

# PrimeOrion Philippines, Inc.

## NOTICE OF ANNUAL STOCKHOLDERS' MEETING

### TO ALL STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the annual meeting of the stockholders of PRIME ORION PHILIPPINES, INC. will be held on:

Date : 13 January 2017 (Friday)  
Time : 9:00 a.m.  
Venue : Legaspi and Urdaneta Function Rooms, Makati Sports Club, L.P. Leviste St. corner Gallardo St., Makati City

The agenda for the meeting will be as follows:

1. Call to Order
2. Proof of Notice, Determination of Quorum and Rules of Conduct and Procedures
3. Approval of Minutes of the Special Stockholders' Meeting on 20 October 2015
4. Annual Report for Fiscal Year 2014-2015 (including the Consolidated Audited Financial Statements (FS) for the Fiscal Year ended 30 June 2015)
5. Annual Report for Fiscal year 2015-2016 (including the Consolidated Audited FS for the Fiscal Year ended 30 June 2016)
6. Election of Directors (including the Independent Directors)
7. Appointment of External Auditor and Fixing of its Remuneration
8. 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)
9. 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
10. Fixing of the Per Diem of Directors per Board of Directors' Meeting and Committee Meeting Attended starting Fiscal Year 2017
11. Consideration of Other Business as May Properly Come Before the Meeting.
12. Adjournment

For the purpose of the meeting, only stockholders of record at the close of business on 29 November 2016 shall be entitled to notice of, and to vote at, this meeting.

Stockholders who cannot attend the meeting in person are requested to accomplish the attached proxy and return the same to the office of the Corporation not later than 4 January 2017. If the stockholder is a corporation, a Secretary's Certificate quoting the board resolution authorizing the corporate officer to execute the proxy should also be submitted.

Validation of the proxies will be held on 6 January 2017 at 2:00 p.m. at 27/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

Makati City, 24 November 2016.

By Resolution of the Board of Directors:

ATTY. JUNE VEE D. MONTECLARO-NAVARRO  
Corporate Secretary 

## EXPLANATION OF AGENDA ITEMS FOR STOCKHOLDERS' APPROVAL

### Proof of Notice, Determination of Quorum and Rules of Conduct and Procedures

The Corporate Secretary will certify the date the notice of the meeting was sent to all stockholders of record and the date of publication of the notice in newspapers of general circulation.

The Corporate Secretary will further certify the existence of a quorum. The stockholders of record, present in person or by proxy, representing a majority of the outstanding capital stock shall constitute a quorum for the transaction of business.

The following are the rules of conduct and procedures:

- (i) The polls are open for the stockholders to cast their votes manually.
- (ii) A stockholder may vote manually using the ballot provided to him upon registration (except the ballot for the election of directors) and placing the voted ballot in the ballot boxes located inside the Ballroom.
- (iii) The paper ballot sets forth the proposed resolutions for consideration by the stockholders and each proposed resolution would be shown on the screen in front of the Ballroom as it is taken up at the meeting.
- (iv) In general, the stockholders act by the affirmative vote of stockholders representing at least a majority of the outstanding capital stock present at the meeting including the amendment of Articles II, IV and V of the By-Laws.
- (v) The approval of the amendment of Section 1, Article VII of the By-laws on the delegation of authority to the Board of Directors to amend the By-laws requires the affirmative vote of two thirds (2/3) vote of the outstanding capital stock.
- (vi) Each outstanding share of stock entitles the registered holder to one (1) vote.
- (vii) The election of the directors shall be by plurality of votes. Every stockholder shall be entitled to cumulate his votes. The stockholders may cast their votes for the election of directors at the time allotted during the meeting.
- (viii) All votes received shall be tabulated by the Office of the Corporate Secretary, and the results of the tabulation shall be validated by SyCip Gorres Velayo and Co. (SGV) except the votes for the election of directors which will be tabulated and validated by SGV.
- (ix) During the meeting, as the stockholders take up an item on the Agenda, the Corporate Secretary will report the votes already received and tabulated on that item.

### Approval of Minutes of Previous Meeting

The minutes of the special stockholders' meeting held on 20 October 2015 are available at the Company website, [www.primeorion.com](http://www.primeorion.com). Copies of the minutes will also be distributed to the stockholders before the meeting.

**Remarks:** A resolution approving the minutes will be presented to the stockholders and approved by the vote of the stockholders representing at least a majority of the outstanding capital stock present at the meeting.

### Annual Reports for the Fiscal Years (FY) 2014-2015 and 2015-2016 (including the Consolidated Audited Financial Statements (FS) for the FYs ended 30 June 2015 and 30 June 2016)

The Company did not hold an annual stockholders' meeting in 2015 but held a special stockholders' meeting (SSM) on 20 October 2015. A Management Report was distributed to the stockholders during the SSM in October 2015 without the audited FS which, nevertheless, were posted in the Company website five (5) days before the SSM. Hence, the need to present the audited FS for the FYs ended 30 June 2015 and 30 June 2016 to the stockholders for approval. The Chairman, Mr. Bernard Vincent O. Dy, and the President and Chief Executive Officer, Mr. Jose Emmanuel H. Jalandoni, will deliver a report to the stockholders on the performance of the Company in 2015 and the outlook for 2016. The FS for FYs 2015 and 2016 are included in the Information Statement to be sent to the stockholders at least fifteen (15) business days before the meeting.

**Remarks:** A resolution noting the report and approving the consolidated audited financial statements will be presented to the stockholders for approval by the affirmative vote of the stockholders representing at least a majority of the outstanding capital stock.

#### Election of Directors (Including the Independent Directors)

Any stockholder may submit to the Nomination Committee nominations to the Board of Directors not later than October 5, 2016. In view of the resignation of Atty. Ricardo J. Romulo as independent director and the withdrawal of the acceptance of his nomination as such, the nomination was re-opened and the Board of Directors set the deadline on November 23, 2016. The Nomination Committee will determine whether the nominees for directors, including the nominees for independent directors, have all the qualifications and none of the disqualifications to serve as members of the Board before submitting the nominees for election by the stockholders. The profiles of the nominees to the Board will be provided in the Information Statement and in the Company website for examination by the stockholders.

Each stockholder entitled to vote may cast the votes to which the number of shares he owns entitles him, for as many persons as are to be elected as directors, or he may give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. The nine (9) nominees receiving the highest number of votes will be declared elected as directors of the Company.

Remarks: A resolution on the election of directors will be presented to and approved by the stockholders representing at least a majority of the outstanding capital stock present at the meeting.

#### Appointment of External Auditor and Fixing of its Remuneration

The Audit and Risk Management Committee will endorse to the stockholders the appointment of an external auditor for the current fiscal year. The profile of the external auditor will be provided in the Information Statement and in the Company website for examination by the stockholders.

Remarks: A resolution for the appointment of the external auditor and for the approval of its remuneration will be presented to the stockholders for adoption by the affirmative vote of stockholders representing a majority of the outstanding capital stock present at the meeting.

#### Amendments to the By-laws

The Company will present for stockholders' approval the following amendments to the By-laws to address the operational requirements of the Company:

- i. Change of the place of the annual stockholders' meeting from "municipality" to "city" where the principal office of the company is located, and date of the annual stockholders' meeting from "second Monday of November" to "second Friday of April" (Section 1, Article II)
  - The change in the place of the stockholders' meeting is to reflect the location of the office of the Company which is in Makati City. The change in the stockholders' meeting date is due to the shift of the Company from fiscal year to calendar year.
- ii. Inclusion of Chief Operating Officer as officer of the Corporation (Sections 1 and 5, Article IV)
  - The Company will appoint an officer to handle the day-to-day operations of the Company.
- iii. Inclusion of Chief Finance Officer as officer of the Corporation (Sections 1 and 10, Article IV)
  - The Company will appoint an officer for effective management of the Company's funds and assets.
- iv. Change of financial year from fiscal year to calendar year (Section 1, Article V)
  - The Company has to be aligned with the operating period of its parent company, Ayala Land, Inc., to facilitate consolidation of accounts.
- v. Delegation of authority to the Board of Directors to amend the By-laws (Section 1, Article VII)
  - The delegation of authority will facilitate the amendment of the By-laws in the future.

Remarks: A resolution on the approval of the amendments will be presented to and approved by the stockholders. Items (i) to (iv) must be approved by the affirmative vote of stockholders representing at least a majority of the outstanding capital stock present at the meeting. Item (v) requires the affirmative vote of the stockholders representing at least two thirds (2/3) of the outstanding capital stock present at the meeting.

Fixing of the fiscal year 2016 compensation and bonus and fixing of the per diem per committee meeting attended

The Compensation and Remuneration Committee will endorse for approval of the stockholders the fixing of the fiscal year 2016 compensation and bonus of the members of the Board at PhP500,000.00 and PhP500,000.00, respectively; and fixing of the per diem of PhP30,000.00 per committee meeting attended.

*Remarks:* A resolution on the approval of the fiscal year 2016 compensation and bonus and fixing of the per diem per committee meeting attended will be presented to and approved by the affirmative vote of the stockholders representing at least a majority of the outstanding capital stock present at the meeting.

Fixing of the per diem of directors for Board of Directors' meetings and committee meetings attended starting fiscal year 2017

The Compensation and Remuneration Committee will endorse for approval of the stockholders the fixing of the per diem of PhP40,000.00 and PhP30,000.00 per Board and committee meeting attended, respectively, starting fiscal year 2017.

Under the Company's By-laws, the Board of Directors, subject to the approval of the stockholders, shall be authorized to fix the per diems of the directors attending board meetings, executive committee meetings, and other committee meetings. The amount of per diem shall however be guided by reasonableness and industry practice. Moreover, the amount equivalent to five percent (5%) of the 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.

*Remarks:* A resolution on the approval of the per diem of Directors for Board of Directors' meetings and committee meetings attended starting fiscal year 2017 will be presented to and approved by the affirmative vote of the stockholders representing at least a majority of the outstanding capital stock present at the meeting.

Consideration of Other Business which May Properly Come before the Meeting

The Chairman will open the floor for questions and comments of the stockholders.

P R O X Y

This Proxy is being solicited by Prime Orion Philippines, Inc., for and on its behalf, in connection with its Annual Stockholders' Meeting to be held on 13 January 2017 (Friday), 9:00 a.m. at the Legaspi and Urdaneta Function Rooms, Makati Sports Club at L.P. Leviste St. corner Gallardo St., Salcedo Village, Makati City.

The Company shall be pleased to vote your securities in accordance with your wishes if you will execute this Proxy Form and return the same promptly. It is understood that if you sign without otherwise marking the form, the securities will be voted as recommended by the Board of Directors on all matters to be considered at the meeting, except election of directors, where the Company will only vote the specific number of votes you have indicated for the relevant candidates you have specifically identified.

Hereunder are the matters to be taken up during the meeting. Please indicate your proposal selection by firmly placing an "X" in the appropriate box:

1. Approval of the Minutes of the 20 October 2015 <b>Special Stockholders' Meeting</b>	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Abstain
2. Approval of Annual Report for Fiscal Year 2014-2015 (including the Consolidated Audited Financial Statements for the Fiscal Year ended 30 June 2015)	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Abstain
3. Approval of Annual Report for Fiscal Year 2015-2016 (including the Consolidated Audited Financial Statements for the Fiscal Year ended 30 June 2016)	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Abstain
4. Election of Nine (9) Directors (Including the Two (2) Independent Directors)			
<input type="checkbox"/> Vote for nominees listed below:      No. of Votes		No. of Votes	
<input type="checkbox"/> Bernard Vincent O. Dy _____ <input type="checkbox"/> Jose Emmanuel H. Jalandoni _____ <input type="checkbox"/> Maria Rowena M. Tomeldan _____ <input type="checkbox"/> Ruby P. Chiong _____		<input type="checkbox"/> Felipe U. Yap _____ <input type="checkbox"/> Victor C. Say _____ <input type="checkbox"/> Tsang Cho Tai _____ <input type="checkbox"/> Nathanael C. Go _____	
<input type="checkbox"/> Rex Ma. A. Mendoza – as Independent Director _____ <input type="checkbox"/> Renato O. Marzan – as Independent Director _____			
5. Appointment of SyCip Gorres Velayo & Co. as external auditor for the ensuing fiscal year and fixing of its remuneration			
<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain			
6. Approval of the following amendments to the By-laws: (i) Change of the place of <b>the annual stockholders' meeting from "municipality" to "city" and date of the annual stockholders' meeting From "second Monday of November" to "second Friday of April"</b>			
<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain			
(ii) Inclusion of Chief Operating Officer as officer of the Corporation			
<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain			
(iii) Inclusion of Chief Finance Officer as officer of the Corporation			
<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain			
(iv) Change of financial year from fiscal year to calendar year			
<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain			
(v) Delegation of authority to the Board of Directors to amend the By-laws			
<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain			
7. 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.			
<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain			
8. Fixing of per diem of directors per Board of Directors' meeting and committee meeting attended starting fiscal year 2017.			
<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Abstain			
9. At its discretion, the Board of Directors is authorized to vote on such matters as may properly come before the meeting			
<input type="checkbox"/> Yes <input type="checkbox"/> No			

Printed Name of Stockholder \_\_\_\_\_

Signature of Stockholder \_\_\_\_\_

Date: \_\_\_\_\_

Pursuant to the By-Laws, no proxy in favor of a third person who is not a *bona fide* registered stockholder of the Corporation shall be recognized. All proxies must be returned to the offices of the Corporation not later than one (1) week prior to the meeting date. If the stockholder is a corporation, a Secretary's Certificate quoting the Board Resolution authorizing the corporate officer who signed this proxy must be submitted. This Proxy need not be notarized.

