**

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

	<b>December 31, 2017 (One Year)</b>	December 31, 2016 (Six Months) (As restated, see Note 2)	June 30, 2016 (One Year) (As restated, see Note 2)
<b>NET INCOME</b>	<b>₱18,551</b>	(₱1,055)	₱11,638
<b>OTHER COMPREHENSIVE INCOME</b>			
<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)	<b>(147,060)</b>	(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)	<b>5,600</b>	14,780	5,842
	<b>(141,460)</b>	(90,796)	283,491
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(₱122,909)</b>	(₱91,851)	₱295,129
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent	<b>(₱103,623)</b>	(₱91,126)	₱312,995
Non-controlling interests	<b>(19,286)</b>	(725)	(17,866)
	<b>(₱122,909)</b>	(₱91,851)	₱295,129

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

(Forward)



	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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
<b>Net cash flows from (used in) investing activities</b>	<b>(2,937,185)</b>	<b>(882,402)</b>	<b>1,181,240</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
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	-
<b>Net cash flows from (used in) financing activities</b>	<b>2,982,047</b>	<b>8,211</b>	<b>1,466,914</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(113,391)</b>	<b>(938,524)</b>	<b>1,155,121</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>368,360</b>	<b>1,306,884</b>	<b>151,763</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱254,969</b>	<b>₱368,360</b>	<b>₱1,306,884</b>

*See accompanying Notes to Consolidated Financial Statements.*



# **PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **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.

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## 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:

<u>Subsidiaries</u>	<u>Nature of Business</u>	<u>Effective Percentage of Ownership</u>
<b>Real Estate, Property Development and Others:</b>		
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
<b>Financial Services and Others:</b>		
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	667,004	12,614	679,618
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	(₱20,581)	₱1,899,299
Accounts payable and accrued expenses	895,144	8,417	903,561
Deficit	(340,166)	(27,060)	(367,226)
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:

	<u>Useful life in years</u>
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.

	<u>Useful life in years</u>
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 24<sup>th</sup> 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.



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### 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 ₱1.35 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.

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**4. Cash and Cash Equivalents**

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

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	<b>₱350,265</b>	₱160,549
Insurance receivables (Note 2)	<b>128,550</b>	180,237
Others	<b>202,464</b>	224,853
	<b>681,279</b>	565,639
Less allowance for impairment losses	<b>299,734</b>	315,883
	<b>₱381,545</b>	₱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)
<b>At December 31, 2017</b>	<b>₱47,398</b>	<b>₱48,412</b>	<b>₱203,924</b>	<b>₱299,734</b>

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	<b>₱7,380</b>	₱8,057
Factory supplies and spare parts	–	18
	<b>₱7,380</b>	₱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)
	<b>₱34,719</b>	<b>₱67,921</b>

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
	<b>280,506</b>	280,506
Allowance for impairment losses	16,042	16,042
	<b>₱264,464</b>	<b>₱264,464</b>

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
	<b>₱237,973</b>

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
	<i>(In Thousands)</i>	
Listed equity securities (Note 19)	<b>₱1,171,142</b>	₱1,406,119
Nonlisted equity securities	<b>6,526</b>	65,213
Quoted debt securities	<b>71,189</b>	812,280
Unquoted debt securities	–	10,558
	<b>1,248,857</b>	2,294,170
Allowance for impairment losses	<b>538,403</b>	538,403
	<b>₱710,454</b>	₱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
	<i>(In Thousands)</i>		
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	(3,641)	–	(3,641)
<b>At December 31, 2017</b>	<b>₱17,748</b>	<b>(₱1,523)</b>	<b>₱16,225</b>

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 ₱1.41 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	<b>₱207,583</b>	₱197,565
Input VAT	<b>145,508</b>	25,063
Prepayments	<b>15,194</b>	4,898
	<b>368,285</b>	227,526
Less allowance for impairment losses	<b>8,326</b>	2,636
	<b>₱359,959</b>	₱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	<b>₱2,636</b>	₱2,852
Provisions	<b>6,896</b>	15
Recovery	<b>(418)</b>	(108)
Write-off	<b>(788)</b>	(123)
Balances at end of year	<b>₱8,326</b>	₱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	<b>₱5,959</b>	₱5,959
Accumulated equity in net losses:		
Balances at beginning of year	<b>(3,418)</b>	(3,407)
Equity in net loss	<b>(43)</b>	(11)
Balances at end of year	<b>(3,461)</b>	(3,418)
	<b>2,498</b>	2,541
Allowance for impairment loss	<b>(610)</b>	(610)
	<b>₱1,888</b>	₱1,931

Summarized of the financial statement information of the associate follows:

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

## 12. Investment Properties

	2017		
	Buildings and Improvements	Land and Improvements	Total
	<i>(In Thousands)</i>		
<b>Cost</b>			
At beginning of year	<b>₱3,296,028</b>	<b>₱345,627</b>	<b>₱3,641,655</b>
Additions	<b>4,575,003</b>	-	<b>4,575,003</b>
Disposals	<b>(20,890)</b>	-	<b>(20,890)</b>
Reclassification (Notes 13 and 15)	<b>22,629</b>	-	<b>22,629</b>
At end of year	<b>7,872,770</b>	<b>345,627</b>	<b>8,218,397</b>
<b>Accumulated Depreciation and Amortization</b>			
At beginning of year	<b>2,115,347</b>	<b>21,175</b>	<b>2,136,522</b>
Depreciation and amortization (Notes 20 and 22)	<b>84,580</b>	<b>714</b>	<b>85,294</b>
Disposals	<b>(14,147)</b>	-	<b>(14,147)</b>
Reclassification (Note 13)	<b>4,833</b>	-	<b>4,833</b>
(Forward)			



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
<b>Net book values</b>	<b>₱5,672,667</b>	<b>₱323,738</b>	<b>₱5,996,405</b>
2016			
	Buildings and Improvements	Land and Improvements	Total
<i>(In Thousands)</i>			
<b>Cost</b>			
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
<b>Accumulated Depreciation and Amortization</b>			
At beginning of year	2,078,800	20,751	2,099,551
Depreciation and amortization (Notes 20 and 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
<b>Net book values</b>	<b>₱1,167,847</b>	<b>₱324,452</b>	<b>₱1,492,299</b>

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)	(3,805)
Balances at end of year	<b>₱225,595</b>	<b>₱233,206</b>

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
	<b>₱5,330,540</b>	<b>₱754,347</b>

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 ₱430.24 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					Total
	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Hotel Equipment	
<i>(In Thousands)</i>						
<b>Cost</b>						
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)
<b>At end of year</b>	<b>5,762</b>	<b>516,344</b>	<b>2,847</b>	<b>49,274</b>	<b>–</b>	<b>574,227</b>
<b>Accumulated Depreciation and Amortization</b>						
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)
<b>At end of year</b>	<b>3,675</b>	<b>488,613</b>	<b>2,044</b>	<b>42,646</b>	<b>–</b>	<b>536,978</b>
<b>Net Book Values</b>	<b>₱2,087</b>	<b>₱27,731</b>	<b>₱803</b>	<b>₱6,628</b>	<b>₱–</b>	<b>₱37,249</b>

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

(Forward)



	2016						Total
	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	
	<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)	3,318	1,664
Retirements	(10,323)	–
Ending balances	25,951	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 2)	580	18,141

(Forward)



	2017	2016
	<i>(In Thousands)</i>	
Prepaid rent and other expenses	<b>₱228</b>	₱3,811
Deferred reinsurance premiums (Note 2)	–	17,618
Foreclosed property (Note 12)	–	14,663
Others	<b>595</b>	1,113
	<b>₱488,697</b>	<b>₱131,779</b>

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)	<b>₱404,448</b>	₱296,150
Trade payables	<b>76,311</b>	118,256
Claims payables (Note 2)	<b>50,936</b>	101,388
Nontrade payables	<b>42,319</b>	40,701
Due to reinsurers and ceding companies	<b>11,121</b>	18,346
Reserves for unearned premiums	<b>2,088</b>	88,422
Others	<b>6,005</b>	16,355
	<b>₱593,228</b>	<b>₱679,618</b>

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, rent, 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.

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## 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
	<i>(In Thousands)</i>					
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
	<b>₱185,397</b>	<b>₱138,150</b>	<b>₱323,547</b>	<b>₱121,167</b>	<b>₱59,982</b>	<b>₱181,149</b>

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.

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



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	₱656,170	₱651,300	To be settled in cash,	Unsecured, not impaired,
Interest		4,870	42-day; 2.55%	and unguaranteed
North Triangle Hotel Ventures, Inc.				
Principal	238,106	237,500	To be settled in cash,	Unsecured, not impaired,
Interest		606	42-day; 2.55%	and unguaranteed
Ten Knots Development Corporation				
Principal	186,511	186,400	To be settled in cash,	Unsecured, not impaired,
Interest		111	22-day; 2.55%	and unguaranteed
Amaia Land Corporation				
Principal	76,990	76,900	To be settled in cash,	Unsecured, not impaired,
Interest		90	30-day; 2.55%	and unguaranteed
Ayala Land Metro North, Inc.				
Principal	150,000	150,000	To be settled in cash,	Unsecured, not impaired,
			30-day; 2.65%	and unguaranteed
Avida Land Corporation				
Principal	58,557	58,500	To be settled in cash,	Unsecured, not impaired,
Interest		56	30-day; 2.55%	and unguaranteed
Soltea Commercial Corporation				
Principal	25,043	25,000	To be settled in cash,	Unsecured, not impaired,
Interest		43	30-day; 2.55%	and unguaranteed
Summerhill Commercial				
Principal	25,500	25,500	To be settled in cash,	Unsecured, not impaired,
			30-day; 2.55%	and unguaranteed
Ten Knots Philippines, Inc.				
Principal	31,000	31,000	To be settled in cash,	Unsecured, not impaired,
			30-day; 2.55%	and unguaranteed
Guoman Philippines, Inc.				
	1,625	1,675	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
Associate BAIBI	-	2	To be settled in cash and collectible on demand	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).

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#### 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	<b>₱1,304,815</b>	₱1,415,863
Changes in fair value	<b>(152,691)</b>	(111,048)
	<b>1,152,124</b>	1,304,815
Allowance for impairment losses	<b>527,478</b>	527,478
	<b>₱624,646</b>	₱777,337

## 20. Operating Expenses

	December 31, 2017 <b>(One Year)</b>	December 31, 2016 <b>(Six Months)</b>	June 30, 2016 <b>(One Year)</b>
	<i>(In Thousands)</i>		
Personnel expenses (Notes 21 and 31)	<b>₱84,998</b>	₱204,417	₱229,466
Rental (Note 29)	<b>11,136</b>	10,561	20,641
Taxes and licenses	<b>13,935</b>	2,889	80,207
Depreciation and amortization (Notes 12, 13 and 14)	<b>11,121</b>	13,313	48,210
Professional and legal fees	<b>18,521</b>	30,649	71,171
Provision for impairment losses (Notes 5 and 13)	<b>60,340</b>	3,115	49,168
Janitorial and security services	<b>18,031</b>	5,845	7,570
Marketing expenses	<b>385</b>	1,311	12,718
Communication and transportation	<b>3,058</b>	3,583	8,662
Supplies and repairs	<b>1,995</b>	2,104	5,932
Insurance	<b>4,908</b>	1,469	4,203
Representations	<b>286</b>	422	2,210
Membership dues and subscription	<b>1,379</b>	956	3,066
Others	<b>18,390</b>	10,726	13,720
	<b>₱248,483</b>	₱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

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

## 22. Cost of Goods Sold and Services

	<b>December 31, 2017 (One Year)</b>	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
		<i>(In Thousands)</i>	
Rental and utilities (Note 29)	<b>₱149,558</b>	₱75,908	₱268,575
Share in CUSA related expenses	<b>74,315</b>	59,067	92,816
Taxes and licenses	<b>17,707</b>	7,394	12,523
Contracted services	<b>15,105</b>	6,712	10,435
Depreciation and amortization (Notes 12, 13 and 14)	<b>89,830</b>	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	<b>5,213</b>	2,812	7,237
	<b>₱351,728</b>	₱176,272	₱430,237

## 23. Interest Income (Expense) and Bank Charges – net

	<b>December 31, 2017 (One Year)</b>	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
		<i>(In Thousands)</i>	
Interest income:			
Cash equivalents (Note 4)	<b>₱1,143</b>	₱4,547	₱2,772
Amounts owed by related parties (Note 18)	<b>36,938</b>	15,846	-
Retirement benefits liability (Note 24)	<b>813</b>	-	-
Cash in banks (Note 4)	<b>240</b>	190	569
Receivables (Note 5)	-	-	11,013
	<b>39,134</b>	20,583	14,354
Interest expense and bank charges:			
Interest expense (Note 29)	<b>1,673</b>	-	-
Bank charges	<b>47</b>	517	331
Retirement benefits liability (Note 24)	-	1,631	3,664
	<b>1,720</b>	2,148	3,995
	<b>₱37,414</b>	₱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	<b>(₱20,667)</b>	<b>(₱12,549)</b>

	December 31, 2017 (One Year)	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	<i>(In Thousands)</i>		
Retirement benefits costs:			
Current service cost (Note 21)	₱1,353	₱6,292	₱16,825
Interest cost (income) – net (Note 23)	(813)	1,631	3,664
	<b>₱540</b>	<b>₱7,923</b>	<b>₱20,489</b>

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

	2017	2016
	<i>(In Thousands)</i>	
Balances at beginning of year	(₱12,549)	₱75,704
Retirement benefits costs	540	7,923
Actuarial gains – net	(5,600)	(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	<b>(₱20,667)</b>	<b>(₱12,549)</b>



Changes in the PVO are as follows:

	2017	2016
	<i>(In Thousands)</i>	
Balances at beginning of year	<b>₱20,630</b>	₱159,862
Current service cost	<b>1,353</b>	6,292
Interest cost	<b>245</b>	3,135
Benefits paid	<b>(14,194)</b>	(92,501)
Actuarial gain	<b>(1,415)</b>	(13,964)
Settlement gain	<b>(6,006)</b>	(42,194)
Balances at end of year	<b>₱613</b>	₱20,630

Changes in fair value of plan assets are as follows:

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

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

	2017	2016
Cash	<b>13.87%</b>	<b>11.47%</b>
Fixed income	<b>84.96%</b>	<b>76.78%</b>
Others	<b>1.17%</b>	<b>11.75%</b>
	<b>100.00%</b>	<b>100.00%</b>

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
<b><i>December 31, 2017</i></b>		
<b>Discount rate</b>	<b>+1%</b> <b>(1%)</b>	<b>(₱73,907)</b> <b>87,712</b>
<b>Future salary increases</b>	<b>+1%</b> <b>(1%)</b>	<b>93,539</b> <b>(79,712)</b>
<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:

	<b>December 31, 2017</b>	December 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014
	<i>(In Thousands)</i>				
Defined benefit obligation	<b>₱613</b>	<b>₱20,630</b>	₱159,862	₱271,321	₱242,467
Plan assets	<b>21,280</b>	<b>33,179</b>	84,158	174,346	143,282
Unfunded (overfunded) obligation	<b>(20,667)</b>	<b>(12,549)</b>	75,704	96,975	99,185
Experience adjustment on plan liabilities – loss (gain)	<b>(1,987)</b>	<b>(16,469)</b>	2,863	(664)	(21,676)
Experience adjustment on plan assets – gain (loss)	<b>(406)</b>	<b>816</b>	6,583	40	4,565
Change in actuarial assumptions	<b>(158)</b>	<b>(252)</b>	(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.