This Proxy should be received by the Corporate Secretary on or before 4 January 2017 which is the deadline for submission of proxies.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT OF  
**PRIME ORION PHILIPPINES, INC. (the "Registrant", "Company" or "POPI")**  
PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

[ ] Preliminary Information Statement

[ x ] Definitive Information Statement

2. Name of Registrant as specified in its charter PRIME ORION PHILIPPINES, INC.

REPUBLIC OF THE PHILIPPINES

3. Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number 163671

5. BIR Tax Identification Code 320-000-804-342

6. 20/F LKG TOWER, 6801 AYALA AVENUE, MAKATI CITY 1226  
Address of Principal Office Postal Code

7. **Registrant's telephone number, including area code** (632) 884-1106

8. Date, Time and Place of the Meeting of Security Holders

Date : 13 JANUARY 2016 (FRIDAY)

Time : 9:00 A.M.

Place : LEGASPI AND URDANETA FUNCTION ROOMS, MAKATI SPORTS CLUB, L.P.  
LEVISTE COR. GALLARDO ST., SALCEDO VILLAGE, MAKATI CITY

9. Approximate Date on which the Information Statement is First to be Sent or given to Security Holders  
22 DECEMBER 2016

10. *In case of Proxy Solicitation:*

Name of Person Filing the Statement/Solicitor: PRIME ORION PHILIPPINES, INC.

Address and Telephone No.: 20/F LKG TOWER, 6801 AYALA AVE., MAKATI CITY  
(632) 884-1106

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA  
(information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
(As of 31 October 2016)	

Common	4,896,455,183
<b>Loans Payable (consolidated)</b>	<b>-nil-</b>

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes x No \_\_\_\_\_

Common Shares Philippine Stock Exchange

# INFORMATION REQUIRED IN INFORMATION STATEMENT

## Part I

### A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of security holders (**hereafter, the “annual stockholders’ meeting” or “meeting”**)

- (1) Date: 13 January 2017 (Friday)  
Time: 9:00 a.m.  
Place: Legaspi and Urdaneta Function Rooms, Makati Sports Club, L.P. Leviste corner Gallardo St., Salcedo Village, Makati City

Complete mailing address of principal office of the Registrant/Company:

20/F LKG Tower, 6801 Ayala Avenue, Makati City 1226

- (2) **Copies of this Information Statement will be sent to the Company’s stockholders beginning 22 December 2016.**

Item 2. Dissenters' Right of Appraisal

Sections 81 and 82 of the Corporation Code provide:

Section 81. Any stockholder shall have the right to dissent and demand payment of the value of his shares in the following instances: (a) amendment of the articles of incorporation which has the effect of changing or restricting the rights of any stockholders or class of shares; or of authorizing preferences in any respect superior to those outstanding; or of extending or shortening the term of corporate existence; (b) in case of sale, lease, exchange, transfer, mortgage, pledge or disposition of all or substantially all of the corporate property and assets; and (c) in case of merger and consolidation.

Section 82. The appraisal right abovementioned may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares: Provided, That failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or affected, the corporation shall pay to such stockholder, upon surrender of the certificate or certificates of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation, and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, That no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment: and Provided, further, That upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

The present meeting, is being called to approve the following matters:

- (1) **Approval of the Minutes of the Previous Stockholders’ Meeting dated 20 October 2015;**  
(2) Approval of the Annual Reports for Fiscal Year (FY) 2014-2015 (including the Audited Consolidated Financial Statements for the FY ended 30 June 2015);  
(3) Approval of the Annual Reports for FY 2015-2016 (including the Audited Consolidated Financial Statements for FY ended 30 June 2016);  
(4) Election of Directors (Including the Independent Directors);  
(5) Appointment of SyCip Gorres Velayo & Co. as External Auditor and Fixing of its Remuneration;  
(6) Amendment of 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 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 (Sec. 1, Article VII)

- (7) 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; and  
(8) **Fixing of the Per diem of Directors per Board of Directors' Meeting and Committee Meeting Attended starting Fiscal Year 2017.**

Given the foregoing, there are no matters to be taken up during the meeting which may give rise to the exercise of appraisal right by a stockholder.

Item 3. Interest of Certain Persons in Matters to be Acted Upon

- (1) No current director or officer of the Company, or nominee for election as director of the Company, or any associate thereof, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon other than election to office.  
(2) No director of the Company intends or has expressed an intention to oppose any action to be taken during the annual meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

- (1) Number of Outstanding Common Shares as of 31 October 2016

	No. of Shares Outstanding	No. of Votes to which Entitled
-Filipino Equity	4,842,052,417	4,842,052,417 (98.89%)
-Foreign Equity	54,402,766	54,402,766 (1.11%)
Total	4,896,455,183	4,896,455,183
=====		=====

- (2) The record date for stockholders who shall be entitled to notice and to vote has been fixed at 29 November 2016 in accordance with the By-laws of the Company and the rules of the Securities and Exchange Commission and the Philippine Stock Exchange. Solicitation of proxies shall be made on common stockholders as of record date as provided by the **Company's** stock and transfer agent, BDO -Trust and Investments Group (BDO), starting on 22 December 2016.

- (3) Manner of Voting

**Under the Company's By-laws**, the election of directors shall be conducted in the manner provided by the Corporation Code of the Philippines and with such formalities and machinery as the officer presiding at the meeting shall then and there determine.

Section 24 of the Corporation Code allows cumulative voting in the election of directors. Thus, a stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate his shares and give one candidate as many number of votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the total number of directors to be elected. In connection with the election of directors, discretionary authority to cumulate the votes is not solicited by the Corporation.

As for other matters in the agenda, each voting stock is entitled to one vote.

(4) Security Ownership of Certain Record and Beneficial Owners and Management

i. Security Ownership of Record and Beneficial Owners of more than 5% as of 31 October 2016:

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. <sup>1</sup> 31/F Tower One and Exchange Plaza, Ayala Triangle, Makati City -Stockholder	Ayala Land, Inc. <sup>2</sup>	Filipino	2,499,999,996	51.057%
Common	PCD Nominee Corp. <sup>3</sup> G/F Makati Stock Exchange, Ayala Ave., Makati City	PCD participants acting for themselves or for their customers <sup>4</sup>	Filipino	1,307,378,990	21.186%
Common	PCD Nominee Corp. G/F Makati Stock Exchange, Ayala Ave., Makati City <sup>3</sup>	Guoco Assets (Philippines), Inc. (GAPI) <sup>5</sup>	Singaporean	451,256,180	<b>9.216%</b>
Common	PCD Nominee Corp. G/F Makati Stock Exchange, Ayala Ave., Makati City <sup>3</sup>	Genez Investments Corporation (GIC) <sup>6</sup>	Malaysian	263,819,038	<b>5.388%</b>

ii. Security Ownership of Directors and Management as of 31 October 2016

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	6,594,000 (direct)	Filipino	0.135%
Common	Jose Emmanuel H. Jalandoni	2 (direct)	Filipino	0.00%
Common	Maria Rowena M. Tomeldan	2 (direct)	Filipino	0.00%
Common	Victor C. Say	26,572,000 (direct & indirect)	Filipino	0.543%
Common	Ricardo J. Romulo*	3,072,001 (direct)	Filipino	0.063%
Common	Rex Ma. A Mendoza	1 (direct)	Filipino	0.00%
<b>Officers</b>				
Common	Ruby P. Chiong	1	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%
	Total	36,238,009		0.740%

\*Resigned as Independent Director effective November 14, 2016.

iii. Voting Trust Holders of 5% or More

The Company knows of no persons holding more than 5% of common shares under a voting trust or similar agreement.

<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> PCD is not related to the Company.

<sup>4</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. The Company has no record relating to the power to decide how the shares held by PCD are to be voted.

<sup>5</sup> The Board of Directors of GAPI has authority to decide how the POPI shares will be voted. The POPI shares will be voted in accordance with the instructions of GAPI's proxy.

<sup>6</sup> The GIC Board of Directors has the power to decide how the POPI shares will be voted.

iv. Change in Control of Registrant

On 24 February 2016, the Company entered into a Deed of Subscription with ALI whereby ALI subscribed to 2.5 billion common shares of stock of POPI (**the "ALI Subscription"**) at the price of P5.625 billion, from the increase in **the Company's** authorized capital stock from P2.4 billion to P7.5 billion.

**Of the Company's increase in authorized capital stock of P5.1 billion, ALI subscribed to P2.5 billion worth of common shares.** On 4 July 2016, the Securities and Exchange Commission (SEC) approved the **Company's** increase in its authorized capital stock from P2.4 billion to P7.5 billion divided into 7.5 billion common shares, with par value of P1.00 per share. The ALI Subscription represents 51.06% of the total outstanding capital stock of the Company and will come from original issuance of shares of the Company.

Of the ALI Subscription of 2.5 billion shares, P1.406 billion has been paid, the balance to be paid upon completion of certain conditions. As majority owner of the total outstanding stock of the Company, ALI gained control of the Company. Previously, the Company had no parent company as no stockholder held more than 20% of the equity of the Company.

Item 5. Directors and Executive Officers

On 30 October 2015, the SEC approved the amendment of the Articles of Incorporation of the Company to increase the number of directors from seven (7) to nine (9). Under Section 29 of the Corporation Code, the directorship to be filled by reason of an increase in the number of directors shall be filled by an election at a regular or special meeting of stockholders duly called for the purpose; hence, the two (2) additional seats in the Board shall be filled up during this annual stockholders' meeting.

(1) Information required of Directors and Executive Officers

i. Directors and Executive Officers

The following persons, who constitute the final list of candidates presented and approved by the Nomination Committee (which is composed of Jose Emmanuel H. Jalandoni, Chairman, Felipe U. Yap and Rex Ma. A. Mendoza, members) have been nominated to the Board for the ensuing year and have accepted their nomination:

Bernard Vincent O. Dy	Victor C. Say
Felipe U. Yap	Maria Rowena M. Tomeldan
Jose Emmanuel H. Jalandoni	Ruby P. Chiong
Rex Ma. A. Mendoza - as Independent Director	Nathanael C. Go
Renato O. Marzan - as Independent Director	Tsang Cho Tai (Allan Tsang)

Messrs. Bernard Vincent O. Dy, Felipe U. Yap, Jose Emmanuel H. Jalandoni, Victor C. Say, and Rex Ma. Mendoza, and Ms. Maria Rowena M. Tomeldan are incumbent directors of the Company. Messrs. Tsang Cho Tai, Nathanael C. Go and Renato O. Marzan, and Ms. Ruby P. Chiong are nominated as directors of the Company for the first time.

In accordance with SRC Rule 38 and Section 2, Article III (The Independent Director) **of the Company's Amended By-laws** (which was approved by the SEC on 25 November 2005), the Nomination Committee evaluated the qualifications of the nominees and prepared the final list of nominees prior to the annual **stockholders' meeting**. Only such nominees whose names appear in the final list of candidates are eligible for election as directors, including independent directors. No other nomination shall be entertained or allowed on the floor during the annual **stockholders' meeting**. In case of failure of election for independent directors, the Chairman of the meeting shall call a separate election during the same meeting to fill up the vacancy.

Messrs. Bernard Vincent O. Dy, Jose Emmanuel H. Jalandoni, Rex Ma. A. Mendoza and Renato O. Marzan, and Mmes. Maria Rowena M. Tomeldan and Ruby P. Chiong were nominated by ALI. Mr. Felipe Yap was nominated by F. Yap Securities, Inc. and Ms. Vichelli Churchill Say. Messrs. Victor C. Say was also nominated by Ms. Vichelli Churchill Say. Mr. Tsang Cho Tai was nominated by Guoco Assets (Philippines), Inc. while Mr. Nathanael C. Go was nominated by Mr. David C. Go. All nominees to the Board and their nominators are stockholders of the Company.

Messrs. Rex Ma. A. Mendoza and Renato O. Marzan were nominated as independent directors of the Company. As verified by the Nomination Committee, both nominees are not related to ALI. The Company shall submit the Certificate of Qualification of the Independent Directors within thirty (30) days after their election.

A summary of the qualifications of the incumbent directors, nominees for directors for election at the annual stockholders' meeting and incumbent officers is set forth in Annex "A".

#### Attendance of Directors

The record of attendance of the directors at the meetings of the Board of Directors of the Company for the period 1 July 2015 to 24 November 2016, is as follows:

Directors	No. of Board Meetings Attended/Held	Percent Present
Bernard Vincent O. Dy****	8/8	100%
Felipe U. Yap	19/19	100%
Jose Emmanuel H. Jalandoni****	8/8	100%
Maria Rowena M. Tomeldan*****	8/8	100%
Victor C. Say	19/19	100%
Ricardo J. Romulo***	14/18	83%
Rex Ma. A. Mendoza*****	8/8	100%
David C. Go**	12/12	100%
Yuen Po Seng**	12/12	100%
Ronald P. Sugapong*	11/11	100%
Daisy L. Parker*	11/11	100%

\*resigned as director on 24 February 2016

\*\* resigned as director on 26 February 2016

\*\*\*resigned as director on 14 November 2016

\*\*\*\*elected on 24 February 2016

\*\*\*\*\*elected on 26 February 2016

The officers, unless removed by the Board, shall serve as such until their successors are elected or appointed.

#### ii. 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.

#### iii. Family Relationships

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

#### iv. 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 of Annex "B".

(2) Certain Relationships and Related Transactions

- i. There has been no transaction during the last two (2) years, or proposed transactions to which the Company 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:
- a. Any director or executive officer of the Company;
  - b. Any nominee for election as a director;
  - c. Any security holder named in Sections B (d) (1) and (2) above; and
  - d. 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 (1) (2) and (3) hereof.
- ii. The Company and its subsidiaries in their normal course of business, have entered into transactions with related parties principally consisting of 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 and the related parties have common stockholders.

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

(3) Ownership Structure and Parent Company

As of 31 October 2016, ALI owns 51.06% of the total outstanding shares of the Company.

(4) Disagreement with Registrant

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the annual meeting of security holders because of a disagreement with the Company or any matter relating to the Company's operations, policies or practices.

Item 6. Compensation of Directors and Executive Officers

(1) Executive Compensation

Information as to 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)
Yuen Po Seng* (President)	2014-2015 2015-2016			
Ronald P. Sugapong* (SVP-Treasurer/CFO)	2014-2015 2015-2016			
Daisy L. Parker* (SVP-Chief Legal Counsel)	2014-2015 2015-2016			
Ma. Rhodora P. dela Cuesta** (VP-Legal Dept.)	2014-2015 2015-2016			
Edwin M. Silang (AVP-Group HR)	2014-2015 2015-2016 2016-2017			
CEO and four most highly compensated Exec. Officers	2014-2015 2015-2016 2016-2017 (projected)	₱ 27,917.71 27,336.72 6,431.34	₱ 4,833.90 5,302.76 596.09	₱ 0.00
All officers and directors as a group unnamed	2014-2015 2015-2016 2016-2017 (projected)	₱ 32,077.71 38,376.72 12,371.34	₱ 8,333.90 13,702.76 5,096.09	₱ 0.00

\*separated from employment effective 26 March 2016

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

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. They are officers of ALI and received no salaries or compensation from the Company from time of their election to date.

(2) Compensation of Directors

Members of the Board of Directors are elected for a term of one (1) year and serve until the election and acceptance of their qualified successors. **They receive no compensation except reasonable director's fee (and/or bonus) as fixed by the Board of Directors at the end of the FY.** Section 12 of Article III of the By-laws provides that 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. Section 13 of Article III provides that 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, the Executive Committee, and officers of the Corporation.

The Directors received, and availed of, the subscription grants under the Employees Stock Ownership Plan (ESOWN) of the Company (covering 250 million shares of the Company). Initially, the Company filed a request for exemption from the registration requirements of the Securities Regulation Code covering 32 million shares (Tranche 1 of the ESOWN) which was granted by the SEC on 10 November 2015.

On 14 November 2016, the Board of Directors approved the fixing of the fiscal year 2016 compensation and bonus of the members of the Board at PhP500,000.00 and PhP500,000.00, respectively; and fixing of the per diem of PhP30,000.00 per committee meeting attended. This will be presented to the stockholders, for their approval at their meeting on 13 January 2017.

**On 24 November 2016, the Board of Directors approved the fixing of 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, as approved by the Board of Directors, will be presented to the stockholders for their approval at their meeting on 13 January 2017.**

The members of the Board who are executive officers of the Company are remunerated with a compensation package comprising of 13-month base pay. In addition, they may receive a performance bonus at yearend which the Board extends to the rest of the managerial, supervisory and rank and file employees.

(3) Employment Contracts/Termination of Employment/Change-in Control Arrangements

The Executive Officers are regular employees of the Company and are remunerated with a compensation package (as mentioned in the foregoing paragraph) corresponding to their position/rank as provided in their respective standard engagement/employment contracts.

There are no special terms or compensatory plans or arrangements relative to the resignation, termination of employment of such executive officers other than the ESOWN of the Company. However, such executive officer may receive compensation if he qualifies under the terms and conditions of **the Company's retirement benefit plan**.

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

On 26 March 2016, three (3) executive officers were separated from the Company and were paid benefits as provided in **the Company's retirement plan**.

In September 2016, notices of separation were served to the employees and officers as part of the reorganization of the Company and its subsidiaries. They will receive a separation package as provided under the law or the **Company's retirement plan**, whichever is higher, and *ex gratia* benefit as approved by the Compensation and Remuneration Committee.

(4) Warrants and 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. In November 2015, the Company applied for, and was granted by the SEC, exemption from the registration requirements of the Securities Regulation Code (SRC) of its ESOWN covering 32 million shares of the Company. In December 2015, an application for listing of the ESOWN covering 32 million shares of the Company has been filed, and is pending, with the Philippine Stock Exchange.

Item 7. Independent Public Accountants

Sycip Gorres Velayo & Co. (SGV) is the external auditor of the Company. The Board of Directors of the Company, upon the recommendation of its Audit and Risk Management Committee **as provided in the Company's Revised Manual of Corporate Governance (Revised Manual)** and in compliance with SRC Rule 68 (3)(b)(iv)(ix), has approved the re-appointment of SGV as the external auditor of the Company for this audit period. **The Company's Audit** and Risk Management Committee is composed of Rex Ma. A. Mendoza, Chairman, Maria Rowena M. Tomeldan, and Ricardo J. Romulo (resigned effective 14 November 2016), members.

Ms. Dhonabee Señeres is the Partner-in-Charge assigned to handle the **Company's** accounts for FY 2015-2016. Ms. Señeres replaced Ms. Alicia O. Lu, who served as the partner-in-charge for the Company for five (5) years or until FY 2014-2015; hence, the need to appoint a new partner. This is in accordance with the policy to change the external auditor or rotate partner every five (5) years **as provided in the Company's Revised Manual**. A two-year cooling off period shall be observed in the re-engagement of the same signing partner or individual auditor. There has been no resignation, dismissal or change in the external auditor of the Company for the past three (3) FYs. Neither was there any disagreement with external auditor on matters relating to accounting principles or practices or financial disclosures for the same period.

The representatives of SGV **are expected to be present during the annual stockholders' meeting of the Company**. They are not expected to make a statement but may do so if they so desire. The auditors are ready to answer questions, if any, on the audited financial statements of the Company for the FYs ended 30 June 2015 and 30 June 2016.

The Company paid or accrued the following fees, including VAT, to its external auditor in the past two (2) years:

Audit and Audit-Related Fees:

	2016	2015
Professional Fees	₱1,200,000.00	₱2,488,536.00
Value Added Tax	144,000.00	298,624.32
Total Audit Fees	₱1,344,000.00	₱2,787,160.32

The non-audit services fees:

	2016	2015
Professional Fee- Tax Advisory	₱ 225,000.00	-
Knowledge Transfer Workshop (ESOWN Valuation)	650,000.00	-
Value Added Tax	105,000.00	-
Total Audit Fees	₱ 980,000.00	-

The re-appointment of the SGV & Co. and the fixing of its remuneration will be presented to the stockholders for their **approval at the annual stockholders' meeting**.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

There are no matters or actions to be taken up with respect to authorization or issuance of securities.

Item 10. Modification or Exchange of Securities

There **are no matters or actions to be taken up for the modification of the Company's securities or the issuance or authorization for issuance of one (1) class of the Company's securities in exchange for outstanding securities of another class**.

Item 11. Financial and Other Information

The audited financial statements as of 30 June 2015 and 30 June 2016, SEC Form 17-Q for the quarter ending 30 September 2016, **Management's Discussion and Analysis, Market Price of Shares and Dividends** and other data related to **the Company's financial information** are attached hereto as Annex "B". The Schedules required under Part

IV(c) of Rule 68 are included in the Management Report attached to this Information Statement, and Annual Report (SEC Form 17-A).

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

**There are no matters or actions to be taken up in the annual stockholders' meeting with respect to merger, consolidation, acquisition by sale, or liquidation of the Company.**

Item 13. Acquisition or Disposition of Property

**There are no matters or actions to be taken up in the annual stockholders' meeting with respect to acquisition or disposition of any property by the Company.**

Item 14. Restatement of Accounts

For this year, there is no restatement of accounts of prior years.

**D. OTHER MATTERS**

Item 15. Action with Respect to Reports

- (1) The minutes of **Special Stockholders' Meeting** (SSM) dated 20 October 2015 covering the following matters will be submitted for approval of the stockholders:
  - a. Approval of the Minutes of the ASM dated 2 December 2014;
  - b. **Consideration and Approval of the Increase in POPI's Authorized Capital Stock from ₱2.4 billion to ₱7.5 billion divided into 7.5 billion common shares, and the ALI Subscription out of the said Increase in capital stock;**
  - c. Consideration and Approval of the following Amendments to the **Company's** Articles of Incorporation –
    1. Increase in Authorized Capital Stock from ₱2.4 billion to ₱7.5 billion; and
    2. Increase in the Number of Directors from Seven (7) to Nine (9); and
  - d. Consideration and Approval of the Application for Listing of the ALI Subscription with the Philippine Stock Exchange.
- (2) The annual report of Management for the FYs 2014-2015 and 2015-2016, including the **Company's** Audited Consolidated Financial Statements for the FYs ended 30 June 2015 and 30 June 2016 will also be submitted for approval of the stockholders.

Item 16. Matters Not Required to be Submitted

There are no matters or actions to be taken up in the meeting that will not require the vote of the stockholders as of the record date.

Item 17. Amendment of Charter, Bylaws or Other Documents

The Board of Directors of the Company, at its special and regular meetings on March 15, 2016 and October 6, 2016, respectively, approved the amendments of certain provisions of the **Company's** By-Laws. These shall be submitted for approval of the stockholders **during the annual stockholders' meeting**.

- i. Change of the place of annual stockholders' meeting from "municipality" to "city" where the principal office of the Company is located and date of the annual stockholders' meeting from "second Monday of November" to "second Friday of April" (Section 1, Article II)

**"1. The Annual Meetings** of the stockholders of this company shall be held in the city where the principal office of the company is located on the second Friday of each year or if said be a holiday, on the first working day hereafter."

Rationale: The change in the place of stockholders' meeting is to reflect the location of the Company's office which is in Makati City. The change in the date of the stockholders' meeting date is due to the shift of the Company from fiscal year to calendar year.

- ii. Inclusion of Chief Operating Officer as officer of the Corporation (Sections 1 and 5, Article IV)

Section 1. The Officers of the Company shall consist of a Chairman of the Board, a Vice Chairman of the Board, a President, one or more Vice Presidents, a Chief Operating Officer, a Chief Finance Officer, a Treasurer and one or more assistant treasurers, a Secretary and one or more assistant secretaries, and these officers shall be elected to hold office at the pleasure of the Board.

The Board may from time to time, appoint such other officers as it may determine to be necessary or proper. Any two or more compatible positions may be held concurrently by the same person, except that no one shall act as President and Treasurer, or Secretary at the same time.

Section 5. Chief Operating Officer. The Chief Operating Officer of the Corporation shall have the following powers and duties:

- (a) Direct, administer, and coordinate the internal operational activity of the Corporation in accordance with the policies, goals and objectives developed and established by the President;
- (b) Direct the development and installation of procedures and controls and to promote communication and adequate information flow;
- (c) Develop and establish operating and personnel policies consistent with the President's broad policies and objectives and to ensure their adequate execution;
- (d) Participate in the development and preparation of short-term and long-term plans and budgets;
- (e) Appraise, evaluate and report the result of overall operations; and
- (f) Perform such other duties as are incident to his office or are entrusted to him by the Board of Directors.