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

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

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

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

	<b>2017</b>	2016
	<i>(In Thousands)</i>	
Deferred income tax assets:		
Deferred rent	<b>₱17,991</b>	₱16,964
Allowance for impairment losses on receivables	<b>15,015</b>	11,898
Retirement benefits liability	-	-
PAS 17 rent expense	<b>24,997</b>	15,574
MCIT	<b>5,484</b>	5,484
NOLCO	-	28,097
Others	<b>3,175</b>	2,747
	<b>₱66,662</b>	₱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)
	<b>(274,830)</b>	<b>(281,664)</b>
	<b>(₱208,168)</b>	<b>(₱200,900)</b>

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
		<b>₱206,300</b>	<b>₱7,484</b>



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

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

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

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

## 26. Earnings Per Share

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

	<b>December 31, 2017 (One Year)</b>	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
	<i>(In Thousands)</i>		
a. Net income attributable to equity holders of the Parent	<b>₱33,142</b>	(₱330)	₱29,505
b. Weighted average number of shares	<b>4,155,983</b>	4,896,455	2,378,638
Basic earnings per share (a/b)	<b>₱0.01</b>	(₱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 a subsidiary” in the consolidated statement of financial position as at December 31, 2017.



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## 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	₱504,756	₱119,566	₱9,704	₱641,191	(₱10,975)	₱630,216
Cost and expenses	(49,780)	(447,475)	(181,691)	(839)	(679,785)	(13,183)	(692,968)
Other income (charges)	38,371	68,861	(5,273)	324	102,283	(862)	101,421
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	₱117,135	₱1,241	₱372,629	(₱90)	₱372,539
Cost and expenses	(91,038)	(343,015)	(128,731)	(3,595)	(566,379)	90	(566,289)
Other income (charges)	73,139	90,847	9,133	5,743	178,862	—	178,862
Income (Loss) before income tax	(16,270)	456	(2,463)	3,389	(14,888)	—	(14,888)
Provision for income tax	2,352	(17,124)	939	—	(13,833)	—	(13,833)
Net income (loss)	(18,622)	17,580	(3,402)	3,389	(1,055)	—	(1,055)
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	196,357	2,241,484	(634,833)	1,606,651

**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:

	<b>December 31, 2017 (One Year)</b>	December 31, 2016 (Six Months)	June 30, 2016 (One Year)
		<i>(In Thousands)</i>	
Less than one (1) year	<b>₱140,529</b>	₱140,529	₱118,907
More than one (1) year but not more than five (5) years	<b>702,647</b>	702,647	447,675
More than five (5) years	<b>2,201,626</b>	2,342,156	2,941,659
	<b>₱3,044,802</b>	₱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 for the year ended December 31, 2017 and June 30, 2016 (nil for the 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%





	Neither past due nor impaired		Past due or individually impaired	Total
	High grade	Standard grade		
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
	<b>₱1,029,107</b>	<b>₱1,751</b>	<b>₱407,804</b>	<b>₱1,438,662</b>

December 31, 2016

	Neither past due nor impaired		Past due or individually impaired	Total
	High grade	Standard grade		
<i>(In Thousands)</i>				
<i>Loans and Receivables:</i>				
Cash and cash equivalents	₱367,962	₱-	₱-	₱367,962
<i>Receivables:</i>				
Trade debtors	11,787	61,672	87,090	160,549
Insurance receivables	24,630	9,388	146,219	180,237
Others	25,805	-	199,048	224,853
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
	<b>₱2,718,380</b>	<b>₱71,060</b>	<b>₱434,390</b>	<b>₱3,223,830</b>

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

	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		
<i>(In Thousands)</i>							
<i>Loans and Receivables:</i>							
Cash and cash equivalents	₱254,881	₱-	₱-	₱-	₱-	₱-	₱254,881
<i>Receivables:</i>							
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	11,723	-	-	-	15	190,726	202,464
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	-	-	-	-	-	-	-
	<b>₱1,030,858</b>	<b>₱6,906</b>	<b>₱4,207</b>	<b>₱6,158</b>	<b>₱88,766</b>	<b>₱301,767</b>	<b>₱1,438,662</b>



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		
<i>(In Thousands)</i>							
<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	84,214	49,768	180,237
Others	25,805	160	-	-	-	198,888	224,853
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
	<b>₱2,789,440</b>	<b>₱4,254</b>	<b>₱7,640</b>	<b>₱503</b>	<b>₱104,077</b>	<b>₱317,916</b>	<b>₱3,223,830</b>

*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	6 to 12 months	Over 1 year	Total
<i>(In Thousands)</i>						
<i>Loans and Receivables:</i>						
Cash and cash equivalents	₱254,881	₱-	₱-	₱-	₱-	₱254,881
Receivables:						
Trade debtors	263,785	17,271	14,961	-	54,248	350,265
Insurance receivables	-	-	73,790	-	54,760	128,550
Others	11,723	-	15	-	190,726	202,464
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	-	-	-	-	-	-
	<b>₱1,030,858</b>	<b>₱17,271</b>	<b>₱88,766</b>	<b>₱-</b>	<b>₱301,767</b>	<b>₱1,438,662</b>
Accounts payable and accrued expenses	₱367,452	₱74,219	₱31,256	₱74,212	₱8,345	₱555,484
Subscription payable	481,675	-	-	-	-	481,675
Rental and other deposits	157,184	10,908	8,985	8,320	138,150	323,547
	<b>₱1,006,311</b>	<b>₱85,127</b>	<b>₱40,241</b>	<b>₱82,532</b>	<b>₱146,495</b>	<b>₱1,360,706</b>



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
<i>Receivables:</i>						
Trade debtors	73,459	–	19,863	–	67,227	160,549
Insurance receivables	34,018	12,237	84,214	–	49,768	180,237
Others	25,805	160	–	–	198,888	224,853
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
	<b>₱2,789,440</b>	<b>₱12,397</b>	<b>₱104,077</b>	<b>₱–</b>	<b>₱317,916</b>	<b>₱3,223,830</b>
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	96,324	11,813	–	13,030	59,982	181,149
	<b>₱930,489</b>	<b>₱62,107</b>	<b>₱1,440</b>	<b>₱249,899</b>	<b>₱59,982</b>	<b>₱1,303,917</b>

*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>		
<b>December 31, 2017</b>		
Upper Limit	<b>+12.36%</b>	<b>₱472</b>
Lower Limit	<b>(12.36%)</b>	<b>(472)</b>
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	<b>₱4,652,268</b>	₱2,765,589
Additional paid-in capital	<b>3,942,404</b>	1,598,654
	<b>₱8,594,672</b>	₱4,364,243

The Group is not subject to externally imposed capital requirements.

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### 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 (Level 1). AFS debt financial assets that are quoted are based on market prices (Level 1). Unquoted debt and nonlisted AFS financial assets are based on latest available transaction price at the end of the reporting period (Level 3).

#### Financial Assets at FVPL

Listed equity securities designated as financial assets at FVPL are based on their bid prices (Level 1).



# PRIME ORION PHILIPPINES, INC.

20<sup>th</sup> Floor LKG Tower, 6801 Ayala Avenue, Makati City

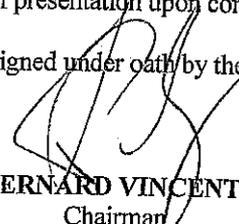
## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PRIME ORION PHILIPPINES, INC.** is responsible for the preparation and fair presentation of the consolidated financial statements for the six months ended December 31, 2016 and fiscal year ended June 30, 2016, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders of the Company.

**SyCip Gorres Velayo & Co.**, the independent auditors appointed by the Board of Directors and Stockholders, has examined the consolidated financial statements of the Company and its subsidiaries in accordance with Philippine Standards of Auditing and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signed under oath by the following

  
**BERNARD VINCENT O. DY**  
Chairman

  
**JOSE EMMANUEL H. JALANDONI**  
President

  
**RHODORA ESTRELLA B. REVILLA**  
Chief Finance Officer

Signed this 13th day of February 2017.

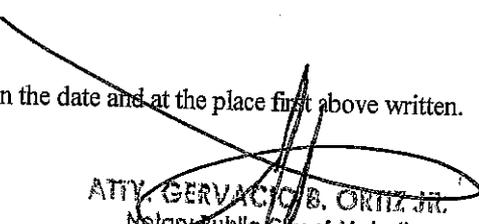
Republic of the Philippines)  
Makati City ) S.S.

SUBSCRIBED AND SWORN to before me this APR 17 2018 day of \_\_\_\_\_, at Makati City, affiants exhibited to me their passports as competent evidence of their identities, as follows:

Name	Competent Evidence of Identity	Date/Place issued
Bernard Vincent O. Dy		
Jose Emmanuel H. Jalandoni		
Rhodora Estrella B. Revilla		

WITNESS MY HAND AND SEAL on the date and at the place first above written.

Doc. No. 751  
Page No. 76  
Book No. XIX  
Series of 2018

  
**ATTY. SERVACIO B. ORTIZ JR.**  
Notary Public, City of Makati  
Until December 31, 2018  
IBP No. 656155-Lifetime Member  
MCLE Compliance No. V-0006934  
Appointment No. M-104 (2017-2018)  
PTR No. 6607879 Jan. 3, 2018  
Makati City Roll No. 40091  
101 Urban Ave. Campos Rueda Bldg.  
Brgy. Pio Del Pilar, Makati City

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Audit of the Consolidated Financial Statements**

#### **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, 2016 and 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 six months ended December 31, 2016 and for the years ended June 30, 2016 and 2015 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 the Group as at December 31, 2016 and June 30, 2016, and its financial performance and its cash flows for the six months ended December 31, 2016 and for the years ended June 30, 2016 and 2015 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.

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

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

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



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

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

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

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

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



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

SYCIP GORRES VELAYO & CO.



Dyonabee 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. 08-001998-98-2015,  
January 5, 2015, valid until January 4, 2018

PTR No. 5908762, January 3, 2017, Makati City

February 13, 2017



**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Thousands, Except Par Value and Number of Shares)

	December 31, 2016	June 30, 2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 4, 30 and 31)	₱368,360	₱1,306,884
Receivables (Notes 5, 30 and 31)	285,038	1,919,880
Inventories (Note 6)	8,075	8,836
Real estate held for sale and development (Note 7)	264,464	264,464
Available-for-sale financial assets (Notes 8, 19, 30 and 31)	1,755,771	1,397,514
Amounts owed by related parties (Notes 18, 30 and 31)	1,447,928	52
Financial assets at fair value through profit or loss (Notes 9, 30 and 31)	13,103	12,703
Other current assets (Note 10)	224,890	240,815
<b>Total Current Assets</b>	<b>4,367,629</b>	<b>5,151,148</b>
<b>Noncurrent Assets</b>		
Investment in an associate (Note 11)	1,931	1,942
Investment properties (Note 12)	1,492,299	1,163,169
Property and equipment (Note 13)	36,166	19,507
Software costs (Note 14)	7,633	6,216
Net pension asset (Note 23)	12,549	-
Other noncurrent assets (Note 15)	118,144	95,422
<b>Total Noncurrent Assets</b>	<b>1,668,722</b>	<b>1,286,256</b>
<b>TOTAL ASSETS</b>	<b>₱6,036,351</b>	<b>₱6,437,404</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Notes 16, 30 and 31)	₱676,621	₱905,757
Current portion of rental and other deposits (Notes 17 and 27)	121,167	108,391
Amounts owed to related parties (Note 18)	10,698	-
Deposit for future stock subscriptions (Note 1)	-	1,406,250
<b>Total Current Liabilities</b>	<b>808,486</b>	<b>2,420,398</b>
<b>Noncurrent Liabilities</b>		
Rental and other deposits - net of current portion (Notes 17 and 27)	59,982	67,162
Net retirement benefits liability (Note 23)	-	75,704
Deferred rent income - net of current portion (Note 27)	43,008	44,157
Deferred income tax liabilities - net (Note 24)	200,900	220,974
Subscriptions payable (Notes 8 and 19)	481,675	481,675
<b>Total Noncurrent Liabilities</b>	<b>785,565</b>	<b>889,672</b>
<b>Total Liabilities</b>	<b>₱1,594,051</b>	<b>₱3,310,070</b>

(Forward)



	December 31, 2016	June 30, 2016
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock - ₱1 par value (Note 1)		
Authorized – 7.5 billion as of December 31, 2016 and 2.4 billion shares as of June 30, 2016 and 2015		
Issued and subscribed - 4,888,403,748 shares and 2,378,638,123 shares as at December 31, 2016 and June 30, 2016, respectively (net of subscriptions receivable of ₱2,122,814, ₱248,062,752 respectively)	<b>₱2,765,589</b>	₱2,130,576
Additional paid-in capital (Note 1)	<b>1,599,756</b>	829,904
Equity reserves (Notes 3 and 29)	<b>26,367</b>	27,469
Shares held by subsidiaries (Note 18)	<b>(21,916)</b>	(21,916)
Revaluation increment (Note 12)	<b>233,206</b>	237,011
Unrealized gains on AFS financial assets (Note 8)	<b>167,716</b>	276,226
Loss on remeasurement of retirement benefits liability - net of tax (Notes 10 and 23)	<b>(51,859)</b>	(66,639)
Deficit	<b>(332,715)</b>	(340,166)
	<b>4,386,144</b>	3,072,465
<b>Non-controlling Interests</b>	<b>56,156</b>	54,869
<b>Total Equity</b>	<b>4,442,300</b>	3,127,334
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱6,036,351</b>	₱6,437,404