Rationale: The Company will appoint an officer to handle the day-to-day operations of the Company.

iii. Inclusion of Chief Finance Officer as officer of the Corporation (Sections 1 and 10, Article IV)

Section 10. Chief Finance Officer. The Chief Finance Officer shall serve as the Controller and shall have the following responsibilities:

- (a) Have custody of all of the Corporation's books of account, including oversight in the maintenance of these books of account and records of all assets, liabilities and transactions of the Corporation to ascertain accuracy and completeness;
- (b) Render an annual statement showing the financial condition of the Corporation and such other financial reports as the Board of Directors, or the President may, from time to time require;
- (c) Prepare financial reports, statements, certifications and other documents which may, from time to time, be required by government rules and regulations and to submit the same to the proper government agencies; and
- (d) Exercise such powers and duties as may from time to time be assigned to him by the Board of Directors or by the President.

Rationale: The Company will appoint an officer for effective management of the Company's funds and assets.

iv. Change of financial year from fiscal year to calendar year (Section 1, Art. V)

Section 1. The fiscal year of the Company shall commence with the opening of business on the first day of January of each calendar year, and shall close on the last day of December of each year.

Rationale: The Company has to be aligned with the operating period of its parent company, ALI, to facilitate consolidation of accounts.

v. Delegation of authority to the Board of Directors to amend the By-laws (Sec. 1, Art. VII)

Section 1. These By-laws may be amended, repealed or modified by the affirmative vote of the stockholders owning or representing a majority of the outstanding capital stock and majority of the Board of Directors at any regular meeting or at any special meeting duly called for the purpose; Provided however, that by the affirmative vote of the stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock, the power and authority to amend or repeal these

By-laws or adopt new By-laws may be delegated to the Board of Directors; Provided, finally, that the delegation of such power and authority to the Board shall be considered as revoked whenever stockholders owning or representing a majority of the outstanding capital stock shall so vote at a regular or special meeting called for the purpose.

Rationale: The delegation of authority will facilitate the amendment of the By-laws in the future.

The **amendments on the date of the annual stockholders' meeting and fiscal year are intended to align the Company with the financial period of the parent company, ALI, and will facilitate the consolidation of accounts and reports.** The appointment of a Chief Operating Officer and Chief Finance Officer is expected to improve the operations of the Company. The delegation of authority to the directors to amend the By-laws will facilitate amendment of the By-laws.

Item 18. Other Proposed Action

Except for items enumerated above, there are no other matters that will be presented to stockholders for their approval during the meeting.

Item 19. Voting Procedures

(1) Vote required

The affirmative vote of stockholders representing at least 2/3 of the issued and outstanding capital stock is required for the approval of the proposed amendment to the Section 1 Article VII of the By-Laws. The affirmative vote of at least a majority of the issued and outstanding capital stock entitled to vote and represented at the annual stockholders' meeting is required for approval of the other matters on the agenda of the meeting. The election of directors is by plurality of votes.

(2) Method by which votes will be counted

Each stockholder may vote in person or by proxy the number of shares of stock standing in his/her name on the books of the Company. Each share represents one vote. During the meeting, voting for the approval/ratification of the matters presented shall be by poll of votes. Upon registration at **the annual stockholders' meeting, each stockholder** will be given a ballot to enable him/her to vote in writing on each item or proposal in the Agenda. Nonetheless, each stockholder may vote viva voce or by other means of communicating his/her approval or objection.

In the case of the election of directors, each stockholder may vote such number of shares for as many persons as there are directors to be elected, or he/she may cumulate the aforesaid shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares, or he/she may distribute them on the same principle among as many nominees as he/she shall see fit; provided that, the whole number of votes cast by him/her shall not exceed the number of shares owned by him/her multiplied by the total number of directors to be elected.

Counting of votes shall be supervised by the Inspectors of Proxies and Ballots Committee of the Company. The members of the Committee are Atty. June Vee D. Montecarlo-Navarro, Chairman, Ms. Rhodora Estrella B. Revilla and Ms. Michelle Marie T. Valbuena.

Part II  
Solicitation Information

The Proxy Form (attached to this Information Statement and Management Report) is being solicited on behalf of Prime Orion Philippines, Inc., **in connection with its Annual Stockholders' Meeting to be held on** 13 January 2017. The soft copies of this Information Statement (with the Management Report and AFS) shall be in compact disc (CD) form and distributed to the **Company's stockholders** of record as of record date. The Notice/Agenda and Proxy Form shall be printed on paper and distributed together with the CDs containing the Information Statement. However, a stockholder may request for hard copies of the Information Statement, and the Company shall provide the same free of charge.

The Proxy Form will be sent to the security holders for and on behalf of the Company. A stockholder who is unable to attend the said meeting may submit a duly accomplished proxy form attached to this Information Statement in order that his vote (on matters to be discussed during the meeting) will be counted. The Proxy Form must be signed, returned or filed with and received at the office of the Company not later than one (1) week prior to the date of the meeting or on 4 January 2017, in time for the validation of the proxies to be held not later than five (5) days before the meeting date. The validation of proxies has been set on 6 January 2017 at 2:00 p.m. at 27/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The Inspectors of Proxies and Ballots Committee shall decide on all matters pertaining to the proxies received by the Company.

In case the Proxy Form is returned by the stockholder signed but without any other markings, the shares will be voted as recommended by the Board of Directors on all matters to be considered at the meeting.

Revocability of the Proxy

The stockholder may revoke the proxy issued by him at any time prior to its use by the party who is thereby authorized to **exercise the same**. The Company's By-laws do not provide any formal procedure by which revocation shall be done. However, no proxy in favor of a third person who is not a *bona fide* registered stockholder of the Registrant, and no proxy bearing a signature which is not legally acknowledged, shall be recognized at any meeting unless such signature is known and recognized by the Secretary of the meeting.

Persons Making the Solicitation

(a) The solicitation of proxies is being undertaken by the Company (through the Corporate Secretary and her staff) in order to obtain the required quorum and the required vote to approve the subject matters to be taken up in the annual meeting. None of the directors has informed the Company of any intention to oppose the matters to be taken up in the annual meeting.

(b) In addition to ordinary mail, the Company in coordination with its stock and transfer agent, BDO, intends to utilize the courier service of *The Varied Services, Incorporated* (TVSI) (with office at G/F Sison Mansion Building, 2631 Rockefeller St. corner Batangas St., Makati City), to undertake the delivery and/or mailing of the Information Statement (including the proxy form). Costs will be limited to the normal costs of such services.

(c) The cost of distributing this Information Statement and of soliciting the relevant proxies shall be borne by the Company. As per TVSI, the distribution of the Information Statement will be subject to a stuffing fee of P3.00/pc. plus delivery charges. The charges for delivery by messengerial service within Metro Manila (except Pateros, Valenzuela, part of Taguig and areas in Muntinlupa beyond Ayala Alabang and Alabang proper) is P22.00/pc. (stuffing fee and delivery charges are subject to 12% VAT). Courier service for Cavite area is about P175.00/pc. Delivery of mailers to the provinces (Luzon, Visayas, Mindanao) and outside the Philippines will be through the postal service. Mailing costs (via ordinary mail) will include **TVSI's stuffing/handling** fee of P10.00/pc. (plus 12% VAT) plus the postage fee for CDs as follows:

Area	Weight of Mailer (grams)	Postage Fee /pc.
Local (Provincial)	21-50	P 45.00
Asian countries	21-50	160.00
Middle East & Pacific	21-50	165.00
Europe/North America/USA	21-50	170.00

The Company, through the office of the Corporate Secretary, will follow-up on the proxies of the stockholders of the Company. For practicality, the Company will focus on the top 20 stockholders of the Company. There will be random follow-ups with other stockholders. Whenever possible, the Company (through its messengers) will directly pick up the duly accomplished Proxy Forms from the stockholders. In some cases, stockholders may initially fax the Proxy Form and have the same picked up by the Company; stockholders may also mail back the Proxy Form to the Company.

**Interest of Certain Persons in Matters to be Acted Upon**

Please refer to the information on Item 3 (page 3) hereof.

The directors of the Company since the beginning of the fiscal year are enumerated in Item 5 (1) and Attendance of Directors is found on pages 5-6 hereof. The incumbent officers are listed in Annex B while certain former executive officers are listed in Item 6 (Executive Compensation) on page 7 hereof.

The nominees for election as director of the Company are enumerated in Item 5 (1) and Annex A hereof. The nominees have no associates.

**UNDERTAKING**

THE MANAGEMENT OF THE COMPANY UNDERTAKES TO PROVIDE TO ITS STOCKHOLDERS OF RECORD AS OF RECORD DATE, UPON THEIR WRITTEN REQUEST, A COPY OF THE COMPANY'S ANNUAL REPORT OR SEC FORM 17-A FREE OF CHARGE. COPIES OF THE EXHIBITS AND ATTACHMENTS THERETO MAY ALSO BE PROVIDED SUBJECT TO THE PAYMENT OF REASONABLE CHARGES TO COVER PRODUCTION COSTS. ALL WRITTEN REQUESTS FOR COPIES OF THE ANNUAL REPORT AND EXHIBITS MAY BE ADDRESSED TO THE COMPANY'S CHIEF FINANCE OFFICER/COMPLIANCE OFFICER, MS. RHODORA ESTRELLA B. REVILLA, AT 20/F LKG TOWER, 6801 AYALA AVENUE, MAKATI CITY 1226.

**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 23 November 2016.

PRIME ORION PHILIPPINES, INC.

By:

JUNE VEE D. MONTECLARO-NAVARRO  
Corporate Secretary 

## **Annex "A"**

### DIRECTORS AND KEY OFFICERS (as of 31 October 2016)

The write-ups below include positions held as of 31 October 2016 and in the past five (5) years, and personal data as of 31 October 2016 of directors and executive officers.

#### Board of Directors:

Bernard Vincent O. Dy  
Felipe U. Yap  
Jose Emmanuel H. Jalandoni  
Maria Rowena M. Tomeldan  
Victor C. Say  
Rex Ma. A. Mendoza  
Ricardo J. Romulo (resigned effective 14 November 2016)

Bernard Vincent O. Dy, Filipino, 53, has been the Chairman of the Board of Directors of the Company since 24 February 2016. He is the President & Chief Executive Officer of ALI, a publicly listed company. He is also the Chairman of the Board of Directors of two other publicly listed companies namely: Cebu Holdings, Inc. and Cebu Property Ventures and Development Corporation. His other significant positions include: Chairman of Ayala Property Management Corporation, Ayala Land International Sales, Inc., Amicassa Process Solutions, Inc., Amaia Land Corporation, Avida Land Corp., Alveo Land Corp., Alviera Country Club, Inc., AyalaLand Commercial Reit, Inc., Laggidan Land Corporation, Bellavita Land Corporation, Avencosouth Corp., 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., and Portico Land Corp.; Vice Chairman of Ayala Greenfield Development Corporation; Chairman and President of Serendra, Inc. and; 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, Accendo Commercial Corp., Hero Foundation Incorporated, Bonifacio Art Foundation; Director of ALI-Eton Property Development Corporation, Makati Development Corporation, Nuevocentro, Inc., Whiteknight Holdings, Inc., AyalaLand Medical Facilities Leasing, Inc., Alveo-Federal Land Communities, Inc., Philippine Integrated Energy Solutions, Inc.; Trustee of Ayala Foundation, Inc.; Member of Ayala Group Club, Inc.; and Treasurer of SIAL Specialty Retailers, Inc. and SIAL CVS Retailers, 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 and International Relations at the University of Chicago in 1997 and 1989, respectively**

Felipe U. Yap, Filipino, 79, has been the Vice Chairman of the Board of Directors of the Company since 24 February 2016. He was the Chairman of the Board of Directors of the Company from 2000 to February 2016 and the Vice Chairman of the Board of Directors of the Company from 1993 to 2000. His other significant positions include: Chairman of the Board and Chief Executive Officer of Lepanto Consolidated Mining Company (public listed company) and Manila Mining Corporation (public listed company), Lepanto Investment and Development Corp., Diamant Boart Philippines, Inc., Diamond Drilling Corporation of the Philippines, Far Southeast Gold Resources, Inc., and Shipside, Inc.; Chairman of the Board of Zeus Holdings Inc. (publicly listed company), Kalayaan Copper-Gold Resources, Inc. and Yapster e-Conglomerate; and Director of Manila Peninsula Hotel, Inc., Philippine Associated Smelting & Refining Corp., FLT Prime Insurance Corporation, Orion Land Inc. and Tutuban Properties, Inc. He graduated with a degree in B.A. Philosophy from the University of San Carlos in Cebu. He has extensive experience in the mining industry. He served as Chairman of the PSE Board of Governors from 2000 to 2002.

Jose Emmanuel H. Jalandoni, Filipino, 49, has been a Director and the President of 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, AyalaLand Hotels and Resorts Corporation, Ten Knots Philippines, Inc., Ten Knots Development Corporation, Laguna Technopark, Inc., Arvo Commercial Corporation, Central Block Developers, Inc; Arca South Terminal Inc., ALI Commercial Center, Inc., Bacuit Bay Development Corp., Chirica Resorts Corporation, Asterion Technopod Incorporated and a number of hotel companies of ALI. He is also the Chairman of Tutuban Properties, Inc. and Orion Land, Inc.. He is also a director of OCLP Holdings, Inc., North Triangle Depot Commercial Corporation, Alabang Commercial Corporation, Station Square East Commercial Corporation, Accendo Commercial Corporation, Pangulasian Island Resort Corp., Integrated Eco-Resort, Inc., Paragua Eco-Resort Ventures, Inc., Sicogon Town

Hotel, Inc., Lio Resort Ventures Inc., North Liberty Resort Ventures Inc., Philippine Integrated Energy Solutions, Inc., ALI-Eton Property Development Corporation, and Philippine FamilyMart CVS, 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.

Maria Rowena Victoria M. Tomeldan, Filipino, 55, 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 Ayalaland Malls Synergies, 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.; Chairman of the Board of Directors of Ayala Land Malls, Inc. (formerly Solerte), Primavera Towncentre, Inc., Ayala Theatres Management, Inc., Five Star Cinema, Inc., Leisure and Allied Industries Phils., Inc., Cavite Commercial Town Centre Inc., Subic Bay Town Center, Inc., South Innovative Theatre Management, Inc., and North Beacon Commercial Corporation, Westview Commercial Ventures Corporation, North Ventures Commercial Corporation; Vice Chairman of the Board of Directors of Lagoon Development Corporation, AyalaLand Metro North, Inc.; Director of Bonifacio Global City Estate Association, ALI-CII Development Corporation, Alabang Commercial Corporation and Asterion Technopod Incorporated; President of ALI Commercial Center Inc., Soltea Commercial Corp, Cagayan De Oro Gateway Corporation, Station Square East Commercial Corporation, North Triangle Depot Commercial Corporation, Laguna Technopark, Inc., Ecozone Power Management, Inc., Arvo Commercial Corporation, Summerhill Commercial Ventures Corp., Tutuban Properties, Inc.. TPI Holdings Corp.: Executive Vice President of Accendo Commercial Corporation; AyalaLand Malls VisMin, 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.

Victor C. Say, Filipino, 71, 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 SEATO Trading Co., Inc., San Juan Enterprises, Inc., Kolin Philippines, Inc., Seven of Us Foods, Inc., and Laview Security Phils., Inc. 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.

Ricardo J. Romulo, Filipino, 83, served as an independent director of the Company from 2002 to November 14, 2016. His other significant positions include: Senior Partner at Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law Offices; Chairman and President of Towers Watson Philippines, Inc.; Chairman of the Board of Cebu Air, Inc., (publicly listed company), FPG Insurance Co., Inc., Sime Darby Pilipinas, Inc., and Interphil Laboratories, Inc.; Director of BASF Philippines, Inc.; Honda Philippines, Inc., Maersk-Filipinas, Inc., MCC Transport Philippines, Inc., Zuellig Pharma Corporation and JG Summit Holdings, Inc. (publicly listed company); and Director/Corporate Secretary and Johnson & Johnson (Phils.), Inc. He is a graduate of Harvard Law School in the United States. He has extensive experience in law and business.

Rex Ma. A. Mendoza, Filipino, 54, has been an Independent Director of the Company since February 26, 2016. He is the founder and Managing Director 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 The Freeport Area of Bataan, Esquire Financing, Inc., Seven Tall Trees Events, Inc., and the Cullinan Group. 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.

**Nominees to the Board of Directors for election at the stockholders' meeting:**

All incumbent directors, except Atty. Ricardo J. Romulo, and the following individuals:

Ruby P. Chiong, Filipino, 50, has been the Treasurer of the Company since 24 February 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., Ayalaland Offices, Inc., North Triangle Depot Commercial Corporation, Leisure and Allied Philippines, Inc., 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 Vice President of ALI Capital Corp.; Director of Ayalaland Hotels and Resorts Corp, Ayalaland Malls, Inc.; Treasurer of Alabang Commercial Corporation, 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.

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 Manager, 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.

Nathanael C. Go, Filipino, 41, is President of United Harvest Corporation, Mighty and Strong (MAS) Food Corporation and United Chemicals Technology Corporation. He is a Director of Ping-An United Resources (H.K.) Ltd., of Hong Kong. Mr. Nathanael C. Go obtained his Bachelor's degree in Development Studies in Atene de Manila University. He has a 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 was Manager, Public Affairs Practice at Burson-Marsteller at Beijing, China. He worked in the Policy and Strategy Office of the National Security Council of the Republic of the Philippines.

Renato O. Marzan, Filipino, 67, 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. 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 joined the law firm of CJ Valdes and Associates.

**Management/Key Executive Officers**

Jose Emmanuel H. Jalandoni*	President
Ruby P. Chiong**	Treasurer
Rhodora Estrella B. Revilla	Chief Finance Officer/Compliance Officer
June Vee D. Monteclaro-Navarro	Corporate Secretary
Nimfa Ambrosia L. Perez-Paras	Assistant Corporate Secretary

\*member of the Board of Directors

\*\*nominee to the Board of Directors

Rhodora Estrella B. Revilla, Filipino, 43, has served as the Chief Finance Officer and Compliance Officer of the Company since 24 February 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., and Ayalaland Malls NorthEast, Inc., Director and CFO of FLT Prime Insurance Corporation, Lepanto Ceramics Inc., Orion Property Development Inc., and Orion Land Inc., and Chief Finance Officer of Cavite Commercial Towncenter Inc., North Ventures Commercial Corp., Subic Bay Town Center Inc., Westview Commercial Ventures Corp., Summerhill Commercial Ventures Corp., Arvo Commercial Corporation, Ayalaland Metro North Inc., Soltea Commercial Corp., Primavera Towncenter Inc., 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, 45, has served as the Corporate Secretary of the Company since 24 February 2016. She is an 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 earned her Bachelor of Laws degree from the University of the Philippines in 1997.

Nimfa Ambrosia L. Perez-Paras, Filipino, 50, has served as the Assistant Corporate Secretary of the Company since 24 February 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.

## PRIME ORION PHILIPPINES, INC.

## Management Report

FY 2015/2016

(includes audited financial statements for the FYs ended 30 June 2016 and 30 June 2015 and SEC Form 17-Q for the quarter ending 30 September 2016)

## 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 (FLC) paved the way for the entry of the Guoco Group of Hong Kong [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). (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).

In October 2001, GAPI and GHPI mutually agreed to terminate their Management Contract to enable GHPI to better position itself in the Philippines and capitalize on the local conditions existing at that time. Consequently, on 4 January 2002, GHPI changed its name to *Prime Orion Philippines, Inc.*.

At present, POPI has interests in real estate and property development, leasing of warehouses and non-life insurance, with 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
- (iii) OE Holdings, Inc., organized in 1993, with authority to engage in investment holding activities.

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. On 4 July 2016, the Securities and Exchange Commission approved POPI's increase in its authorized capital stock from P2.4 billion to P7.5 billion divided into 7.5 billion common shares, with par value of P1.00 per share. Of the ALI Subscription of 2.5 billion shares (equivalent to 51.06% of the total outstanding stock of the Company), P1.406 billion has been paid, the balance to be paid upon completion of certain conditions.

B. *Business of Issuer*(i) Principal Products and Services*Orion Land Inc. (OLI)*

- 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). In November 2012, TPI completed the Orion Hotel, a 41-room hotel, located at the third floor of TPI's Prime Block Building. In line with the reorganization of TPI, the operations of the hotel and café were discontinued effective 9 October 2016.

On 1 April 2015, TPI entered into a Memorandum of Understanding with the Department of Transportation and Communications (DOTC) and the PNR whereby the parties agreed to cooperate for the finalization and completion of the plans for DOTC's North South Railway Project (NSRP) within a period of six months. Discussions on the NSRP among DOTC, PNR and TPI are ongoing.

At present, TPI is reorganizing its operations to revitalize the Center. The Center is currently undergoing an upgrade of its buildings and facilities which includes repainting of building exterior, installation of a new airconditioning system, refurbishment of the food court and reconfiguration of its stalls and Night Market operations.

- TPI Holdings Corporation (THC), organized in 2005 as a wholly-owned subsidiary of TPI, holds the titles to certain parcels of land in Calamba, Laguna. On 18 August 2015, THC entered into a Memorandum of Agreement for the sale of the said properties to a third party.
- 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.

Effective 1 July 2013, OMI Land Title Services Division (OMI Titling) of Orion Maxis Inc. (OMI) was transferred to OPDI. OMI Titling offers land titling services (such as title transfer, reconstitution of lost title, land verification and survey, real property tax assessment and payment, etc.). In line with the reorganization of the companies under POPI the operations of OMI Titling was discontinued effective 9 October 2016.

As of 18 August 2015, about 31.61 hectares of the Sto. Tomas, Batangas property (owned by OPDI and THC) (including the 18 hectares subject of a previous agreement with a third party) have been sold.

In June 2016, OPDI sold its 639-sqm. property (with building) in J.P. Rizal St., Makati City.

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

- Lepanto Ceramics, Inc. (LCI), a wholly-owned subsidiary, is engaged in 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, the BOD approved the change in primary purpose of the LCI from tile manufacturing to leasing of warehouses and change of corporation's name to "Lepanto Development Corporation", and will file for amendment of its Articles of Incorporation. LCI will focus on the remaining assets of the company.

#### *OE Holdings, Inc. (OEHI)*

- OMI, a wholly-owned subsidiary of OEHI, is engaged in the business of establishing, developing and providing management and logistical infrastructure service and market incentive systems solutions, and other allied businesses and services. Appointed as the sales and marketing arm of LCI in 2008, OMI handled the distribution of Lepanto tiles.  
In 2014, OMI was appointed as distributor of San Marco Paints, a leading decorative paint brand from Italy for finishing walls and ceilings, as well as exterior and interior basic paints for all types of construction projects. In line with the reorganization of the companies under POPI the operations of OMI was discontinued effective 9 October 2016.

Other subsidiaries/affiliates of POPI include:

- *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. It offers wide range of insurance products/lines such as fire, marine cargo, motor car, bonds, accident & health, miscellaneous casualty, engineering and business care.

- *Orion Solutions, Inc. (OSI)*

OSI, a 100%-owned subsidiary, is engaged in the business of providing business software solutions and management/information technology (IT) consultancy services to individuals and corporations. OSI is the IT subsidiary of the POPI Group and is an authorized Reseller in the Philippines of the Enterprise Retail Planning Software Solution, Epicor, which is focused on sales and distribution for wholesale and retail, finance and discrete manufacturing.

In line with the reorganization of the companies under POPI the operations of OSI was discontinued effective 9 October 2016.

- *BIB Aurora Insurance Brokers, Inc. (BAIBI)*

BAIBI, organized in 1960, a 20%-owned affiliate, is in the business of insurance brokering. Due to poor market conditions, BAIBI suspended its operations in 2002.

**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)	2,107.35%
Real estate and property development	-1,189.44%
Financial Services	-448.98%
Manufacturing	-220.00%
Others	-148.93%
	-----
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

Selling of real estate by OPDI is made either through: (i) direct selling to individual or corporate buyers, or (ii) brokers. LCI's remaining inventory of Lepanto tiles are sold through the factory outlet at the LCI plant. Insurance products of FPIC are sold through direct selling or marketing by FPIC's individual/ corporate agents, branches, brokers and partners.

OMI Titling promotes its land titling services by joining trade fairs, direct advertising through flyers/brochures and service agreements with banks and land developers. OMI promotes and sells San Marco Paints through direct selling to, and/or tie-ups with, architects, contractors and developers.

OSI products are sold through direct selling.

Effective 9 October 2016, operations of OSI, OMI and OMI Titling were discontinued.

(iv) New Products or Services

The Company has no new products or services.

(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 basically on a domestic level. The Company's core businesses are as follows:**

1. With the suspension of tile production in 2012, LCI sells only its remaining inventories. 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 advertising and promotional campaigns to enhance customer awareness about the Center.