*See accompanying Notes to Consolidated Financial Statements.*



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

	December 31, 2016 (Six Months)	June 30, 2016 (One Year)	June 30, 2015 (One Year)
<b>REVENUE AND INCOME</b>			
Rental and other charges (Note 12)	₱245,368	₱467,927	₱414,475
Real estate sales (Note 7)	–	274,082	–
Insurance premiums and commissions - net	112,703	237,243	236,452
Service fees	4,512	17,927	8,070
Gain on sale of AFS financial assets (Note 8)	1,708	17,240	8,846
Interest income on AFS financial assets (Note 8)	6,794	15,411	14,917
Merchandise sales	344	4,768	8,611
Dividend income (Notes 8 and 9)	1,110	2,495	4,228
	<b>372,539</b>	<b>1,037,093</b>	<b>695,599</b>
<b>COSTS AND EXPENSES</b>			
Cost of goods sold and services (Note 20)	176,272	430,237	226,309
Cost of real estate sold (Notes 7)	–	154,046	–
Operating expenses (Note 20)	291,360	589,505	357,414
Commission and other underwriting expenses	93,403	197,052	173,252
	<b>561,035</b>	<b>1,370,840</b>	<b>756,975</b>
<b>OTHER INCOME (CHARGES)</b>			
Reversal of (provision for) probable losses and impairment losses (Note 28)	101,813	(251,762)	–
Interest income (expense) and bank charges - net (Note 22)	18,435	10,359	(1,339)
Gain on sale of property and equipment (Note 13)	2,090	5,972	15,346
Reversal of (provision for) inventory losses (Note 6)	(530)	4,223	1,242
Unrealized gain (loss) on financial assets at FVPL (Note 9)	400	(425)	280
Equity in net income (loss) of an associate (Note 11)	(11)	(19)	7
Impairment losses on AFS financial assets (Note 8)	–	(3,115)	(241,187)
Gain on sale of investment property (Note 12)	–	578,965	–
Reversal of impairment losses on receivables (Note 5)	–	–	8,009
Rehabilitation expenses (Note 1)	–	–	(609)
Others - net (Note 23)	56,665	9,619	28,955
	<b>178,862</b>	<b>353,817</b>	<b>(189,296)</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>(9,634)</b>	<b>20,070</b>	<b>(250,672)</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 24)	<b>(13,834)</b>	<b>7,114</b>	<b>11,564</b>
<b>NET INCOME (LOSS)</b>	<b>₱4,200</b>	<b>₱12,956</b>	<b>(₱262,236)</b>
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent	₱3,646	₱30,427	(₱262,453)
Non-controlling interests	554	(17,471)	217
	<b>₱4,200</b>	<b>₱12,956</b>	<b>(₱262,236)</b>
<b>EARNINGS (LOSS) PER SHARE</b> (Note 25)			
Basic and diluted, for income for the year attributable to ordinary equity holders of the Parent	<b>₱0.001</b>	<b>₱0.013</b>	<b>(₱0.111)</b>



**PRIME ORION PHILIPPINES, INC. AND SUBSIDIAR IES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands)

	December 31, 2016 (Six Months)	June 30, 2016 (One Year)	June 30, 2015 (One Year)
<b>NET INCOME (LOSS)</b>	<b>₱4,200</b>	<b>₱12,956</b>	<b>(₱262,236)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Unrealized valuation gains (losses) on AFS financial assets (Note 8)	(105,576)	277,649	251
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Gain (loss) on remeasurement on retirement benefits liability - net of tax (Note 23)	14,780	5,842	(5,745)
	<b>(90,796)</b>	<b>283,491</b>	<b>(5,494)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(₱86,596)</b>	<b>₱296,447</b>	<b>(₱267,730)</b>
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent	(₱87,883)	₱313,918	(₱275,665)
Non-controlling interests	1,287	(17,471)	7,935
	<b>(₱86,596)</b>	<b>₱296,447</b>	<b>(₱267,730)</b>

*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	Treasury Shares	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, 2014	₱2,066,357	₱829,904	₱-	₱-	₱252,233	₱83,801	(₱66,736)	(₱123,362)	₱3,042,197	₱72,139	₱3,114,336
Net income	-	-	-	-	-	-	-	(262,453)	(262,453)	217	(262,236)
Other comprehensive income (loss)											
Unrealized valuation gain (loss) on											
AFS financial assets	-	-	-	-	-	267	-	-	267	(16)	251
Actuarial loss recognized in OCI	-	-	-	-	-	-	(5,745)	-	(5,745)	-	(5,745)
Total comprehensive income	-	-	-	-	-	267	(5,745)	(262,453)	(267,931)	201	(267,730)
Transfer of realized valuation increment	-	-	-	-	(7,611)	-	-	7,611	-	-	-
Treasury shares	-	-	(21,916)	-	-	-	-	-	(21,916)	-	(21,916)
Unrealized gain transferred from equity											
to consolidated statement of income	-	-	-	-	-	(82,002)	-	-	(82,002)	-	(82,002)
Collection of subscription receivable	3,555	-	-	-	-	-	-	-	3,555	-	3,555
Balances at June 30, 2015	2,069,912	829,904	(21,916)	-	244,622	2,066	(72,481)	(378,204)	2,673,903	72,340	2,746,243
Net income	-	-	-	-	-	-	-	30,427	30,427	(17,471)	12,956
Other comprehensive income (loss)											
Unrealized valuation gain (loss) on											
AFS financial assets	-	-	-	-	-	277,649	-	-	277,649	-	277,649
Actuarial loss recognized in OCI	-	-	-	-	-	-	5,842	-	5,842	-	5,842
Total comprehensive income	-	-	-	-	-	277,649	5,842	30,427	313,918	(17,471)	296,447
Transfer of realized valuation increment	-	-	-	-	(7,611)	-	-	7,611	-	-	-
Equity reserves (Notes 3 and 29)	-	-	-	27,469	-	-	-	-	27,469	-	27,469
Unrealized gain transferred from equity											
to consolidated statement of income	-	-	-	-	-	(3,489)	-	-	(3,489)	-	(3,489)
Collection of subscription receivable	60,664	-	-	-	-	-	-	-	60,664	-	60,664
Balances at June 30, 2016	₱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

Forward)



	Capital Stock	Additional Paid-in Capital	Treasury Shares	Equity Reserves	Revaluation Increment (Note 12)	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, 2016	₱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
Net income	-	-	-	-	-	-	-	3,646	3,646	554	4,200
Other comprehensive income (loss)											
Unrealized valuation gain											
on AFS financial assets	-	-	-	-	-	(106,309)	-	-	(106,309)	733	(105,576)
Actuarial gain recognized in OCI	-	-	-	-	-	-	14,780	-	14,780	-	14,780
Total comprehensive income	-	-	-	-	-	(106,309)	14,780	3,646	(87,883)	1,287	(86,596)
Collection of subscription receivable											
(Note 1)	10,013	-	-	-	-	-	-	-	10,013	-	10,013
Stock subscriptions (Notes 1 and 30)	625,000	781,250	-	-	-	-	-	-	1,406,250	-	1,406,250
Payment of stock subscription costs											
(Note 1)	-	(12,500)	-	-	-	-	-	-	(12,500)	-	(12,500)
Equity reserves transferred to APIC											
(Notes 3 and 29)	-	1,102	-	(1,102)	-	-	-	-	-	-	-
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)
<b>Balances at December 31, 2016</b>	<b>₱2,765,589</b>	<b>₱1,599,756</b>	<b>(₱21,916)</b>	<b>₱26,367</b>	<b>₱233,206</b>	<b>₱167,716</b>	<b>(₱51,859)</b>	<b>(₱332,715)</b>	<b>₱4,386,144</b>	<b>₱56,156</b>	<b>₱4,442,300</b>

See accompanying Notes to Consolidated Financial Statements.



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

	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax	<b>(₱9,634)</b>	₱20,070	(₱250,672)
Adjustments for:			
Depreciation and amortization (Notes 12, 13, 14 and 20)	<b>36,818</b>	79,733	79,748
Provision for impairment losses on:			
AFS financial assets (Note 8)	–	3,115	241,187
Investment in an associate (Note 11)	–	610	–
Provision for (reversal of) probable losses (Note 28)	<b>(101,813)</b>	251,762	–
Retirement benefits costs and settlement gain (Note 23)	<b>(26,305)</b>	20,489	22,772
Interest income (Notes 8 and 22)	<b>(27,377)</b>	(29,765)	(16,599)
Gain on sale of:			
Investment property (Note 12)	–	(578,965)	–
Property and equipment (Note 13)	<b>(2,090)</b>	(5,972)	(15,346)
AFS financial assets (Note 8)	<b>(1,708)</b>	(17,240)	(8,846)
Dividend income (Notes 8 and 9)	<b>(1,110)</b>	(2,495)	(4,228)
Bank charges and others (Note 22)	<b>517</b>	331	524
Gain on valuation of fair value of FVPL	<b>(400)</b>	–	(130)
Equity in net loss (income) of associates (Note 11)	<b>11</b>	19	(7)
Unrealized foreign exchange losses (gains) - net	<b>(1)</b>	(93)	–
Share-based expense (Note 29)	–	27,469	–
Operating income (loss) before working capital changes	<b>(133,092)</b>	(230,932)	48,403
Decrease (increase) in:			
Receivables	<b>1,634,842</b>	(1,422,311)	105,428
Inventories	<b>761</b>	2,842	6,468
Real estate held for sale and development	–	165,640	(596)
Amounts owed by related parties	<b>(1,447,876)</b>	(43)	13
Other current assets	<b>131,569</b>	(4,656)	(12,615)
Increase (decrease) in:			
Accounts payable and accrued expenses	<b>(227,128)</b>	(29,233)	(6,509)
Rental and other deposits	<b>(48,638)</b>	(3,774)	18,818
Net cash flows generated from (used in) operations	<b>(89,562)</b>	(1,522,467)	159,410
Interest received	<b>27,376</b>	29,765	18,196
Contributions paid for retirement plan	<b>(4,217)</b>	(35,918)	(30,727)
Income tax paid	–	–	(19,712)
Interest paid	<b>(2,147)</b>	(331)	(523)
Net cash flows from (used in) operating activities	<b>(₱68,550)</b>	(₱1,528,951)	₱126,644

(Forward)



	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of			
Investment properties (Note 12)	₱—	₱703,148	₱—
AFS financial assets (Note 8)	2,175	21,360	94,593
Property and equipment	3,813	12,696	15,346
Disposal (acquisitions) of:			
AFS financial assets (Note 8)	(466,034)	379,485	(271,179)
Investment properties (Note 12)	(357,410)	(22,435)	(34,197)
FVPL investments	—	5,298	(27,712)
Property and equipment (Note 13)	(25,001)	(4,071)	(7,367)
Software cost (Note 14)	(3,081)	(1,568)	(3,805)
Decrease (increase) in:			
Other noncurrent assets	(33,757)	120,750	(98,019)
Deferred rent income	—	—	74
Dividends received (Note 8)	1,110	2,495	4,228
Net cash flows from (used in) investing activities	<b>(878,185)</b>	1,217,158	(328,038)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Acquisition of shares held by subsidiaries (Note 18)	—	—	(21,916)
Receipt of deposit for future stock subscriptions (Note 1)	—	1,406,250	—
Collection of subscription receivables (Note 1)	10,013	60,664	3,555
Payment of subscription costs (Note 1)	(12,500)	—	—
Decrease in minority interest	—	—	(16)
Increase in amounts owed to related parties (Note 18)	10,698	—	—
Net cash flows from (used in) financing activities	<b>8,211</b>	1,466,914	(18,377)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(938,524)</b>	1,155,121	(219,771)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,306,884</b>	151,763	371,534
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱368,360</b>	₱1,306,884	₱151,763

*See accompanying Notes to Consolidated Financial Statements.*



# PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 20/F LKG Tower, 6801 Ayala Ave., 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, financial services and manufacturing and distribution (see Note 26).

#### Status of Operations

On December 23, 2011, Lepanto Ceramics, Inc. (LCI), a wholly-owned subsidiary, filed a Petition for Rehabilitation (PR) to arrest LCI's continuing financial losses for the past several years and to enable it to eventually meet its financial obligations to its creditors. After a series of court-approved amendments to the rehabilitation plan, on January 11, 2013, the rehabilitation receiver issued a Notice to Creditors that the pay-out of claims would commence on January 21, 2013.

On May 29, 2014, LCI filed a Motion for Termination of Rehabilitation Proceedings, stating that LCI has substantially accomplished the tasks and conditions of the amended and restated rehabilitation plan. On August 28, 2014, the court granted LCI's Motion for Termination of Rehabilitation Proceedings and declared LCI's successful rehabilitation. The rehabilitation expenses incurred by LCI amounted to ₱0.61 million for the year ended June 30, 2015 (nil for the six months period ended December 31, 2016 and year ended June 30, 2016).

Moreover, with the total lifting of the import safeguards for ceramic tiles beginning 2010, LCI suspended its manufacturing operations in 2012 and started renting out its warehouses in July 2014. In September 2016, the Board of Directors (BOD) of LCI approved the amendment of LCI's Articles of Incorporation (AOI) by changing its name to Lepanto Development Corporation and its primary purpose was changed 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 February 13, 2017, the amendment is yet to be approved by the SEC.

In September 2012, certain property and equipment and investment properties of Tutuban Properties, Inc. (TPI; a wholly-owned subsidiary) were damaged by fire. FLT Prime Insurance Corporation (FPIC), the insurance policy provider and also a wholly-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 and ₱204.90 million for the years ended June 30, 2016 and 2015, respectively (nil for the six months ended December 31, 2016).



On April 1, 2015, TPI signed a Memorandum of Understanding (MOU) with the Department of Transportation and Communication (DOTC) and Philippine National Railways (PNR) to formalize the agreement to cooperate in the finalization and implementation of plans to 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, 2016, discussions on the implementation of the NSRP among DOTC, PNR and TPI are on-going.

On January 13, 2015, the Insurance Commission (IC) issued Circular No. 2015-02-A which provided clarification of the provisions of Sections 194, 197, 200 and 289 of the Amended Insurance Code to ensure the compliance with the minimum capitalization and net worth requirements by the insurance companies. The Group is committed to infuse the necessary capital to comply with the IC's requirements for FPIC for 2015. While management is exploring various options, FPIC will continue to serve its portfolio of active insurance policies, the maturities of which range up to 2019.

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 ₱5.63 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. The increase in authorized capital stock was approved by the SEC on July 4, 2016. As of June 30, 2016, the amount received for the subscription amounting to ₱1,406.25 million was presented as deposit for future stock subscription in the June 30, 2016 consolidated statement of financial position. With the subsequent approval of the SEC, the deposit was applied against the subscription as of December 31, 2016 resulting to the increase in capital stock and additional paid-in capital amounting to ₱625.0 million and ₱781.25 million, respectively.