TPI has a 41-room Orion Hotel located at the third floor of Prime Block Building, to cater to traders and shoppers of the Center. The Orion Hotel competes with other hotels in the Divisoria district. Effective 9 October 2016, hotel and café operations were discontinued.

3. FPIC competes with other non-life insurance companies. Aside from its head office in Makati, FPIC maintains branches in Metro Manila, specifically, in Caloocan and Alabang (until end October 2016), and key cities in the provinces of Cebu, Bacolod, Baguio and Davao, to expand its customer base and improve its market share. To remain competitive, FPIC continues to develop diverse and customized products which cater to the unique needs

of its target market- the retail market, and to improve its existing products and services to its customers. Its primary focus is on lines with high premium retention such as motor car, personal accident and residential accounts.

4. OMI competes with distributors of other paint distributors and importers. OMI operations was discontinued effective 9 October 2016.
5. OPDI faces competition with other land developers; while OMI Titling competes with other land title management service providers. OMI Titling operations was discontinued effective 9 October 2016.
6. OSI competitors are other sellers of business solution software. OSI operations was discontinued effective 9 October 2016.

(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 numerous product lines and is not dependent on a single customer or group of customers.

For its real estate and property development operations, TPI's customers include wholesalers, retailers and mall shoppers. OPDI's customers include middle to high-income home buyers as well as real estate investors and developers. OMI Land Titling's customers include banks and individuals who require services related to land titling. OMI offers its products to architects, developers and contractors as well as institutional end users of paints.

With the suspension of tile production in 2012, LCI's customers are mainly lessees of warehouses.

FPIC has non-life insurance products which cater to a variety of customers, individuals and corporations.

OSI offers its software business solution products (Epicor) and services to various corporations such as those engaged in sales and distribution for wholesale and retail, finance and discrete manufacturing.

(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

The following subsidiary/affiliate of the Company have been granted the necessary government approvals for their operations:

On 29 August 1980, BAIBI, a 20%-owned affiliate, was granted a license by the Insurance Commission (IC) to operate as an insurance broker. BAIBI's broking license has not been renewed as it has not resumed operations.

On 9 March 1977, FPIC, a 78.77%-owned subsidiary, was also granted a license by the IC to operate as a non-life insurance company, which license is renewed annually. The IC has extended the license of FPIC up to 31 December 2018, subject to its compliance with the net worth and risk based capital ratio of the IC.

(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 FPIC

Under Republic Act No. 10607 (An Act Strengthening the Insurance and Further Amending Presidential Decree No. 612, otherwise known as "Insurance Code") which took effect on 20 September 2013, existing domestic non-life insurance companies are required to have a net worth of P250 million by 30 June 2013, which will be increased every three years as follows: P550 million by end of 2016, P900 million by end of 2019 and P1.3 billion by end of 2022. The increase in net worth will coincide with the issuance of the Certificate of Authority or license of the insurance company which shall be renewable every three (3) years. FPIC has complied with the P250 million paid-up capital requirement through the issuance of common and preferred shares of stock. It has further increased its paid-up capital to P320 million in February 2016.

b) 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).

(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 30 June 2016, the employees of POPI are as follows:

Executives	-	2	
Managers	-	9	
Supervisors*	-	16	*performs various clerical and administrative functions
Rank & File	-	8	
		-----	
Total		35	

The said employees have been seconded by POPI to its subsidiaries.

**The Company has no workers' union. However, the Company's subsidiaries, FPIC and LCI, have workers' unions, although almost all rank and file workers have left LCI in 2012. FPIC's new CBA was signed on 9 October 2015 and shall be effective for five years starting on 1 April 2015.**

In line with the reorganization of POPI, the employees were offered redundancy package and separated by end of October 2016. The restructuring of the organization will allow POPI to focus on its core business which is real estate. Employees of subsidiaries such as OMI, OSI and OMI Titling will be separated as a consequence of the closing of operations. The remaining employees of LCI will be separated as part of reorganization of LCI. The employees of TPI have also been served separation notice on account of (1) cessation of operations of hotel and café business and (2) implementation of new processes and systems aligned with its plan to revitalize the Center.

Item 2. Properties

The operations of the Company and most of its subsidiaries are conducted at the 20/F LKG Tower, 6801 Ayala Avenue, Makati City. The Company and its subsidiaries (TPI, OSI and OMI) lease an office (with a total area of 557.04 sqm.) at the rate of P907.17 per sqm (VAT inclusive), with a lease term until 14 April 2016, which was extended to until 31 December 2016. The Company has extended the lease of its office until 31 December 2017 at the same rate but with a reduced area of 410.79 sqm..

**LCI's office and plant sit on a 14.28-hectare property in Calamba, Laguna. TPI holds office at the 2<sup>nd</sup> Floor of Centermall Building of the Center at C.M. Recto Ave., Manila. FPIC's Head Office leases the 16<sup>th</sup> floor of Pearlbank Centre located at 146 Valero St., Salcedo Village, Makati City, while its branches lease office spaces in Caloocan, Davao City, Bacolod, Baguio and Cebu. FPIC's lease of its Alabang office has expired and was not renewed.**

Other properties of the Company and its subsidiaries include: (i) a 232.98 sqm. condominium unit at Eurovilla III at Valero St., Makati City; and (ii) Tutuban Center (comprised of Prime Block Mall, Cluster Building 2, Centermall I 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 (has.) (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 being used as a parking area for now.

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. property in San Vicente, Palawan.

This fiscal year, the Company and its subsidiaries, OPDI and THC, sold some of its real properties. 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). At present, THC's remaining property in Sto. Tomas, Batangas is a 1,095 sqm. property.

On 7 September 2015, the Company sold its 10,747-sqm. property in Mandaue City.

In June 2016, OPDI sold its 639-sqm. land (with building) in J.P. Rizal, Makati City.

### 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 Intervenors 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 consignation 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 the following modifications:

1. Phil Fire is liable to plaintiff-appellee through intervenors for the sum of P8,628,278.57 with 6% interest per annum (p.a.) from 26 November 2001 and 12% p.a. from finality of the resolution until full paid;
2. Rizal Surety is liable for P10,616,608.10 with 6% interest p.a. from 26 November 2001 and 12% p.a. from finality of the resolution until fully paid;
3. 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;
4. Tabacalera Insurance is liable for the sum of P11,189,530.22 with 6% interest p.a. from 26 November 2001 and 12% from finality of resolution until fully paid;
5. **Award of 10% attorney's fees is deleted;**
6. **BDO's MR on the issue of overpayment is remanded to the trial court for computation;**
7. The loan mortgage annotations on TCT Nos. 2390684, CCT Nos. PT-1787185, PT-1787286 and PT-1787387 are declared valid and subsisting until the obligations secured thereby shall have been completely discharged based on **the trial court's final computation;** and
8. Amounts due to Lavine, through intervenors-crossclaimants-appellees, are subject to priority satisfaction of its remaining obligation to BDO, if any subsists based on trial court's final computation as directed, and payment of docket fees corresponding to intervenors-crossclaimants-appellees' money claims as prayed for in their Second Amended Answer-in-Intervention with Counterclaim dated 15 October 2001. Should the trial court's final computation as required yield an overpayment, the same should be reimbursed to Lavine, through intervenor-crossclaimants-appellees.

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 with the SC.

- b. **"Chevron Philippines, Inc. (formerly Caltex) vs. FPIC, et.al."**  
Civil Case Nos. 02-856 [Makati RTC- Br. 62]/ CA G.R. CV No. 94985/  
G.R. No. 217061

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Status: Case dismissed.

Chevron Philippines, Inc. (Chevron) filed three civil cases against FPIC for recovery of sum of money pursuant to the terms and conditions of the surety bonds issued by FPIC to secure each of the obligations of Peakstar Oil Corporation (Peakstar), Fumitechniks Corp. of the Philippines (Fumitechniks) and R.S. Cipriano Enterprises (Cipriano) to Chevron. In all these cases, FPIC cited as its defense that in the absence of written principal agreements (between Chevron and the three

abovenamed obligors), the surety bonds (issued by FPIC), which are mere accessory contracts, could not have come into being or are void.

The remaining case of Peakstar has been dismissed:

**Peakstar Account (Civil Case No. 02-856)**- Chevron filed a claim against FPIC for the recovery of the sum of P26,257,712.58 before Makati RTC-Branch 62 on 25 July 2002. FPIC filed a Motion to Strike Out Testimony and Evidence of Chevron's witnesses on grounds that they were in violation of the Parol Evidence Rule, irrelevant and immaterial and unenforceable under the Statute of Frauds. The RTC granted FPIC's Motion and the said testimonies and evidence were stricken off the records.

**Chevron filed an MR of the Order striking out the testimonies of the plaintiffs' witnesses which was denied by the court.** Chevron then filed a PR with the CA which was dismissed by the CA as per Decision dated 28 September 2007 which has become final and executory.

The RTC asked the parties to file their respective Memoranda. On 26 September 2008, FPIC filed its Memorandum. Chevron filed its Memorandum dated 18 September 2008 (received by FPIC on 2 October 2008). FPIC filed its Reply (to Plaintiff's Memorandum) dated 6 October 2008.

The RTC issued a Decision dated 28 December 2009 in favor of Chevron which ordered FPIC to pay Chevron P26,257,712.58 plus interest starting 6 February 2009 until fully paid plus attorney's fees and costs of suit. FPIC filed its Notice of Appeal on 5 February 2010.

The CA issued a Resolution dated 31 March 2011 which referred the parties to the Philippine Mediation Center-CA for mediation to give the parties one final chance to explore the possibility of amicable settling their dispute. The mediation proceeding held on 29 July 2011 was terminated as the parties deemed it unlikely for the parties to reach a settlement in view of the legal issues involved. Case was referred back to CA for decision. To support its position, FPIC filed a Manifestation and Submission dated 10 October 2011 with the CA informing the CA of the pendency of a similar case involving Chevron and FPIC (CA Case No. 92226) and that the MPR filed by Chevron in said case was already denied by the CA and Chevron has already filed a PR with the SC. FPIC filed another Manifestation and Submission dated 31 January 2012 informing the Honorable Court about the SC (First Division) Decision in the similar case of Fumitechniks (GR No. 177839) which dismissed the complaint filed by Chevron against FPIC in RTC-Makati Br. 61. FPIC filed a Fifth Manifestation and Submission dated 25 March 2014 manifesting that in the SC Case No. 198039 (Cipriano case), the SC issued a resolution denying with finality the MR filed by Chevron (seeking reconsideration of CA resolution denying Chevron's petition to set aside the CA decision dismissing the complaint of Chevron).

The CA (4<sup>th</sup> Division), in its Decision dated 15 August 2014 reversed and set aside the RTC Decision dated 28 December 2009 which held FPIC liable under the surety bond, and dismissed the complaint. However, the dismissal of FPIC's counterclaim was affirmed.

Chevron filed a Motion for Partial Reconsideration (MPR) of the CA Decision of 15 August 2014, which was denied by the CA in its Resolution dated 25 February 2015.

Chevron filed Petition for Review (of the CA Decision) with the SC. The SC denied Chevron's Petition in a minute resolution dated 22 July 2015. Chevron filed an MR which was denied with finality in the SC's minute resolution dated 23 November 2015.

c "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]

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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 to the Philippine Mediation Center for mediation on 3 July 2013. As no settlement was reached, mediation proceedings have been 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 and is pending with the court.

- d. *FLT Prime Insurance Corporation vs. Solid Guaranty, Inc.*  
Civil Case No. 14-381  
(Makati RTC Branch 145)  
(For: Recovery of Sum of Money and Damages)
- 

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 set on 23 September 2016.**

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

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

At the special stockholders' meeting held on 20 October 2015, the following items were approved: (i) amendment of the Company's Articles of Incorporation to increase its authorized capital stock from P2.4 billion to P7.5 billion, divided into 7.5 billion common shares with par value of P1.00 per share and the ALI Subscription to 2.5 billion shares of stock from said increase in capital stock; (ii) amendment of the Company's Articles of Incorporation to increase its directors from seven to nine; and (iii) approval for listing of the ALI Subscription.

No matter was submitted to a vote of the security holders of the Company during the fourth quarter of the fiscal year.

### 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:

		High	Low
Fiscal Year 2017			
1st Quarter (1 Jul. 2016- 30 Sept. 2016)		P2.16	P1.81
Fiscal Year 2016 (1 July 2015-30 June 2016)			
1 <sup>st</sup> Quarter (Jul. 2015—Sept. 2015)		P2.54	P1.54
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
Fiscal Year 2015 (1 July 2014- 30 June 2015)			
1st Quarter (Jul. 2014- Sept. 2014)		P0.84	P0.55
2nd Quarter (Oct. 2014-Dec. 2014)		0.82	0.62
3rd Quarter (Jan. 2015-Mar. 2015)		0.75	0.64
4th Quarter (Apr. 2015-Jun. 2015)		2.08	0.70
Fiscal Year 2014 (1 July 2013- 30 June 2014)			
1st Quarter (Jul. 2013-Sept. 2013)		P0.630	P0.540
2nd Quarter (Oct. 2013-Dec. 2013)		0.580	0.355
3rd Quarter (Jan. 2014-Mar. 2014)		0.530	0.410
4th Quarter (Apr. 2014-Jun. 2014)		0.700	0.435

Stock price as of latest practicable trading date of 23 November 2016 is P 1.86 per share.

\*provided by PSE Corporate Planning and Research Department

##### B. Holders

The number of shareholders of record as of 31 October 2016 was 824. The following are the top 20 registered stockholders of the Company as provided by the Company's Stock and Transfer Agent, BDO Unibank, Inc.-Trust and Investments Group:

	Name	Number of Shares	Percentage
1.	Ayala Land, Inc.	2,499,999,996	51.057%
2.	PCD Nominee Corporation (Filipino)	1,697,709,444	34.672%
3.	Lepanto Consolidated Mining Co.	180,000,000	3.676%
4.	F. Yap Securities, Inc.	157,254,100	3.212%
5.	PCD Nominee Corporation (non-Filipino)	49,501,364	1.011%

6.	YHS Holdings Corporation	22,900,000	0.468%
7.	Caridad Say	22,370,000	0.457%
8.	Victor Say	21,500,000	0.439%
9.	Gilbert Dee	19,598,000	0.400%
10.	ESOWN Administrator 2015	18,754,800	0.383%
11.	David C. Go	18,560,000	0.379%
12.	SEC Account FAO: Various Customers of Guoco Securities (Philippines), Inc.	18,076,380	0.369%
13.	David Go Securities Corp. A/C # 1085	11,816,000	0.241%
14.	Vichelli Say	10,000,000	0.204%
15.	David Go Securities Corp.	8,665,000	0.177%
16.	Quality Investments & Securities Corp.	8,010,000	0.164%
17.	Coronet Property Holdings Corp.	6,000,000	0.123%
18.	Federal Homes, Inc.	5,492,000	0.112%
19.	Eleonor Go	5,400,000	0.110%
20.	Guoco Securities (Phils.), Inc.	5,243,000	0.107%

C. Dividends

There were no dividend declarations for the years 2013 to 2016.

D. Recent Sales of Unregistered Securities

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

Management's Discussion and Analysis or Plan of Operation

For the Quarter Ending 30 September 2016

Consolidated Results of Operations

For the first quarter of fiscal year 2017, Prime Orion Philippines, Inc. ("POPI" or "the Group") reported a consolidated net income of P11.0 million compared to P494.9 million net income last year. Income last year was mainly attributable to the gain on sale of investment properties in Mandaue, Cebu City and Sto. Tomas, Batangas.

Consolidated Revenues amounted to P173.9 million from P346.7 million last year. The decrease in revenues was due to the sale of real estate last year. Rental revenue improved by 4% due to increase in occupancy. Revenue from insurance business decreased by 6% as net premiums earned on motor car business and property insurance dropped by 9% and 11%, respectively.

Total Cost and Expenses was lower by 50% as last year included the Cost of Real Estate Sold. Operating expenses decreased by 33% due to lower professional fees, personnel expenses and taxes and licenses. Likewise, Underwriting Costs was down by 16% due to lower claims and losses. Cost of goods sold and services increased by 9%.

Tutuban Properties, Inc. (TPI)

TPI registered a net income of P8.4 million during the quarter compared to a net loss of P3.4 million for the same period last year. Revenues from mall operations was flat at P98.0 million. Rental revenue from retail spaces improved by 6% but was negated by lower income generated from exhibits and promotional activities.

Cost and operating expenses decreased by 8%, from P103.3 million to P95.2 million due to lower professional fees and personnel expenses.

Lepanto Ceramics, Inc. (LCI)

LCI posted a net loss of P2.5 million, lower compared to same period last year's net loss of P9.5 million due to the increase in rental income from leasing warehouse spaces.

#### FLT Prime Insurance Corporation (FPIC)

During the quarter, FPIC recorded a net income of P2.5 million compared to last year's net loss of P2.7 million. The positive bottom line was on account of lower Insurance Claims and Losses and general and administrative expenses which decreased by 15% and 16%, respectively.

#### Financial Condition

Total Assets of the Group remained at P6.4 billion as of 30 September and 30 June 2016. Decrease in Receivables was due to transfer of loan receivables to Advances to related parties. Increase in Investment Properties was on account of improvements in Tutuban Center.

The decrease in Total Liabilities was mainly due to reclassification of Deposit for future stock subscriptions into Equity. Unrealized valuation loss on Available-For-Sale (AFS) investments represents decline in its market value as of the reporting period.

#### Financing Through Loans

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

The top 5 Key Performance Indicators of the Group are as follows:

Ratios	Formula	30-Sep-16	30-Sep-15	30-Jun-16
Current Ratio	Current Assets Current liabilities	4.77:1 5,023,836 / 1,053,968	4.37:1 3,413,311 / 780,511	2.11:1 5,151,148 / 2,442,755
Debt to Equity Ratio	Total Liabilities Equity	0.434:1 1,921,595 / 4,425,014	0.528:1 1,653,408 / 3,132,909	1.08:1 3,310,070 / 3,072,465
Capital Adequacy Ratio	Equity Total Assets	0.691:1 4,425,014 / 6,402,222	0.645:1 3,132,909 / 4,857,897	0.477:1 3,072,465 / 6,437,404
Book Value per Share	Equity Total # of shares	1.860 4,425,014 / 2,378,638	1.323 3,132,909 / 2,367,149	1.292 3,072,465 / 2,378,638
Income per Share	Net Income Total # of Shares	0.005 11,792 / 2,378,638	0.209 494,174 / 2,367,149	0.005 12,956 / 2,378,638

Current ratio shows the Group's ability to meet its short term financial obligation. As of 30 September 2016, the Group has P4.77 worth of current assets for every peso of current liabilities as compared to P2.11 as of 30 June 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 30 June 2016, debt to equity ratio improved to 0.43 as a result of the conversion of Deposit for future stock subscription to Equity.

Capital Adequacy Ratio is computed by dividing the Total Stockholders' Equity over Total Assets. It measures the financial strength of the Company. As of 30 September 2016, the Group's Capital Adequacy Ratio is 0.691 compared to last year's 0.477. Increase was attributable to the subscription of Ayala Land, Inc. during 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 September 2016, the Group has book value per share of P1.860, 44% higher compared to 30 June 2016.

Income per share is calculated by dividing net income by the weighted average number of shares issued and outstanding. As of 30 September 2016, the Group reported a P0.005 income per share as compared to P0.209 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 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 2016

##### Consolidated Results of Operations

The Group ended the fiscal year with a consolidated net income of P12.96 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 Employee 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 P197.1 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 P58.2 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

Ratios	Formula	30-Jun-16	30-Jun-15
Current Ratio	<u>Current Assets</u> Current liabilities	2.11:1 5,151,148 / 2,442,756	3.52:1 2,870,126 / 815,492
Debt to Equity Ratio	<u>Total Liabilities</u> Equity	1.08 :1 3,310,070 / 3,072,465	0.64 :1 1,714,830 / 2,673,903
Capital Adequacy Ratio	<u>Equity</u> Total Assets	0.477 :1 3,072,465 / 6,437,404	0.599:1 2,673,903 / 4,461,073
Book Value per Share	<u>Equity</u> Total # of shares	1.292 3,072,465 / 2,378,638	1.129 2,673,903 / 2,367,149
Income per Share	<u>Net Income</u> Total # of Shares	0.005 12,956 / 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 P2.11 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 0.477 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 P1.292 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.

- (ix) 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.

- (x) 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.

- (xi) 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.

- (xii) 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.

- (xiii) 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.

- (xiv) 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.

- (xv) 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.

- (xvi) 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

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

#### Fiscal Year 2014

##### Consolidated Results of Operations

The Group ended the fiscal year (FY) with a consolidated Net Income of P205.9 million lower than the P721.2 million reported Net Income last year. Net income was due to the recognition of recovery from insurance and gain on sale of **Available for Sale (AFS) financial assets**. Last year's Net Income includes gain on condonation of debt, reversal of provision for losses and net gain as a result of change in accounting treatment of investment in affiliate due to dilution of percentage in ownership.

**Consolidated revenues amounted to P824.7 million, lower by 22% from previous year's P1.1 billion.** Revenue from insurance business grew by 6% as motor car business and accident and health continue to spearhead growth increasing by 7% and 37%, respectively, during the year. On the other hand, overall occupancy for Tutuban Center slightly improved but was negated by the decrease in rental rates consequently reducing rental revenue by 4%. Sales from tile business which were mainly sourced from the remaining inventories, dropped by 91%. The Group posted gain on sale of AFS financial assets.

Total cost and expenses decreased by 29% as cost of goods and services went down by 57%. These include decrease in cost of sales of and share in 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 provision for inventory losses and utilities and fuel.

##### *TPI*

TPI reported a higher Net Income of P194.0 million during the year compared to P8.1 million last year, due to the recognition of recovery from insurance. **Revenue from Mall operations amounted to P411.3 million compared to last year's P420.6 million.** Overall occupancy improved; however, the decrease in average rental rate negatively impacted Rental Revenue by 11%.

On cost and expenses, CUSA related expenses decreased by 23% driven by reduced electricity and water usage. Operating expenses decreased due to the one-time impairment loss on Receivables reported last year.

##### *FPIC*

Net Premiums Earned (NPE) and Commissions increased by 6% to P222.1 million, as production from motor car, and Accident and Health businesses grew by 7% and 37%, respectively.

Operating expenses slightly decreased by 1%, cost of underwriting remained at P186 million. General and Administrative expenses decrease mainly due to the recognition last year of additional provision for taxes on prior year's income. FPIC reported a Net Loss of P15.6 million compared to a Net Loss of P24.5 million last year.

#### *LCI*

Sales from tile business dropped by 93% from the previous year as a result of the shut down of LCI's manufacturing operations. Sales revenue were primarily sourced from the existing inventories. LCI reported a Net Income of P1.4 billion as of 30 June 2014.

As a result of approval by the Rehabilitation Court of the Rehabilitation Plan, LCI recognized a gain from condonation of debt from related parties amounting to P1.5 billion and P2.6 billion in 2014 and 2013, respectively. In 2013, LCI likewise recognized a gain from condonation of debt from trade creditors amounting to P199.3 million. With its manufacturing operations shutdown since November 2012, LCI focused its activities on the sale of its remaining inventories and collection of receivables. Accordingly, the company was able to generate positive cash flows from operations, thus increasing Cash and Cash Equivalents to P81.5 million.

#### Prospects for the Future

The Group will focus on maximizing the value of its assets while continuing to explore opportunities through acquisitions and joint ventures.

This includes the full redevelopment of the 8.5-hectare Tutuban property in Manila, whose lease has been renewed until 2039. Also, the conversion of LCI's 15-hectare property in Calamba, Laguna (on which the LCI plant is located), into an industrial complex has started. It now serves as a warehousing facility for several companies, with a target of 100% utilization of its more than 70,000 sqm. warehousing area in the next three years. This industrial complex model will likewise be explored for the 31-hectare property in Sto. Tomas, Batangas.

In Cebu, the best use for the Company's remaining 1-hectare property in Mandaue is now under study, taking into consideration the soon-to-be completed Government master plan for Mandaue's North Reclamation Area.

The Group will also continue to look into tourism-related initiatives. Its most recent acquisition of a 5.8-hectare beachfront-property Palawan aims to springboard its entry into this sunrise industry.

#### Key Performance Indicators

The Top 5 Key Performance indicators of the Group are as follows:

Ratios	Formula	30-Jun-14	30-June-13
Current Ratio	<u>Current Assets</u> Current Liabilities	3.90: 1 3,276,966/ 840,038	2.77:1 3,272,663/1,182,766
Debt to Equity Ratio	<u>Total Liabilities</u> Equity	0.56:1 1,711,654/ 3,042,197	0.75: 1 2,053,193/ 2,732,746
Capital Adequacy Ratio	<u>Equity</u> Total Assets	0.630: 1 3,042,197/ 4,825,990	0.562:1 2,732,746/ 4,861,531
Book Value per Share	<u>Equity</u> Total # of Shares	1.2852 3,042,197/ 2,367,149	1.1544 2,146,385/ 2,367,149
Income (Loss) per Share	<u>Net Income (Loss)</u> Total # of Shares	0.087 205,903/ 2,367,149	0.305 721,213/ 2,367,149

Current ratio shows the Group's ability to meet its short term financial obligation. As of 30 June 2014, the Group has P3.90 worth of Current Assets for every peso of Current Liabilities as compared to P2.77 as of 30 June 2013. Increase was attributable to the decrease in Accounts Payable and Accrued Expenses. 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 2013, debt to equity ratio improved as a result of increase in equity for the current period by 11%.