For the period ended December 31, 2016, POPI also collected subscription receivable amounting to ₱10.01 million and incurred and paid subscription costs amounting to ₱12.50 million deducted against additional paid-in capital.

ALI's parent company is Ayala Corporation (AC). AC is 48.96%-owned by Mermac, Inc., 10.17%-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. Both OMI and OSI are wholly-owned subsidiaries of POPI. On September 5, 2016, the BOD of TPI approved the closure of its hotel and café operations.



On March 15, 2016, the BOD of POPI approved the change in POPI's accounting period from fiscal year (July 1 to June 30) to calendar year (January 1 to December 31) and accordingly prepared the consolidated short-period financial statements. As of February 13, 2017, the SEC has yet to approve the change in accounting period.

Approval and Authorization for the Short-Period Consolidated Financial Statements

The consolidated financial statements of the Group as at December 31, 2016 and June 30, 2016 and for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015 were approved and authorized for issue in accordance with the resolution by the BOD on February 13, 2017.

**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 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.

The Group prepared short period consolidated financial statements for the six months ended December 31, 2016 pursuant to POPI's application for the change in accounting period from June 30 to December 31 (see Note 1). The amounts reflected in the December 31, 2016 consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows and the related notes to the financial statements are for six months and, accordingly, are not comparable with the amounts for June 30, 2016 which pertains to an entire year.

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 the following subsidiaries as at December 31, 2016 and June 30, 2016:

Subsidiaries	Nature of Business	Effective Percentage of Ownership
<b>Real Estate, Property Development and Others:</b>		
Orion Land Inc. (OLI) and Subsidiaries:		
OLI	Real Estate and Investment Holding Company	100%
TPI and Subsidiaries:		
TPI	Real Estate, Mall Operations	100%
TPI Holdings Corporation (TPIHC)	Investment Holding Company	100%
OPDI and Subsidiaries:		
OPDI	Real Estate Development	100%
Orion Beverage, Inc. (OBI) *	Manufacturing	100%
LCI	Manufacturing and Distribution	100%
Luck Hock Venture Holdings, Inc.*	Other Business Activities	60%



Subsidiaries	Nature of Business	Effective Percentage of Ownership
<b>Financial Services and Others:</b>		
OE Holdings, Inc. (OEHI) and Subsidiaries:		
OEHI	Wholesale and Trading	<b>100%</b>
OMI	Marketing and Administrative Services	<b>100%</b>
ZHI Holdings, Inc. (ZHI)	Financial Holding Company	<b>100%</b>
OIHPI	Financial Holding Company	<b>100%</b>
FPIC	Non-Life Insurance Company	<b>78.77%</b>
OSI	Management Information Technology Consultancy Services	<b>100%</b>

\* *Inactive*

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.

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 are consistent with those of the previous financial year, except for the following new and amended PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS which were adopted as at July 1, 2016. Adoption of these pronouncements did not have significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*



- Amendment to PAS 19, *Discount Rate: Regional Market Issue*
- Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

#### Future Changes in Accounting Policies

Pronouncement issued but not yet effective are listed below. The Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*
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#### *Effective beginning on or after January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
- PFRS 9, *Financial Instruments*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

#### *Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

#### *Deferred effectivity*

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

### ***Summary of Significant Accounting and Financial Reporting Policies***

#### 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 other 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, 2016 and June 30, 2016, the Group's financial assets are in the nature of loans and receivables, financial assets at FVPL and AFS financial assets.

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 and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition.

As at December 31, 2016 and June 30, 2016, the Group's financial liabilities are in the nature of other financial liabilities.

#### 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 under "Other noncurrent assets" (see Notes 4, 5, 15, 17 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 as other comprehensive income 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. 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 earned 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. 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 costs, 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 measured are disclosed in Note 31.

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.

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. Financial instruments, for which the fair value cannot be reasonably determined, are carried at cost less any impairment in value.



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. 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 “Other - 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 in 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). Cost is determined on the basis of actual manufacturing cost for finished goods. Raw materials, parts and supplies are valued based on the latest unit cost. NRV is the estimated selling price in the ordinary course of business, less estimated cost to complete and applicable variable selling expenses. An allowance is recognized in the accounts to reflect possible inventory losses and obsolescence.

#### 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. They 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.

#### *Input VAT*

Input VAT represents VAT imposed on the Group by its suppliers for the purchase of domestic goods and/or services as required by Philippine taxation laws and regulations. This account is offset against any output VAT recognized. Input VAT on capital goods exceeding ₱1 million and input VAT from purchases of goods and services which remain unpaid at each reporting date are recognized as "Deferred input VAT". Input VAT is presented as current asset while deferred input VAT is presented as noncurrent asset.

#### *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 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).

#### 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:

	<u>Useful life in years</u>
Land improvements	30
Buildings and improvements	30

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 and equipment 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.

	<u>Useful life in years</u>
Machinery and equipment	5 - 10
Transportation equipment	5
Furniture, fixtures and equipment	3 - 5
Condominium units and improvements	25
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 after twelve (12) months after each end of the reporting period.

#### *Deferred Acquisition Costs*

Commission and other acquisition costs incurred during the financial reporting period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the twenty-fourth (24<sup>th</sup>) method, except for marine cargo where the deferred acquisition costs pertain to the commissions for the last two (2) months of the year. Amortization is charged to the consolidated 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.

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

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.

Product Classification

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, 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 Liabilities section of 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.

b) Insurance Contract Liabilities

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

*Reserves for Unearned Premiums*

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods is deferred as provision for unearned premiums using the 24<sup>th</sup> method, except for the marine cargo’s last two months of the year. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

*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. The liability is not discounted for the time value of money and includes IBNR losses. No provision for equalization or catastrophic reserves is recognized. 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 the consolidated statement of income 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 period. 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 consolidated 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.

#### 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 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.

#### Treasury Shares and Shares Held by Subsidiaries

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 subsidiary are presented as "Shares held by subsidiaries" under the equity section.

Any restricted earning is restricted for distribution to the extent of the cost of the treasury shares..

#### 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 profit or loss. Premiums are measured at the fair value of the consideration received or receivable, excluding value-added tax (VAT).

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.

##### *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 fair market 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.

### Borrowing Costs

Borrowing costs are capitalized if these are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities for the asset's intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. These include interest charges and other related financing charges incurred in connection with the borrowing of funds. Other borrowing costs are expensed as incurred.

### 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.

#### *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) and bank charges-net" 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.

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### **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 ₱0.90 million, ₱38.99 million and ₱2.46 million for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015, respectively. Recovery on impairment losses on receivables amounted to ₱8.01 million for year ended June 30, 2015 (nil for the six months ended December 31, 2016 and year ended June 30, 2016). The Group wrote off allowance for impairment losses on receivables amounting to ₱25.89 million and ₱1.32 million for the years ended June 30, 2016 and 2015, respectively (nil for the six months



ended December 31, 2016). The carrying values of the receivables amounted to ₱285.04 million and ₱1,919.88 million as at December 31, 2016 and June 30, 2016, respectively, net of allowance for impairment losses amounting to ₱315.88 million and ₱314.99 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.

The Group has written-off ₱0.66 million and ₱0.02 million for the six months ended December 31, 2016 and for the year ended June 30, 2016, respectively (nil for the year ended June 30, 2015). Recovery of allowance for impairment on inventory losses amounted to ₱0.01 million and ₱4.24 million for the six months ended December 31, 2016 and for the year ended June 30, 2016, respectively (nil for the year ended June 30, 2015).

The carrying values of inventories amounted to ₱8.08 million and ₱8.84 million as at December 31, 2016 and June 30, 2016, respectively, net of allowance for inventory losses amounting to ₱67.24 million and ₱67.37 million as at December 31, 2016 and June 30, 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 six months ended December 31, 2016 and year ended June 30, 2015). The carrying values of real estate held for sale and development amounted to ₱264.46 million as at December 31, 2016 and June 30, 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 and ₱241.19 million for the years ended June 30, 2016 and 2015, respectively (nil for the six months ended December 31, 2016). The fair values of AFS financial assets amounted to ₱1,755.77 million and ₱1,397.51 million as at December 31, 2016 and June 30, 2016, respectively, net of allowance for impairment losses amounting to ₱538.40 million as at December 31, 2016 and June 30, 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 these 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 six months ended December 31, 2016 and year ended June 30, 2015). The carrying values of the investment in an associate amounted to ₱1.93 million and ₱1.94 million as at December 31, 2016 and June 30, 2016, respectively (see Note 11).

No provision for impairment losses on investment properties was recognized for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015. As of December 31, 2016 and June 30, 2016, the accumulated impairment loss on investment property amounted to ₱12.83 million (see Note 12).

The carrying values of investment properties amounted to ₱1,492.30 million and ₱1,163.17 million as at December 31, 2016 and June 30, 2016, respectively of accumulated depreciation and amortization amounting to ₱2.17 billion and ₱2.10 billion as of the same dates (see Note 12).

Provision for impairment losses on property and equipment amounted to ₱12.28 million for the year ended June 30, 2016 (nil for the six months ended December 31, 2016 and year ended June 30, 2015).

The carrying values of property and equipment amounted to ₱36.17 million and ₱19.51 million as at December 31, 2016 and June 30, 2016, respectively, net of accumulated depreciation and amortization and impairment in value aggregating to ₱2.11 billion and ₱2.12 billion as of the same dates (see Note 13).

*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, 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, 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 costs 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 decreases the carrying value of investment properties, property and equipment.

There is no change in the useful lives of investment properties and property and equipment for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015. Information on the estimated useful life of these assets is included in Note 2.

*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. 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 ₱0.02 million for the six months ended December 31, 2016 and for the year ended June 30, 2016, and ₱0.08 million for year ended June 30, 2015. The carrying values of nonfinancial other current assets amounted to ₱224.89 million and ₱240.82 million as at December 31, 2016 and June 30 2016, respectively, net of allowance for impairment losses amounting to ₱2.64 million and ₱2.85 as of the same dates (see Note 10).

There was no provision for impairment losses on nonfinancial other noncurrent assets recognized for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015. As at December 31, 2016 and June 30, 2016, the carrying values of nonfinancial other noncurrent assets amounted to ₱100.31 million and ₱76.02 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 period and for the expected ultimate cost of the IBNR claims as at financial reporting period. It can take a significant period of time before the ultimate claim costs can be established with certainty. The primary technique adopted by management in estimating the cost of notified and IBNR claims is that of using past claims settlement trends to predict future claims settlement trends. At each financial reporting period, prior year claims estimates are assessed for adequacy and changes made are charged to current year provision.

The carrying values of claims payable amounted to ₱88.77 million and ₱226.39 million as at December 31, 2016 and June 30, 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.

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 23.

Retirement benefit costs amounted to ₱7.92 million, ₱20.49 million and ₱22.77 million for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015, respectively. The net retirement benefits liability of the Group amounted to ₱75.70 million as at June 30, 2016. Net pension assets of the Group amounted to ₱12.55 million as at December 31, 2016 (see Note 23).

#### *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. Significant judgment is 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 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 ₱80.76 million and ₱71.04 million as at December 31, 2016 and June 30, 2016, respectively (see Note 24).

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 24.

#### *Assessing and Estimating Contingencies and Provisions*

The Group is currently involved in various legal proceedings and claims. The estimate of the probable costs for the resolution of these claims 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 28).

Total provisions amounted to ₱251.15 million for the year ended June 30, 2016, nil for the six months ended December 31, 2016 and year ended June 30, 2015, respectively (see Note 28).

#### *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 June 30, 2016, personnel expense and the corresponding equity reserve recognized in relation to the ESOWN amounted to ₱27.47 million (nil for the six months ended December 31, 2016). See Note 29 for further details on the ESOWN, including the assumptions used in the valuation.



#### 4. Cash and Cash Equivalents

	December 31, 2016	June 30, 2016
	<i>(In Thousands)</i>	
Cash on hand and in banks	<b>₱177,416</b>	₱475,593
Cash equivalents	<b>190,944</b>	831,291
	<b>₱368,360</b>	₱1,306,884

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents 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 respective short-term investment rates.

Interest earned from cash in banks amounted to ₱0.19 million, ₱0.57 million and ₱0.26 million for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015, respectively. Interest earned from short-term investments amounted to ₱4.55 million, ₱2.77 million and ₱1.42 million for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015, respectively (see Note 22).

#### 5. Receivables

	December 31, 2016	June 30, 2016
	<i>(In Thousands)</i>	
Trade debtors	<b>₱160,549</b>	₱112,888
Insurance receivables	<b>201,874</b>	397,077
Loans receivable	-	1,425,750
Others	<b>238,498</b>	299,151
	<b>600,921</b>	2,234,866
Less allowance for impairment losses	<b>315,883</b>	314,986
	<b>₱285,038</b>	₱1,919,880

Trade debtors are primarily non-interest 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, treaty and reinsurance accounts receivables and are generally on 90 to 360 days' term.

Loans receivable pertain to advances made to certain real estate companies. These are short-term in nature and earn interest at 2.41 to 2.70% per annum.

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, 2016 and June 30, 2016. These receivables are secured 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 July 1, 2014	₱89,297	₱8,341	₱211,120	₱308,758
Provisions (Note 20)	545	418	1,493	2,456
Write-off	(1,320)	–	–	(1,320)
Recovery	(649)	–	(7,360)	(8,009)
At June 30, 2015	87,873	8,759	205,253	301,885
Provisions (Note 20)	622	35,333	3,031	38,986
Write-off	(21,714)	–	(4,171)	(25,885)
At June 30, 2016	66,781	44,092	204,113	314,986
Provisions (Note 20)	897	–	–	897
<b>At December 31, 2016</b>	<b>₱67,678</b>	<b>₱44,092</b>	<b>₱204,113</b>	<b>₱315,883</b>

Interest earned from receivables amounted to ₱11.01 million and ₱1,115 for the years ended June 30, 2016 and 2015, respectively (nil for the six months ended December 31, 2016, see Note 22).

For the year ended June 30, 2016, receivables amounting to ₱25.89 million were written-off. This amount includes ₱13.78 million pertaining to OMI receivable from merchandisers and retailers for the sale of tiles, while ₱7.76 million pertains to long outstanding receivable on rent, CUSA and utilities. The remaining ₱4.35 million pertains to the aggregate long outstanding trade and other receivables of the Group that were assessed to be uncollectible. For the year ended June 30, 2015, LCI and OMI have written-off portion of its trade receivables amounting to ₱0.84 million and ₱0.48 million, respectively (nil for the six months ended December 31, 2016).

## 6. Inventories

	December 31, 2016	June 30, 2016
<i>(In Thousands)</i>		
At NRV:		
Finished goods	₱8,057	₱8,149
Factory supplies and spare parts	18	687
	<b>₱8,075</b>	<b>₱8,836</b>

Movements in the allowance for inventory losses are as follows:

	December 31, 2016	June 30, 2016
<i>(In Thousands)</i>		
Beginning balances	₱67,372	₱71,614
Recovery	(133)	(4,242)
Write-off	(663)	(19)
Provision	663	19
Ending balances	<b>₱67,239</b>	<b>₱67,372</b>

Inventories charged to operations amounted to ₱0.25 million, ₱5.34 million and ₱11.50 million for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015, respectively (see Note 20).



## 7. Real Estate Held for Sale and Development

	December 31, 2016	June 30, 2016
	<i>(In Thousands)</i>	
Land for development	<b>₱237,973</b>	₱237,973
Held for sale	<b>42,533</b>	42,533
	<b>280,506</b>	280,506
Allowance for impairment losses	<b>16,042</b>	16,042
	<b>₱264,464</b>	₱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, 2016 and June 30, 2016 are as follows (*amounts in thousands*):

Land cost	₱212,558
Construction overhead and other related costs	22,882
Taxes	2,517
	<b>₱237,957</b>

Movements in the real estate held for sale and development are as follows:

	December 31, 2016	June 30, 2016
	<i>(In Thousands)</i>	
Balances at beginning of year	<b>₱264,464</b>	₱430,103
Additions	-	4,449
Sale/disposal	-	(154,046)
Impairment loss (Note 20)	-	(16,042)
Balances at end of year	<b>₱264,464</b>	₱264,464

Additions include taxes, construction overhead and other related costs incurred during the year.

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.

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 ₱100.20 million.



8. AFS Financial Assets

	December 31, 2016	June 30, 2016
	<i>(In Thousands)</i>	
Listed equity securities (Note 19)	<b>₱1,406,124</b>	₱1,533,003
Nonlisted equity securities	<b>65,213</b>	90,504
Quoted debt securities	<b>812,280</b>	305,404
Unquoted debt securities	<b>10,557</b>	7,006
	<b>2,294,174</b>	1,935,917
Allowance for impairment losses	<b>538,403</b>	538,403
	<b>₱1,755,771</b>	₱1,397,514

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 deposited with the Insurance Commission in accordance with the provisions of the Insurance Code as security for the benefit of policy holders and creditors of the FPIC.

Movements in the allowance for impairment losses are as follows:

	December 31, 2016	June 30, 2016	June 30, 2015
	<i>(In Thousands)</i>		
Balances at beginning of year	<b>₱538,403</b>	₱535,288	₱294,101
Provisions	-	3,115	241,187
Balances at end of year	<b>₱538,403</b>	₱538,403	₱535,288

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

	Equity Holders	Non-Controlling Interests	Total
	<i>(In Thousands)</i>		
June 30, 2014	₱83,801	(₱67)	₱83,734
Gain (loss) recognized directly in equity	267	(16)	251
Gain transferred from equity to consolidated statement of income	(82,002)	-	(82,002)
June 30, 2015	2,066	(83)	1,983
Gain (loss) recognized directly in equity	277,649	-	277,649
Gain transferred from equity to consolidated statement of income	(3,489)	-	(3,489)
June 30, 2016	276,226	(83)	276,143
Loss recognized directly in equity	(106,309)	733	(105,576)
Gain transferred from equity to consolidated statement of income	(2,201)	-	(2,201)
<b>December 31, 2016</b>	<b>₱167,716</b>	<b>₱650</b>	<b>₱168,366</b>

Proceeds from the sale of AFS financial assets amounted to ₱2.18 million, ₱21.36 million and ₱94.59 million for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015, respectively, with a corresponding gain on sale of ₱1.71 million, ₱17.24 million and ₱8.85 million, respectively.



Interest earned from AFS financial assets amounted to ₱6.79 million, ₱15.41 million and ₱14.92 million for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015, respectively.

Dividend income received on AFS financial assets amounted to ₱1.11 million, ₱2.50 million and ₱3.27 million for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015, respectively.

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## 9. Financial Assets at FVPL

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

Fair value of financial assets at FVPL as at December 31, 2016 and June 30, 2016 amounted to ₱13.10 million and ₱12.70 million, respectively, resulting to an unrealized gain (loss) of ₱0.40 million and (₱0.43 million) for the six months ended December 31, 2016 and year ended June 30, 2016, respectively (loss of ₱0.28 million for the year ended June 30, 2015).

During the fiscal year June 30, 2016, 128,600 shares amounting to ₱9.66 million were redeemed.

Dividend income earned from these shares amounted to ₱0.96 million for the year ended June 30, 2015 (nil for the six months ended December 31, 2016 and year ended June 30, 2016).

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## 10. Other Current Assets

	<b>December 31, 2016</b>	June 30, 2016
	<i>(In Thousands)</i>	
CWTs	<b>₱197,565</b>	₱185,608
Input VAT - net	<b>25,063</b>	33,485
Prepayments	<b>4,898</b>	24,574
	<b>227,526</b>	243,667
Less allowance for impairment losses	<b>2,636</b>	2,852
	<b>₱224,890</b>	₱240,815

Creditable withholding taxes (CWTs) are available for offset against income tax payable in the future periods. For the year-ended June 30, 2016, other current asset written off amounted to ₱10.66 million (nil for the six months ended December 31, 2016 and the year ended June 30, 2015).

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:

	December 31, 2016	June 30, 2016	June 30, 2015
		<i>(In Thousands)</i>	
Balances at beginning of year	₱2,852	₱2,895	₱2,819
Provisions (Note 20)	15	23	76
Recovery	(108)	-	-
Write-off	(123)	(66)	-
Balances at end of year	<b>₱2,636</b>	₱2,852	₱2,895

#### 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.

	December 31, 2016	June 30, 2016	
		<i>(In Thousands)</i>	
Acquisition costs:			
Balances at end of year	<b>₱5,959</b>	₱5,959	
Accumulated equity in net losses			
Balances at beginning of year	(3,407)	(3,388)	
Equity in net loss	(11)	(19)	
Balances at end of year	<b>(3,418)</b>	(3,407)	
	<b>2,541</b>	2,552	
Allowance for impairment loss	(610)	(610)	
	<b>₱1,931</b>	₱1,942	

Impairment loss recognized on investment in associate amounted to ₱0.61 for the year ended June 30, 2016 (nil for the year ended December 31, 2016 and year ended June 30, 2015)

Summarized of the financial statement information of the associate follows:

	December 31, 2016	June 30, 2016	
		<i>(In Thousands)</i>	
Current assets	<b>₱9,962</b>	₱9,941	
Noncurrent assets	21	21	
Total liabilities	<b>344</b>	261	
Revenue	<b>6</b>	146	
Costs and expenses	<b>118</b>	311	
Net loss	<b>55</b>	s94	



## 12. Investment Properties

	December 31, 2016		
	Buildings and Improvements	Land and Improvements	Total
	<i>(In Thousands)</i>		
<b>Cost</b>			
At beginning of year	₱2,929,927	₱345,627	₱3,275,554
Additions	357,410	–	357,410
Reclassification (Note 13)	8,692	–	8,692
At end of year	3,296,029	345,627	3,641,656
<b>Accumulated Depreciation and Amortization</b>			
At beginning of year	2,078,800	20,751	2,099,551
Depreciation and amortization (Note 20)	31,599	424	32,023
Reclassification (Note 13)	4,949	–	4,949
At end of year	2,115,348	21,175	2,136,523
Balance before impairment	1,180,681	324,452	1,505,133
Less: Allowance for impairment losses	12,834	–	12,834
<b>Net book values</b>	<b>₱1,167,847</b>	<b>₱324,452</b>	<b>₱1,492,299</b>
	June 30, 2016		
	Buildings and Improvements	Land and Improvements	Total
	<i>(In Thousands)</i>		
<b>Cost</b>			
At beginning of year	₱2,907,380	₱470,331	₱3,377,711
Additions	22,547	134	22,681
Disposals	–	(124,838)	(124,838)
At end of year	2,929,927	345,627	3,275,554
<b>Accumulated Depreciation and Amortization</b>			
At beginning of year	2,015,949	19,906	2,035,855
Depreciation and amortization (Note 20)	62,851	845	63,696
At end of year	2,078,800	20,751	2,099,551
Balance before impairment	851,127	324,876	1,176,003
Less: Allowance for impairment losses	12,834	–	12,834
<b>Net book values</b>	<b>₱838,293</b>	<b>₱324,876</b>	<b>₱1,163,169</b>

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 ₱5.19 billion and ₱4.82 billion as at December 31, 2016 and June 30, 2016, 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 TPI'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, the 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 depreciation.

LCI

On July 1, 2014, the Company 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 the Company 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.

Revaluation increment recognized on these assets amounted to ₱233.21 million and ₱237.01 million as at December 31, 2016 and June 30, 2016, respectively. Revaluation increment realized through depreciation and transferred to deficit (net of related tax) amounted to ₱3.81 million and ₱7.60 million as at December 31, 2016 and June 30, 2016, respectively.

Movement of revaluation increment are as follows:

	<b>December 31, 2016</b>	June 30, 2016
	<i>(In Thousands)</i>	
Beginning balance	<b>₱237,011</b>	₱244,622
Transfer of realized valuation increment	<b>(3,805)</b>	(7,611)
Balances at end of year	<b>₱233,206</b>	₱237,011



On December 31, 2016 and June 30, 2016, the net book values of TPI's and LCI's investment properties follow:

	December 31, 2016	June 30, 2016
	<i>(In Thousands)</i>	
At net book value:		
Original cost	P285,059	P285,059
Revaluation reserve (OCI)	233,206	237,011
Revaluation reserve (closed to retained earnings)	236,083	236,083
	<b>P754,348</b>	<b>P758,153</b>

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 P245.37 million, P467.93 million and P414.48 million for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015, respectively. Direct operating expenses incurred for investment properties amounted to P166.70 million, P406.99 million and P212.81 million for the six months ended December 31, 2015 and years ended June 30, 2016 and 2016, respectively, and include depreciation, real property taxes and repairs and maintenance (see Note 20).

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 P270.58 million. On September 7, 2015, the Group also sold its investment properties located in Mandaue City, Cebu for P431.57 million.

Gain on sale of these properties recognized for the year ended June 30, 2016 amounted to P578.97 million.

### 13. Property and Equipment

	December 31, 2016						
	Leasehold Improve ments	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	Total
	<i>(In Thousands)</i>						
<b>At cost</b>							
At beginning of year	P7,227	P2,026,421	P26,358	P65,160	P8,692	P8,588	P2,142,446
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
<b>Accumulated Depreciation and Amortization</b>							
At beginning of year	6,966	2,009,382	21,944	60,203	4,840	7,321	2,110,656
Depreciation and amortization (Note 20)	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	-	12,028	-	-	-	-	12,028
<b>Net Book Values</b>	<b>P203</b>	<b>P10,917</b>	<b>P2,122</b>	<b>P22,070</b>	<b>P-</b>	<b>P854</b>	<b>P36,166</b>



June 30, 2016							
	Leasehold Improvem ents	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	Total
(In Thousands)							
At cost							
At beginning of year	₱7,227	₱2,096,590	₱40,937	₱91,644	₱8,692	₱8,533	₱2,253,623
Additions	-	747	1,558	1,711	-	55	4,071
Disposals	-	(70,916)	(16,137)	(28,195)	-	-	(115,248)
At end of year	7,227	2,026,421	26,358	65,160	8,692	8,588	2,142,446
Accumulated Depreciation and Amortization							
At beginning of year	6,725	2,069,817	34,598	85,754	4,622	5,779	2,207,295
Depreciation and amortization (Note 20)	241	4,982	2,258	2,644	218	1,542	11,885
Disposals	-	(65,417)	(14,912)	(28,195)	-	-	(108,524)
At end of year	6,966	2,009,382	21,944	60,203	4,840	7,321	2,110,656
Less: Allowance for impairment loss (Note 20)							
	-	12,283	-	-	-	-	12,283
Net Book Values	₱261	₱4,756	₱4,414	₱4,957	₱3,852	₱1,267	₱19,507

For the year ended June 30, 2016, certain items of property and equipment identified as idle and included under machinery and equipment were written down to their estimated recoverable amount by ₱12.3 million.

Gain on sale of property and equipment was recognized for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015 amounting to ₱2.09 million, ₱5.97 million and ₱15.35 million, respectively.

As at December 31, 2016 and June 30, 2016, the Group continues to utilize fully depreciated property and equipment with an aggregate acquisition cost amounting to ₱36.69 million and ₱41.58 million, respectively.

#### 14. Software Costs

	December 31, 2016	June 30, 2016
(In Thousands)		
At cost:		
Beginning balances	₱37,508	₱35,940
Additions	3,081	1,568
Ending balances	40,589	37,508
Accumulated amortization:		
Beginning balances	31,292	27,140
Amortization (Note 20)	1,664	4,152
Ending balances	32,956	31,292
Net book values	₱7,633	₱6,216



## 15. Other Noncurrent Assets

	December 31, 2016	June 30, 2016
	<i>(In Thousands)</i>	
Deferred acquisition cost	<b>₱18,141</b>	₱21,344
Deferred reinsurance premiums	<b>17,618</b>	27,555
Refundable deposits (Note 30)	<b>17,838</b>	19,400
Deferred input VAT	<b>39,296</b>	7,572
Foreclosed property	<b>14,663</b>	-
Spare parts and supplies	<b>5,662</b>	9,180
Prepaid rent and other expenses	<b>3,811</b>	3,707
Others	<b>1,115</b>	6,664
	<b>₱118,144</b>	₱95,422

Deferred acquisition cost pertains to the unamortized costs incurred related to the acquisition of insurance contract such as commissions that are being charged to commission expense in proportion to premium revenue recognized.

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

Deferred input VAT arises from the purchase of services on credit and capital goods by the Group which is not yet paid as at yearend.

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

Foreclosed property pertains to a parcel of land received as settlement for FPIC receivables.

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 within one year.

Others consist mainly of various assets that are individually immaterial.

## 16. Accounts Payable and Accrued Expenses

	December 31, 2016	June 30, 2016
	<i>(In Thousands)</i>	
Trade payables	<b>₱118,256</b>	₱61,298
Claims payables (Note 3)	<b>88,773</b>	226,387
Reserves for unearned premiums	<b>88,422</b>	118,074
Nontrade payables	<b>40,710</b>	58,652
Due to reinsurers and ceding companies	<b>18,346</b>	32,993
Deferred rent income	<b>9,603</b>	10,613
Accrued expenses and others (Notes 27 and 28)	<b>312,511</b>	397,740
	<b>₱676,621</b>	₱905,757



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 written premiums gross of commissions payable to intermediaries, attributable to subsequent periods.

Accrued expenses include janitorial, rent, 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.

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## 17. Rental and Other Deposits

	December 31, 2016			June 30, 2016		
	Due within One Year	Beyond One Year	Total	Due within One Year	Beyond One Year	Total
	<i>(In Thousands)</i>					
Rental deposits (see Note 27)	<b>₱18,530</b>	<b>₱19,049</b>	<b>₱37,579</b>	₱37,405	₱1,275	₱38,680
Security deposits	<b>91,496</b>	<b>24,559</b>	<b>116,055</b>	55,779	54,576	110,355
Customer deposits	<b>1,704</b>	<b>11,798</b>	<b>13,502</b>	8,420	1,621	10,041
Construction bond	<b>2,922</b>	<b>2,433</b>	<b>5,355</b>	5,286	2,904	8,190
Other deposits	<b>6,515</b>	<b>2,143</b>	<b>8,658</b>	1,501	6,786	8,287
	<b>₱121,167</b>	<b>₱59,982</b>	<b>₱181,149</b>	₱108,391	₱67,162	₱175,553

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 (see Note 27). Customer deposits consist of priority premiums paid by tenants which serve as their reservation deposits.

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## 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-bearing advances with fixed repayment terms as of December 31, 2016.



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

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

**As at and for the year ended June 30, 2016**

	Amount/ Volume	Outstanding Balance	Terms	Conditions
(In Thousands)				
<i>Under common control</i>				
Guoman Philippines, Inc	₱50	₱1,677	To be settled in cash and collectible on demand	Unsecured, non-interest bearing, impaired, and unguaranteed
<b>Allowance for impairment losses</b>		<b>(1,625)</b>		
<b>Net</b>		<b>₱52</b>		

The Group has an outstanding unsecured and noninterest-bearing payable to ALI pertaining to system cost amounting to ₱10.70 million, which is collectible on demand as at December 31, 2016 (nil as at June 30, 2016; see Note 20).



Movements of allowance for impairment losses on amounts owed by related parties are as follows:

	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
<i>(In Thousands)</i>			
Balances at beginning of year	<b>₱1,625</b>	₱1,625	₱1,610
Provision for the year (Note 20)	-	-	15
Balances at end of year	<b>₱1,625</b>	₱1,625	₱1,625

Provision recognized on amounts owed by related parties amounted to ₱0.02 for the year ended June 30, 2015 (nil for the year ended December 31, 2016 and year ended June 30, 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.

In 2015, LCI, OSI and OLI, wholly owned subsidiaries of POPI, acquired a total of 26.50 million shares of the Company with aggregate cost of ₱21.92 million recognized under “Shares held by subsidiaries” in the consolidated statement of financial position as of December 31, 2016 and June 30, 2016.

#### Key Management Compensation

Compensation of key management personnel which pertains mostly to salaries and wages amounted ₱75.0 million and ₱78.1 million for the years ended June 30, 2016 and 2015, respectively (nil for the six months ended December 31, 2016).

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#### **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, 2016 and June 30, 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 investment in Cyber Bay under "AFS financial assets" amounted to ₱777.34 million and ₱888.38 million as at December 31, 2016 and June 30, 2016, respectively, net of allowance for impairment losses amounting to ₱527.48 million as at the same dates (see Note 8).

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## 20. Cost of Goods Sold, Services and Operating Expenses

### *Cost of Goods Sold and Services*

	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
	<i>(In Thousands)</i>		
Rental and utilities (Note 27)	<b>₱75,908</b>	₱268,575	₱84,149
Share in CUSA related expenses	<b>59,067</b>	92,816	53,687
Depreciation and amortization (Notes 12, 13 and 14)	<b>23,504</b>	31,523	38,326
Taxes and licenses	<b>7,394</b>	12,523	13,603
Contracted Services	<b>6,712</b>	10,435	2,777
Supplies and repairs	<b>835</b>	2,818	3,984
Personnel expenses (Notes 21 and 29)	<b>628</b>	1,785	16,438
Materials used and changes in inventories (Note 7)	<b>247</b>	5,337	11,499
Others	<b>1,977</b>	4,425	1,846
	<b>₱176,272</b>	₱430,237	₱226,309



*Operating Expenses*

	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
	<i>(In Thousands)</i>		
Personnel expenses (Notes 21 and 29)	<b>₱204,417</b>	₱229,466	₱188,542
Professional and legal fees	<b>30,649</b>	71,171	30,873
Depreciation and amortization (Notes 12, 13 and 14)	<b>13,314</b>	48,210	41,527
Rental (Note 27)	<b>10,561</b>	20,641	20,193
Janitorial and security services	<b>5,845</b>	7,570	6,903
Communication and transportation	<b>3,583</b>	8,662	10,442
Taxes and licenses	<b>2,889</b>	80,207	18,146
Supplies and repairs	<b>2,104</b>	5,932	5,782
Insurance	<b>1,469</b>	4,203	13,873
Marketing expenses	<b>1,311</b>	12,718	7,362
Provision for impairment losses (Notes 5, 7, 10 and 18)	<b>912</b>	55,051	2,547
Representations	<b>422</b>	2,210	2,165
Others (Note 18)	<b>13,884</b>	43,464	9,059
	<b>₱291,360</b>	₱589,505	₱357,414

Others include system cost for the six months ended December 31, 2016 (see Note 18) and selling expenses incurred in relation to the sale of real estate property for the year ended June 30, 2016.

**21. Personnel Expenses**

	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
	<i>(In Thousands)</i>		
Compensation and employee benefits	<b>₱198,753</b>	₱214,426	₱184,705
Retirement benefits costs (Note 23)	<b>6,292</b>	16,825	20,275
	<b>₱205,045</b>	₱231,251	₱204,980

**22. Interest Income (Expense) and Bank Charges - Net**

	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
Interest income			
Cash equivalents (Note 4)	<b>₱4,547</b>	₱2,772	₱1,421
Cash in banks (Note 4)	<b>190</b>	569	260
Amounts owed by related parties (Note 18)	<b>15,846</b>	-	-
Receivables (Note 5)	<b>-</b>	11,013	1
	<b>₱20,583</b>	₱14,354	₱1,682

(Forward)



	<b>December 31, 2016</b> <b>(Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
Interest expense and bank charges:			
Retirement benefits liability (Note 23)	<b>₱1,631</b>	₱3,664	₱2,497
Bank charges	<b>517</b>	331	444
Others	-	-	80
	<b>2,148</b>	3,995	3,021
	<b>₱18,435</b>	₱10,359	(₱1,339)

### 23. 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 December 31, 2016 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:

	<b>December 31,</b> <b>2016</b>	June 30, 2016
	<i>(In Thousands)</i>	
Retirement benefits liability (asset):		
Present value of obligation (PVO)	<b>₱20,630</b>	₱159,862
Fair value of plan assets	<b>(33,179)</b>	(84,158)
Unfunded obligation	<b>(₱12,549)</b>	₱75,704

	<b>December 31,</b> <b>2016</b> <b>(Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
	<i>(In Thousands)</i>		
Retirement benefits costs:			
Current service cost	<b>₱6,292</b>	₱16,825	₱20,275
Interest cost - net (Note 22)	<b>1,631</b>	3,664	2,497
	<b>₱7,923</b>	₱20,489	₱22,772



Movements in the retirement benefits liability are as follows:

	<b>December 31, 2016</b>	June 30, 2016
	<i>(In Thousands)</i>	
Balances at beginning of year	<b>₱75,704</b>	₱96,975
Benefit retirement cost	<b>7,923</b>	20,489
Actuarial gains - net	<b>(21,114)</b>	(5,842)
Actual contributions	<b>(4,217)</b>	(35,918)
Benefits paid	<b>(36,617)</b>	-
Settlement gain	<b>(34,228)</b>	-
Balances at end of year	<b>(₱12,549)</b>	₱75,704

The settlement gain amounting to ₱34.23 million is recognized in the statement of income under "Others-net".

Changes in the PVO are as follows:

	<b>December 31, 2016</b>	June 30, 2016
	<i>(In Thousands)</i>	
Balances at beginning of year	<b>₱159,862</b>	₱271,321
Current service cost	<b>6,292</b>	16,825
Interest cost	<b>3,135</b>	10,878
Benefits paid	<b>(94,133)</b>	(126,737)
Actuarial gain - net	<b>(20,298)</b>	(12,425)
Settlement gain	<b>(34,228)</b>	-
Balances at end of year	<b>₱20,630</b>	₱159,862

Changes in fair value of plan assets are as follows:

	<b>December 31, 2016</b>	June 30, 2016
	<i>(In Thousands)</i>	
Balances at beginning of year	<b>₱84,158</b>	₱174,346
Actual contributions	<b>4,217</b>	35,918
Interest income	<b>1,504</b>	7,214
Actuarial gain (loss) on plan assets	<b>816</b>	(6,583)
Benefits paid	<b>(57,516)</b>	(126,737)
Balances at end of year	<b>₱33,179</b>	₱84,158

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

	<b>December 31, 2016</b>	June 30, 2016
Cash	<b>11.47%</b>	17.03%
Equity	<b>-</b>	69.67%
Fixed income	<b>76.78%</b>	3.30%
Others	<b>11.75%</b>	10.00%
	<b>100.00%</b>	100.00%



The Group do not expect to contribute to the retirement plan in 2017.

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

	<b>December 31, 2016</b>	June 30, 2016
Discount rates	<b>5.37%</b>	5.19%
Salary increase rate	<b>6.50%</b>	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
<b>December 31, 2016</b>		
<b>Discount rate</b>	<b>+1%</b> <b>(1%)</b>	<b>(₱1,314,131)</b> <b>901,531</b>
<b>Future salary increases</b>	<b>+1%</b> <b>(1%)</b>	<b>1,547,250</b> <b>(1,134,650)</b>
<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:

	<b>December 31, 2016</b>	June 30, 2016	June 30, 2015	June 30, 2014
		(In Thousands)		
Defined benefit obligation	<b>₱20,630</b>	₱159,862	₱271,321	₱242,467
Plan assets	<b>33,179</b>	84,158	174,346	143,282
Unfunded obligation (excess fund)	<b>(12,549)</b>	75,704	96,975	99,185

## 24. Income Taxes

The Group's current provision for income tax for the six months ended December 31, 2016 and for the years ended June 30, 2016 and 2015 represents regular corporate income tax.

	<b>December 31, 2016</b> <b>(Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
		(In Thousands)	
Current	<b>₱3,340</b>	₱21,478	₱15,721
Final	<b>1,464</b>	2,599	3,991
Deferred	<b>(18,638)</b>	(16,963)	(8,148)
	<b>(₱13,834)</b>	₱7,114	₱11,564



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

	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
At statutory tax rates	<b>30.0%</b>	30.0%	30.0%
Additions to (reductions in) income taxes resulting from:			
Movements in unrecognized deferred income tax assets	<b>(133.3)</b>	(78.6)	(28.1)
Expired NOLCO	-	(27.3)	(15.3)
Exempt income from dividend interest income already subjected to final taxes	-	-	8.9
Gain on sale of AFS financial assets	<b>3.9</b>	(1.3)	(1.3)
Nondeductible expenses	-	-	0.9
Expired MCIT	<b>(30.0)</b>	(56.5)	(0.9)
Other nontaxable income	-	(0.3)	(0.6)
Other nontaxable income	<b>240.8</b>	128.1	(0.1)
At effective tax rates	<b>111.4%</b>	(5.9%)	(6.5%)

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

	<b>December 31, 2016</b>	June 30, 2016
	<i>(In Thousands)</i>	
Deferred income tax assets:		
Deferred rent	<b>₱16,964</b>	₱18,453
Allowance for impairment losses on receivables	<b>11,898</b>	11,902
Retirement benefits liability	-	6,110
PAS 17 rent expense	<b>15,574</b>	10,054
Unamortized past service cost	-	5,048
MCIT	<b>5,484</b>	2,742
NOLCO	<b>28,097</b>	14,307
Others	<b>2,747</b>	2,428
	<b>80,764</b>	71,044
Deferred income tax liabilities:		
Revaluation increment on property and equipment	<b>(99,946)</b>	(101,577)
Recovery on insurance	<b>(98,382)</b>	(98,382)
Remeasurement gain on retirement benefits liability	<b>(2,190)</b>	(19,992)
Unrealized gain on valuation of AFS financial assets	<b>(1,592)</b>	(1,198)
Unrealized foreign exchange loss (gain)	-	(38)
Revaluation reserve on investment properties	<b>(68,663)</b>	(70,825)
Deferred acquisition cost	-	(8)
Undepreciated capitalized rent, interest and customs duties	<b>(6,466)</b>	-
Retirement plan assets	<b>(4,311)</b>	-
Unrealized gain on valuation of FVPL	<b>(114)</b>	-
	<b>(281,664)</b>	(292,020)
	<b>(₱200,900)</b>	(₱220,974)



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:

	<b>December 31, 2016</b>	June 30, 2016
	<i>(In Thousands)</i>	
Allowance for impairment losses on receivables, other current assets, inventories and others	<b>₱870,504</b>	₱1,914,683
NOLCO	<b>386,223</b>	413,585
Accrued expenses	<b>3,765</b>	108
MCIT	<b>3,165</b>	2,945
Unamortized past service cost	—	53,438
Retirement benefits liability	—	5,122
Gain on remeasurement of retirement benefits plan	—	87,823
Incurred but not reported losses	—	3,003
Unrealized foreign exchange losses	—	444

As at December 31, 2016, 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
<i>(In Thousands)</i>			
June 30, 2014	June 30, 2017	₱105,565	₱137
June 30, 2015	June 30, 2018	41,560	1,296
June 30, 2016	June 30, 2019	154,779	3876
December 31, 2016	December 31, 2019	177,976	3,340
		<b>₱479,880</b>	<b>₱8,649</b>

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

	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)
	<i>(In Thousands)</i>	
Balances at beginning of year	<b>₱302,912</b>	₱196,028
Additions	<b>177,976</b>	308,459
Expirations/Application	<b>(1,008)</b>	(201,575)
	<b>₱479,880</b>	<b>₱302,912</b>



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

	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)
	<i>(In Thousands)</i>	
Balances at beginning of year	<b>₱5,309</b>	₱2,242
Additions	<b>3,340</b>	4,194
Expirations/Application	-	(1,127)
	<b>₱8,649</b>	₱5,309

## 25. Earnings Per Share

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

	<b>December 31, 2016 (Six Months)</b>	June 30, 2016 (One Year)	June 30, 2015 (One Year)
	<i>(In Thousands)</i>		
a. Net income (loss) attributable to equity holders of the Parent	<b>₱3,646</b>	₱30,427	(₱262,453)
b. Weighted average number of shares	<b>4,896,455</b>	2,378,638	2,367,149
Basic earnings per share (a/b)	<b>₱0.001</b>	₱0.013	(₱0.111)

## 26. 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 are as follows:

- Holding company
- Real estate - property development and leasing
- Financial services - insurance and related brokerage
- Manufacturing and distribution - manufacture and distribution of beverage and ceramic tiles







## 27. 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 ₱74.47 million, ₱264.74 million and ₱99.80 million for the six months ended December 31, 2016 and years ended June 30, 2016 and 2015, respectively (see Note 20). Related liability recognized as at December 31, 2016 and June 30, 2016 amounted to ₱60.80 million and ₱42.40 million, respectively (see Note 16).

As at December 31, 2016 and June 30, 2016, the aggregate annual commitments on these existing lease agreements for the succeeding years are as follows:

	<b>December 31, 2016</b>	June 30, 2016
	<i>(In Thousands)</i>	
Less than one (1) year	<b>₱140,529</b>	₱118,907
More than one (1) year but not more than five (5) years	<b>702,647</b>	447,675
More than five (5) years	<b>2,342,156</b>	2,941,659
	<b>₱3,185,332</b>	₱3,508,241

### 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. 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 ₱19.05 million and ₱1.28 million as at December 31, 2016 and June 30, 2016 (see Note 17).

The related rental, security, customer, construction bond and other deposits with aggregate amount of ₱181.15 million and ₱175.55 million under "Rental and other deposits" in the consolidated financial position (see Note 17).

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



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## 28. Provisions and Contingencies

The Group, in the ordinary course of business, is involved in various legal proceedings and tax assessments that 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 recognized amounted to ₱251.76 million for the year ended June 30, 2016 (nil for the six months ended December 31, 2016 and year ended June 30, 2015). Related liability recognized as at December 31, 2016 and June 30, 2016 amounted to ₱149.34 million and ₱251.15 million, respectively (see Note 16).

The Group recognized a reversal of the provision for probable losses amounting to ₱101.81 million for the six months ended December 31, 2016 (nil for the year ended June 30, 2016) and presented under “Reversal of (provision for) probable losses” in the consolidated statement of income.

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

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## 29. Share-based Payments

In 2015, the Group introduced the ESOWN Plan (the Plan) wherein grantees, including the Group’s qualifying employees, may subscribe in whole or in part to the shares of POPI 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 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.

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

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## 30. 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 and deposits under other current assets. 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, subscription payable 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 and equity price 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 debt instruments 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:

	<b>Neither past due nor impaired</b>		<b>Past due or individually impaired</b>	<b>Total</b>
	<b>High grade</b>	<b>Standard grade</b>		
	<i>(In Thousands)</i>			
<b><u>December 31, 2016</u></b>				
<i>Loans and Receivables:</i>				
Cash and cash equivalents	<b>₱368,360</b>	<b>₱-</b>	<b>₱-</b>	<b>₱368,360</b>
Receivables:				
Trade debtors	<b>11,787</b>	<b>81,084</b>	<b>67,678</b>	<b>160,549</b>
Insurance receivables	<b>24,630</b>	<b>133,152</b>	<b>44,092</b>	<b>201,874</b>
Others	<b>34,385</b>	<b>-</b>	<b>204,113</b>	<b>238,498</b>
Amounts owed by related parties	<b>1,447,928</b>	<b>-</b>	<b>1,625</b>	<b>1,449,553</b>
Deposits (under "Other noncurrent assets")	<b>17,430</b>	<b>-</b>	<b>408</b>	<b>17,838</b>
<i>AFS Financial Assets:</i>				
Quoted debt securities	<b>812,280</b>	<b>-</b>	<b>-</b>	<b>812,280</b>
Unquoted debt securities	<b>10,557</b>	<b>-</b>	<b>-</b>	<b>10,557</b>
	<b>₱2,727,357</b>	<b>₱214,236</b>	<b>₱317,916</b>	<b>₱3,259,509</b>



June 30, 2016

	Neither past due nor impaired		Past due or individually impaired	Total
	High grade	Standard grade		
<i>(In Thousands)</i>				
<i>Loans and Receivables:</i>				
Cash and cash equivalents	₱1,306,884	₱-	₱-	₱1,306,884
<i>Receivables:</i>				
Trade debtors	46,107	-	66,781	112,888
Insurance receivables	231,993	120,992	44,092	397,077
Loans receivable	1,425,750	-	-	1,425,750
Others	95,038	-	204,113	299,151
Amounts owed by related parties	52	-	1,625	1,677
Deposits (under "Other noncurrent assets")	18,992	-	408	19,400
<i>AFS Financial Assets:</i>				
Quoted debt securities	305,404	-	-	305,404
Unquoted debt securities	7,006	-	-	7,006
	<b>₱3,437,226</b>	<b>₱120,992</b>	<b>₱317,019</b>	<b>₱3,875,237</b>

The tables below show the aging analyses of financial assets per class that the Group held as at December 31, 2016 and June 30, 2016. A financial asset is past due when a counterparty has failed to make payment when contractually due.

**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		
<i>(In Thousands)</i>							
<i>Loans and Receivables:</i>							
Cash and cash equivalents	<b>₱368,360</b>	₱-	₱-	₱-	₱-	₱-	<b>₱368,360</b>
<i>Receivables:</i>							
Trade debtors	<b>73,008</b>	-	-	-	<b>19,863</b>	<b>67,678</b>	<b>160,549</b>
Insurance receivables	<b>39,693</b>	<b>4,095</b>	<b>7,640</b>	<b>503</b>	<b>105,851</b>	<b>44,092</b>	<b>201,874</b>
Others	<b>34,226</b>	<b>160</b>	-	-	-	<b>204,113</b>	<b>238,499</b>
Amounts owed by related parties	<b>1,447,928</b>	-	-	-	-	<b>1,625</b>	<b>1,449,553</b>
Deposits (under "Other noncurrent assets")	<b>17,838</b>	-	-	-	-	-	<b>17,838</b>
<i>AFS Financial Assets</i>							
Quoted debt securities	<b>812,280</b>	-	-	-	-	-	<b>812,280</b>
Unquoted debt securities	<b>10,557</b>	-	-	-	-	-	<b>10,557</b>
	<b>₱2,435,530</b>	<b>₱4,255</b>	<b>₱7,640</b>	<b>₱503</b>	<b>₱125,714</b>	<b>₱317,508</b>	<b>₱2,891,150</b>



**June 30, 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		
<i>(In Thousands)</i>							
<i>Loans and Receivables:</i>							
Cash and cash equivalents	₱1,306,884	₱-	₱-	₱-	₱-	₱-	₱1,306,884
<i>Receivables:</i>							
Trade debtors	24,210	2,651	3,254	1,909	14,083	66,781	112,888
Insurance receivables	237,184	9,448	367	8,864	97,122	44,092	397,077
Loans receivable	1,425,750	-	-	-	-	-	1,425,750
Others	94,834	204	-	-	-	204,113	299,151
Deposits (under "Other noncurrent assets")	19,400	-	-	-	-	-	19,400
<i>AFS Financial Assets</i>							
Quoted debt securities	305,404	-	-	-	-	-	305,404
Unquoted debt securities	7,006	-	-	-	-	-	7,006
	<b>₱3,420,672</b>	<b>₱12,303</b>	<b>₱3,621</b>	<b>₱10,773</b>	<b>₱111,205</b>	<b>₱314,986</b>	<b>₱3,873,560</b>

**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, 2016 and June 30, 2016 based on contractual undiscounted payments:

**December 31, 2016**

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
<i>Loans and Receivables:</i>						
Cash and cash equivalents	368,360	₱-	₱-	₱-	₱-	₱368,360
Trade debtors	160,549	-	-	-	-	160,549
Insurance receivables	201,874	-	-	-	-	201,874
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
	<b>₱3,244,031</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱3,244,031</b>
Accounts payable and accrued expenses	₱352,490	₱50,294	₱1,440	₱236,869	₱-	₱641,093
Amounts owed to related parties	10,698	-	-	-	-	10,698
Subscription payable	481,675	-	-	-	-	481,675
Rental and other deposits	96,324	11,813	-	13,030	59,982	181,149
	<b>₱941,187</b>	<b>₱62,107</b>	<b>₱1,440</b>	<b>₱249,899</b>	<b>₱59,982</b>	<b>₱1,314,615</b>



June 30, 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	₱1,306,884	₱-	₱-	₱-	₱-	₱1,306,884
Trade debtors	112,888	-	-	-	-	112,888
Insurance receivables	397,077	-	-	-	-	397,077
Loans receivable	1,467,859	-	-	-	-	1,467,859
Others	299,151	-	-	-	-	299,151
Amounts owed by related parties	1,729	-	-	-	-	1,729
Deposits (under "Other noncurrent assets")	19,400	-	-	-	-	19,400
<i>AFS Financial Assets</i>						
Quoted debt securities	305,404	-	-	-	-	305,404
Unquoted debt securities	7,006	-	-	-	-	7,006
	<b>₱3,917,398</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱3,917,398</b>
Accounts payable and accrued expenses	₱436,764	₱50,947	₱21,565	₱134,713	₱-	₱643,989
Subscription payable	481,675	-	-	-	-	481,675
Rental and other deposits	97,554	16,192	14,160	13,456	67,162	175,553
	<b>₱983,022</b>	<b>₱67,139</b>	<b>₱35,725</b>	<b>₱148,169</b>	<b>₱67,162</b>	<b>₱1,301,217</b>

*Foreign Currency Risk*

The Group's foreign currency risk results from the foreign exchange rate movements of the Philippine peso against the United States dollars (USD), European Monetary Union (EUR) and Great Britain Pound (GBP). The Group's foreign currency risk arises primarily from its cash in banks and trade payables.

The Group monitors and assesses cash flows from anticipated transactions and financing agreements denominated in USD, EUR and GBP.

As of December 31, 2016 and June 30, 2016, the effect of changes in the Group's foreign currency-denominated monetary assets is not material.

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

*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 shares of stock. 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 shares'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>		
<b>December 31, 2016</b>		
<b>Upper Limit</b>	<b>+11.97%</b>	<b>₱7,934</b>
<b>Lower Limit</b>	<b>(11.97%)</b>	<b>(7,934)</b>
June 30, 2016		
Upper Limit	+18.42%	28,435
Lower Limit	(18.42%)	(28,435)
June 30, 2015		
Upper Limit	+11.59%	34,677
Lower Limit	(11.59%)	(34,677)

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, 2016 and June 30, 2016.

As at December 31, 2016 and June 30, 2016, the Group considers the following accounts as capital:

	<b>December 31, 2016</b>	June 30, 2016
<i>(In Thousands)</i>		
Capital stock	<b>₱2,765,589</b>	₱2,130,576
Additional paid-in capital	<b>1,599,756</b>	829,904
	<b>₱4,365,345</b>	₱2,960,480

The Group is not subject to externally imposed capital requirements.

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

Share price at date of grant	₱1.76
Risk free interest rate	4.0915%
Annualized volatility	56.00%
Annual dividend yield	0%
Exit rates	
Termination for cause	0%
Voluntary Resignation	0.1462%
Involuntary Separation	0.1462%



The resulting personnel expense recognized for the year ended June 30, 2016 amounted to ₱27.47 million (nil in six months ended December 31, 2016; see Note 20).

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### 31. 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, 2016 and June 30, 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/to 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, 2016 and June 30, 2016 (Level 1). AFS debt financial assets that are quoted are based on market prices (Level 1). Unquoted debt and nonlisted AFS financial assets are based on latest available transaction price at the end of the reporting period (Level 3).

#### *Financial Assets at FVPL*

Listed equity securities designated as financial assets at FVPL are based on their bid prices (Level 1).



## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors  
Prime Orion Philippines, Inc.  
20/F LKG Tower  
6801 Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Prime Orion Philippines, Inc. and subsidiaries (the "Group") as at December 31, 2016 and June 30, 2016 and for the six months ended December 31, 2016 and for the years ended June 30, 2016 and 2015 and have issued our report thereon dated February 13, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

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. 08-001998-98-2015,  
January 5, 2015, valid until January 4, 2018  
PTR No. 5908762, January 3, 2017, Makati City

February 13, 2017



**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**

**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

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SCHEDULE I - Schedule of all Effective Standards and Interpretations under Philippine Financial Reporting Standards

**SCHEDULE I**  
**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE OF EFFECTIVE STANDARDS AND**  
**INTERPRETATIONS UNDER THE PFRS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2016**

**List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as at December 31, 2016:**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of 'Effective PFRSs'			✓
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements*	✓		
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination*	✓		
<b>PFRS 4</b>	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal	✓		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
	Amendments to PFRS 7: Disclosures - Servicing Contracts*			✓
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
<b>PFRS 8</b>	Operating Segments			✓
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
<b>PFRS 9</b>	Financial Instruments: Classification and Movement (2010 version)	<b>Not early adopted</b>		
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*	<b>Not early adopted</b>		
	Financial Instruments (2014 or final version)*	<b>Not early adopted</b>		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	<b>Not early adopted</b>		
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations*			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		
	Amendments to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
<b>Philippine Accounting Standards</b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of servicing equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Tax effect of distribution to holders of equity instruments			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities			✓
	Amendments to PAS 34: – Disclosure of information ‘elsewhere in the interim financial report’			✓
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
<b>PAS 40</b>	Investment Property	✓		
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
<b>PAS 41</b>	Amendment to PAS 41: Bearer Plants			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	No Adopted	No Applicable
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 8</b>	Scope of PFRS 2			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 11</b>	PFRS 2 - Group and Treasury Share Transactions			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments	✓		
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Entities			✓
<b>SIC-12</b>	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-21</b>	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

The Group has not early adopted any PFRSs, PAS and Philippine Interpretations effective January 1, 2017 onwards.

## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors  
Prime Orion Philippines, Inc.  
Unit 1014, Tower One and Exchange Plaza  
Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Prime Orion Philippines, Inc. and its subsidiaries (the Group) as at December 31, 2017 and 2016 and as at June 30, 2016 and for the year ended December 31, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016, and have issued our report thereon dated February 19, 2018. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, as Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

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



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS				
Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and qualitative characteristics				
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendments to PFRS 1: Meaning of Effective PFRSs	Not early adopted		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Definition of Vesting Condition	✓		
PFRS 3 (Revised)	Business Combinations	✓		
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendments to PFRS 5: Changes in Methods of Disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Amendments to PFRS 7: Servicing Contracts	✓		
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not early adopted		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS				
Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments (2010 version)		Not early adopted	
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)		Not early adopted	
	Financial Instruments (2014 or final version)		Not early adopted	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		Not early adopted	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendment to PFRS 10: Investment Entities: Applying the Consolidation Exception	✓		
	Amendment to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		Not early adopted	
	Amendment to PFRS 10: Consolidated Financial Statement: PFRS 12: Disclosure of Interest in Other Entities and PAS 28: Investment in Associates and Joint Ventures – Investment Entities: Applying the Consolidation exception	✓		
PFRS 11	Joint Arrangements	✓		
	Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		Not early adopted	
PFRS 16	Leases		Not early adopted	
<b>Philippine Accounting Standards</b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
	Amendment to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS				
Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of servicing equipment	✓		
	Amendment to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendment to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		Deferred	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>				
<b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 34</b>	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities	✓		
	Amendments to PAS 34: Disclosure of Information 'elsewhere in the interim financial report'	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
<b>PAS 40</b>	Investment Property	✓		
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40	✓		
<b>PAS 41</b>	Agriculture			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 8</b>	Scope of PFRS 2	✓		
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>				
<b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 12</b>	Service Concession Arrangements	✓		
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 15</b>	Agreements for the Construction of Real Estate			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration	✓		
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	✓		
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓
<b>PIC 2016-02</b>	PAS 32 and PAS 38: Accounting Treatment of Club Shares Held by an Entity	✓		

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

Unit 1014 10th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City

**SCHEDULE II  
RECONCILIATION OF RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DECLARATION  
AS OF DECEMBER 31, 2017**

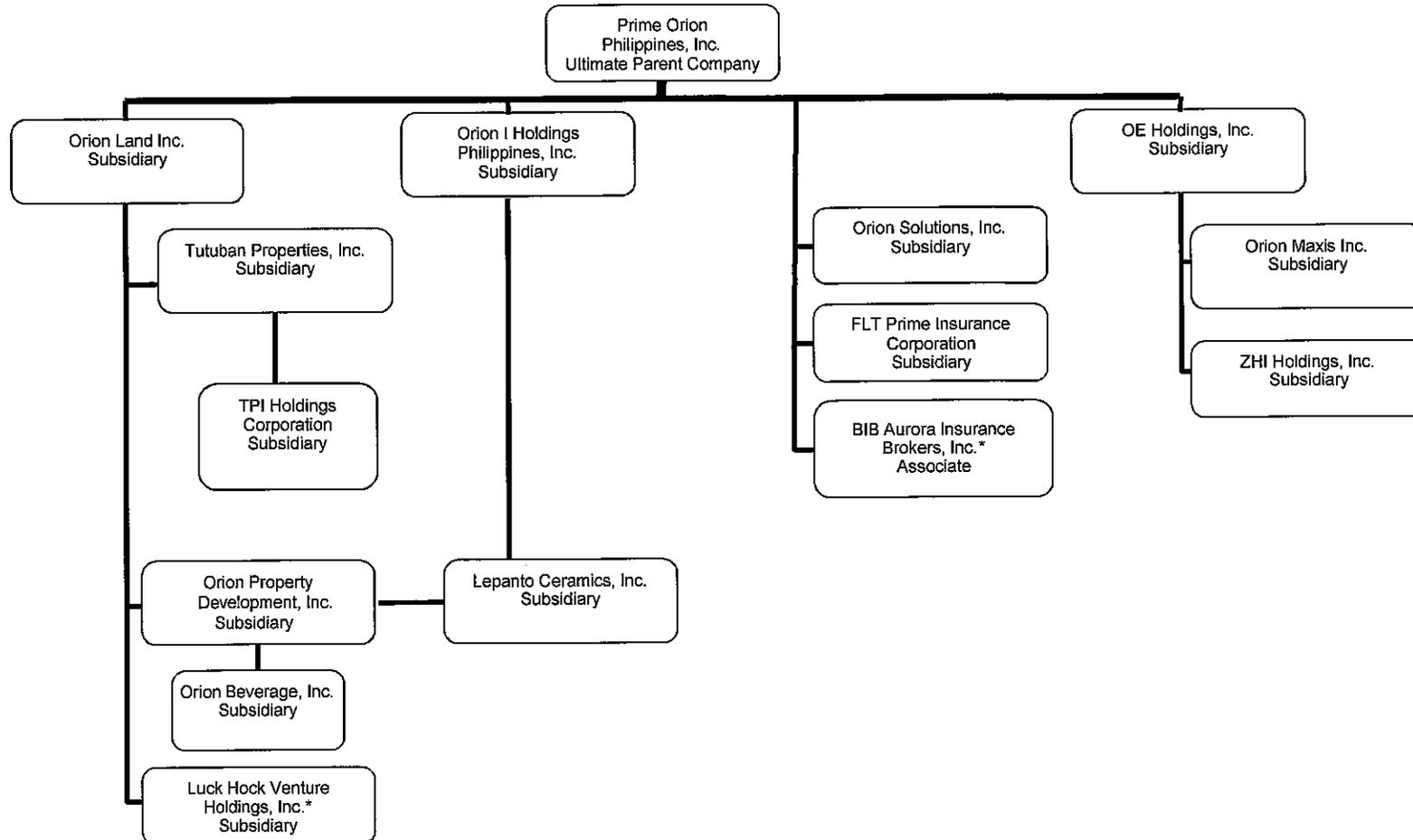
*(Figures based on functional currency  
audited financial statements)*

	<b>Amounts (In Thousands)</b>
Unappropriated Retained Earnings, as of 31 December 2016	(332,715)
Effect of Change in accounting policy and adjustment	(31,198)
Unappropriated Retained Earnings, as adjusted to available, as of 31 December 2016	<u>(363,913)</u>
 Add: Net income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	<u>33,143</u>
 Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	<u>(43)</u>
Sub-total	<u>(43)</u>
 Add: Non-Actual Losses	
Depreciation on revaluation increment (after tax)	7,611
Movement in deferred tax during the year	8,439
Sub-total	<u>16,050</u>
 <b>Net Income actually earned during the period</b>	<u><b>49,236</b></u>
Add (Less):	
Shares held by subsidiary	(1,279,026)
<b>TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND</b>	<u><b>(1,593,703)</b></u>

**SCHEDULE III  
FINANCIAL RATIOS  
PURSUANT TO SRC RULE 68, AS AMENDED**

	Formula	(One Year) 31-Dec-17	(Six Months) 31-Dec-16	(One Year) 30-Jun-16
Return on assets	$\frac{\text{Net Income (loss)}}{\text{Average Assets}}$	0.00	(0.00)	0.00
Return on equity	$\frac{\text{Net income (loss)}}{\text{Average Equity}}$	0.00	(0.00)	0.00
Gross profit margin	$\frac{\text{Gross profit}}{\text{Total Revenues}}$	0.29	0.26	0.22
Net profit margin	$\frac{\text{Net income}}{\text{Sales revenue}}$	0.03	(0.00)	0.01
Cost to income ratio	$\frac{\text{Cost and expenses}}{\text{Revenues}}$	1.10	1.52	1.32
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.91	5.28	2.11
Quick ratio	$\frac{\text{Current Assets less Inventory}}{\text{Current Liabilities}}$	2.90	5.27	2.11
Solvency ratio	$\frac{\text{After tax net profit(loss) + Depreciation}}{\text{Long Term Liabilities + Short Term Liabilities}}$	0.07	0.02	0.03
Asset to equity ratio	$\frac{\text{Total Assets}}{\text{Equity}}$	1.24	1.38	2.10
Debt to equity ratio	$\frac{\text{Total Liability}}{\text{Equity}}$	0.23	0.37	1.08
Interest rate coverage ratio	$\frac{\text{EBITDA}}{\text{Interest expense}}$	not applicable	not applicable	not applicable
Gross Profit Margin	$\frac{\text{Sales - COGS or COS}}{\text{Sales}}$	0.27	0.23	0.31
Price/Earnings Ratio	$\frac{\text{Price Per Share}}{\text{Earnings Per Common Share}}$	304.34	(28,192)	332.31

**SCHEDULE IV**  
**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**  
**AS AT DECEMBER 31, 2017**



\*Inactive

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE A - FINANCIAL ASSETS**  
**AS AT DECEMBER 31, 2017**  
 AMOUNTS IN THOUSANDS (Except for Number of Shares)

Name of issuing entity and association of each issue	Number of shares or principal amounts of bonds and notes	Amount shown in the balances sheet	Income received and accrued
<b>A. CASH AND CASH EQUIVALENTS</b>			
<b>SAVINGS/CURRENT ACCOUNT (PESO)</b>			
Asia United Bank			
Banco de Oro Universal Bank		1,239	24
Bank of the Philippine Islands		72,996	208
Development Bank of the Philippines		52	-
Metropolitan Bank and Trust Company		610	1
Rizal Commercial Banking Corp.		803	1
Security Bank		76	-
United Coconut Planters Bank		3,116	4
Sub-total		78,892	237
<b>SAVINGS/CURRENT ACCOUNT (FCDU)</b>			
Banco de Oro Universal Bank		51	0
		51	0
<b>SHORT TERM INVESTMENTS</b>			
Philippine National Bank		119	-
Rizal Commercial Banking Corp.		175,817	757
		175,936	757
		<b>254,879</b>	<b>995</b>
<b>B. INVESTMENT IN BONDS AND OTHER SECURITIES</b>			
Available for sale investments:			
<i>Listed equity securities</i>			
Asia United Bank	500	3	
Cyber Bay Corporation	1,388,101,404	624,646	
Global Estate Resorts, Inc.	656,000	938	
Philex Mining Corporation	100,000	606	
Philippine Long Distance Telephone Company	500	90	
Top Frontier Holdings, Inc.	4,200	1,201	
Trans-Asia Oil and Energy Dev't. Corp.	832,000	1,306	
Zeus Holdings, Inc.	8,090,876	1,529	
	1,397,785,480	630,319	-
<i>Quoted debt securities</i>			
Ayala Corporation	5,000	2,643	
AMALGAMATED 7-57		294	
FIRST METRO 20-17		16,378	
RCBC 10-60		8,005	
RCBC 7-51		1,504	
RCBC		998	
SECURITY BANK 20-13		877	
SECURITY BANK-5-72		2,020	
Retail Treasury Bond		4,655	
Retail Treasury Bond		9,311	
Retail Treasury Bond		10,242	
Retail Treasury Bond		11,357	
Retail Treasury Bond		5,281	
	5,000	73,564	-
<i>Nonlisted equity securities - net</i>			
Canlubang Golf & Country Club	1	900	
Global Business Holdings	378	45	
Makati (Sports) Club, Inc.	1	250	
Philippine Central Depository, Inc.	5,000	500	
Sta. Elena Golf Club-A	1	3,200	
Valley Golf Club	2	500	
Zeus Holdings, Inc. - unlisted shares	1,175,600	1,176	
	1,180,983	6,570	-
<b>TOTAL INVESTMENTS IN BONDS &amp; OTHER SECURITIES</b>		<b>710,454</b>	<b>-</b>

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES,**  
**RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

As of December 31, 2017

AMOUNTS IN THOUSANDS

Account Type	Balance at Beginning period	Additions	Deductions		Current	Not Current	Balance at end period
			Amounts Collected / Settlements	Amounts Written off			
Advances to employees for company expenses	229	41	19	-	78	21	250
Salary loan	1,217	-	1,217	-	-	-	-
Others	4,957	590	636	565	59	593	4,345
	6,402	630	1,872	565	137	614	4,595

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE**  
**ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**

**As of December 31, 2017**

**AMOUNTS IN THOUSANDS**

<b>Name and Designation of Debtor</b>	<b>Balance at Beginning period</b>	<b>Additions</b>	<b>Amounts Collected/ Settlements</b>	<b>Accounts Written off</b>	<b>Current</b>	<b>Not Current</b>	<b>Balance at end period</b>
Orion I Holdings Philippines, Inc./Subsidiary	199,153	-	(0)	-	-	199,153	199,153
Lepanto Ceramics, Inc./Subsidiary	5	155	(5)	-	155	-	155
OE Holdings, Inc./Subsidiary	34,089	-	(0)	-	34,088	-	34,088
Orion Maxis Inc./Subsidiary	22,733	386	-	-	23,120	-	23,120
FLT Prime Insurance Corp./Subsidiary	948	-	-	-	948	-	948
Tutuban Properties, Inc./Subsidiary	36,763	40,506	-	-	77,269	-	77,269
Orion Property Development, Inc./Subsidiary	4	155	(4)	-	155	-	155
Orion Land Inc./Subsidiary	1	155	(1)	-	155	-	155
Luck Hock Venture Holdings, Inc./Subsidiary	0	-	(0)	-	-	-	-
TPI Holdings Corporation/Subsidiary	1	-	(1)	-	-	-	-
Orion Beverage, Inc./Subsidiary	1	-	(1)	-	-	-	-
ZHI Holdings, Inc./Subsidiary	1	-	(1)	-	-	-	-
	<b>293,699</b>	<b>41,358</b>	<b>(13)</b>	<b>-</b>	<b>135,891</b>	<b>199,153</b>	<b>335,043</b>

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**

As of December 31, 2017

AMOUNTS IN THOUSANDS

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
Deferred reinsurance premium	17,618	-	-	-	(17,618)	-
Deferred acquisition cost	18,141	-	-	-	(18,141)	-
Deferred input tax	19,085	394,121	-	-	24,753	437,959
	54,844	394,121	-	-	(11,006)	437,959

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE E - LONG-TERM DEBT**  
As of December 31, 2017

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under the caption "Current Portion of long-term debt" in related balance sheet	Amount shown under the caption "Long-Term Debt" in related balance sheet
<div data-bbox="712 549 1536 612" style="border: 1px solid black; padding: 5px; display: inline-block;"><b>NOT APPLICABLE</b></div>			

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**

**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED COMPANIES)**

**As of December 31, 2017**

**AMOUNTS IN THOUSANDS**

<b>Name of Related Party</b>	<b>Balance at beginning of period</b>	<b>Balance at end of period</b>
<b>NOT APPLICABLE</b>		

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
As of December 31, 2017  
AMOUNTS IN THOUSANDS

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owed by person for which statement is filed	Nature of guarantee
<b>NOT APPLICABLE</b>				

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES  
SCHEDULE H - CAPITAL STOCK  
As of December 31, 2017

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Number of shares held Directors, officers and employees	Number of shares held by Others
<b>COMMON SHARES</b>	<b>7,500,000,000</b>					
ISSUED		2,001,803,698		539,542,667	60,428,544	
SUBSCRIBED		2,891,085,186		2,500,000,000	-	
		4,892,888,884		3,039,542,667	60,428,544	