Capital Adequacy Ratio is computed by dividing the Total Stockholders' Equity over Total Assets. It measures the financial strength of the Company. As of 30 June 2014, the Group's Capital Adequacy Ratio is 0.630 compared to last year's 0.562. Improvement was attributable to the reduction in Deficit 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 2014, the Group has book value per share of P1.2852.

Income per share is calculated by dividing Net Income by the weighted average number of shares issued and outstanding. As of 30 June 2014, the Group reported a P0.087 income per share as compared to last year's P0.305 per share.

- (ix) *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.

- (x) *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.

- (xi) *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.

- (xii) *Material Commitment for Capital Expenditure*

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

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

- (xiv) The Group did not recognize income or loss during the year that did not arise from continuing operations.

- (xv) There are no known causes for material change (of material item) from period to period.

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

### Financial Condition

Total Assets of the Group stood at P4.90 billion compared to last year's P4.83 billion. Cash and Cash Equivalents were reduced by 41% due to the acquisition of new investments and purchase of real estate property in San Vicente, Palawan. Accordingly, AFS financial assets and real estate held for sale and development increased by 33% and 53%, respectively. Held-to-Maturity investments that matured were reinvested as AFS financial asset. Decrease in Receivables was due to collection of insurance receivables. The lower cost of Inventories was due to the LCI plant shut down. Increase in other Current Assets was due to unutilized creditable withholding during the period.

Current Assets were higher than its Total Current Liabilities, which stood at P3.28 billion and P0.84 billion, respectively. Decrease in Leasehold Rights, Property Plant and Equipment and Software costs represents depreciation and amortization as of the period.

The Group reported a 17% decrease in Total Liabilities. This was attributable to the 36% reduction in Accounts Payable and Accrued Expenses. Retirement Benefit Obligation decreased due to contribution to the retirement fund as of the period.

Increase in Deferred Income Tax liability was a result of the recognition of recovery from insurance. Increase in unrealized valuation loss on AFS financial assets was due to the decline in market value as of the reporting period.

Financing Through Loans

As of the reporting period, the Group has no outstanding loan from any financial institution.

Fiscal Year 2013

Consolidated Results of Operations

The Group ended the FY with a consolidated net income of P720.0 million higher than P100.5 million reported Net Income last year. The increase in Net Income was attributable to gain on condonation of debt, reversal of provision for losses and net gain as a result of change in accounting treatment of investment in affiliate due to dilution of percentage in ownership.

**Consolidated Revenues reached P1.1 billion, lower by 19% from the previous year's revenue of P1.3 billion. Revenue from insurance business grew by 9% as the motor car business continues to spearhead the growth with a 15% increase this year. On the other hand, TPI's operations were significantly affected by the fire that totally damaged CB 1 and rendered CB 2 non-operational for the rest of the FY. Accordingly, overall occupancy and the Rent Generating Area (RGA) decreased, and consequently, reduced Rental Revenue by 12% compared to last year. Sales from tile business dropped to almost half of the previous year's revenue as LCI temporarily ceased its manufacturing operations in mid-November 2012. LCI's Sales Revenue was primarily sourced from the existing inventories.**

Total Cost and Expenses decreased by 8% as rent and utilities and cost of sales went down by 16% and 32%, respectively, due to lower occupancy and sales volume but was tempered by the significant increase in underwriting costs of insurance business. The increase in operating expenses was attributable to the provision for probable losses negated by lower marketing expenses.

*TPI*

TPI reported a Net Income of P7.5 million during the year compared to a Net Income of P55.3 million last year. Revenue from mall operations decreased to P417.4 million compared to last year's revenue of P498.8 million which was attributed mainly to the fire that gutted CB 1 and rendered CB 2 non-operational to date. Overall occupancy and RGA decreased, resulting to a 12% reduction in Rental Revenue. With CB 1 and CB 2 non-operational, volume of shoppers in Tutuban Center also decreased affecting other revenue sources, which resulted to other ancillary businesses performing 6% lower than last year.

CUSA-related expenses decreased by 17% driven by reduced electricity usage and lower cost of contracted services. Direct operating expenses also decreased by 14% which can be attributed to the reduced rental payment to PNR.

*FPIC*

Revenue increased by 9% to P210.0 million attributed to higher Net Premiums Earned (NPE) as production from property, motor car and accident and health businesses grew by 10%, 15% and 24%, respectively.

However, revenue growths were negatively affected by the rise in Underwriting Costs. Operating Expenses increased by 33% due to the accrual of additional provision for taxes on prior year's income. Accordingly, FPIC reported a P24.5 million Net Loss for the year.

*LCI*

On 23 December 2011, LCI filed a Petition for Rehabilitation (Petition) with RTC-Calamba under the Financial Rehabilitation and Insolvency Act of 2010, to arrest its continuing financial losses for the past several years and to enable it to eventually meet its financial obligations to its creditors. On 20 December 2012, the Court issued an Order approving the Third Amended and Restated Rehabilitation Plan (RP) and ordering LCI to submit a Status Report on the implementation thereof every 90 days. The RP is a combination of debt re-scheduling, debt condonation and debt-equity conversion.

As a result of approval by the Court of the RP, LCI recognized a gain from condonation of debt from trade creditors and related parties amounting to P199.3 million and P2.4 billion, respectively.

In November 2012, LCI temporarily stopped its manufacturing operations as prevailing market conditions remain unfavorable. Cost reduction programs including retrenchment, were implemented as part of its rehabilitation program and to maintain its business viability. LCI focused its activities on the sale of its remaining inventories and collection of receivables. Accordingly, LCI was able to generate positive cash flows from operations and increased its Cash and Cash Equivalents to P85 million.

Sales from tile business dropped to almost half of the previous year's revenue as LCI temporarily stopped its manufacturing operations. Sales Revenue was primarily sourced from the existing inventories. LCI reported a Net Income of P2.6 billion as of 30 June 2013.

#### Prospects for the Future

While the lingering effects of the September 2012 fire are still being felt within TPI, the Group's priority is to ensure the resumption of normal operations for CB 2 while integrated redevelopment plans for CB are being discussed with a third party consultant.

The repositioning of the Centermall beginning 2014 in terms of concept, tenant mix and exhibit operations is also being explored. The strategic plan for the next three years is to realign current merchandising mix to bring in new complementary businesses involving services, entertainment, and retail outlet hubs. For operational efficiency, a major energy efficiency project that seeks to lower air conditioning and lighting costs is targeted for implementation within the first quarter of 2014.

The 41-room Orion Hotel, which was completed in November 2012, is leading the transformation of Prime Block. The construction of a complementary coffee shop/restaurant adjacent to the hotel by early 2014 is also being finalized.

Meanwhile, FPIC was able to meet the P250 million minimum capitalization requirement for existing non-life insurance companies by 30-June 2013. The focus now is the thorough evaluation of the viability of the business in the light of the minimum net worth requirement of P550 million by 2016.

For LCI, pending the court ruling that will put the final amendments to the company's rehabilitation plan, Management is exploring other business options for the highest and best use for the property and plant facilities. Initial plans to convert the entire 15-hectare facility into a comprehensive and integrated warehousing complex with PEZA accreditation are currently being evaluated.

In addition, the Group marked its entry into tourism-related initiatives with the acquisition of a 5.8-hectare property in Palawan in September. The property, with a 115-meter beach frontage, is located in the first-class municipality of San Vicente, a largely untapped area of Palawan endowed with white sand beaches, coral reefs, vast forest cover, and varied endemic flora. Plans on the high and best use of the P147 million property are currently being explored.

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

The Top 5 Key Performance indicators of the Group are as follows:

Ratios	Formula	30-Jun-13	30-June-12
Current Ratio	<u>Current Assets</u> Current Liabilities	2.61: 1 3,300,817/ 1,265,783	1.61:1 2,179,854/ 1,351,379
Debt to Equity Ratio	<u>Total Liabilities</u> Equity	0.71:1 1,980,353/ 2,805,625	0.98: 1 2,115,064/ 2,146,385
Capital Adequacy Ratio	<u>Equity</u> Total Assets	0.577: 1 2,805,625/ 4,861,570	0.494:1 2,146,385/ 4,346,957
Book Value per Share	<u>Equity</u> Total # of Shares	1.1852 2,805,625/ 2,367,149	0.9067 2,146,385/ 2,367,149
Income (Loss) per Share	<u>Net Income (Loss)</u> Total # of Shares	0.304 720,018/ 2,367,149	0.042 100,547/ 2,367,149

Current ratio shows the Group's ability to meet its short term financial obligation. As of 30 June 2013, the Group has P2.61 worth of Current Assets for every peso of Current Liabilities as compared to P1.61 as of 30 June 2012. Increase was attributable to the change in accounting treatment of certain investment in affiliate due to the dilution of percentage in ownership. 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 2012, debt-to-equity ratio improved as a result of increase in equity for the current period by 28%.

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 2013, the Group's Capital Adequacy Ratio is 0.577 compared to last year's 0.494. Improvement was attributable to reduction in Deficit for 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 2013, the Group has book value per share of P1.18.

Income per share is calculated by dividing net income by the weighted average number of shares issued and outstanding. As of 30 June 2013, the Group reported a P0.304 income per share as compared to last year's income of P0.042 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) Material Commitment for Capital Expenditure

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

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

- (vi) The Group did not recognize income or loss during the year that did not arise from continuing operations.

- (vii) There are no known causes for material change (of material item) from period to period.

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

### Financial Condition

Total Assets of the Group reached P4.9 billion compared to last year's P4.3 billion. Growth in Total Assets was attributable to the increase in Receivables due to higher losses recoverable from the reinsurers. Proceeds from the sale of Pepsi shares increased Cash and Cash Equivalents to P663.8 million, a 22% increase from the previous year as the Group continues to beef up its cash.

Increase in AFS Investments was a result of change in accounting treatment of investment in CBC from Investments in Associates to AFS Investments, due to dilution of ownership to less than 20% arising from the increase in capital of CBC. Accordingly, the CBC shares were restated at the prevailing market value as at the end of the FY. Current Assets was higher than its Total Current Liabilities, which stood at P3.3 billion and P1.3 billion, respectively. Unrealized Valuation Gain decreased due to realization of profit upon sale of AFS Investments. The lower cost of Inventories was due to the temporary stoppage of plant operations, provision for inventory losses and lower volume of finished goods as of the end of the FY. Similarly, there was a decrease in Leasehold Rights and Software Costs attributable to amortization during the year. Other Current Assets grew by 4% due to unutilized creditable withholding tax and input value added tax. The decline in Other Non-Current Assets was due to the decrease in deferred reinsurance premium.

The Group registered a 6% decrease in Total Liabilities. Trade payables was reduced by 83% due to settlement and condonation of debt of **trade creditors as a result of LCI's approved RP**. On the other hand, insurance claims increased substantially as a result of claims and losses from property business, which correspondingly increased the amount of receivables from reinsurers. The reduction in Subscription Payable was due to application of advances to affiliates.

#### Financing Through Loans

As of the reporting period, the Group has no outstanding loan from any financial institution.

#### *Information on Independent Auditors*

1) External Audit Fees and Services

(a) Audit and Audit-Related Fees

Please refer to the discussion on the FY 2016 Audit Fees and Audit Related Fees on page 9 of the Definitive Information Statement (SEC Form 20-IS).

(b) Tax Fees

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. There were non-audit services rendered by the external auditors in FY 2015.

(c) All Other Fees

No known Other Services were rendered by external auditor aside from that stated above for FYs 2013 to 2016.

Audit and Audit-Related Fees are as follows:

	2016	2015	2014	2013
Professional Fees	P1,200,000.00	P2,488,536.00	P2,382,930.00	P2,279,750.00
Value Added Tax	144,000.00	298,624.32	285,952.00	273,570.00
Total Audit Fees	P1,344,000.00	P2,787,160.32	P2,668,882.00	P2,553,320.00

The non-audit services fees are as follows:

	2016	2015	2014	2013
Professional Fee- Tax Advisory	P 225,000.00	-	-	-
Knowledge Transfer Workshop (ESOWN Valuation)	650,000.00	-	-	-
Value Added Tax	105,000.00	-	-	-
Total Audit Fees	P 980,000.00	-	-	-

- (d) The Audit and Risk Management Committee ("Audit Committee") performs oversight functions over the Corporation's external auditors in accordance with the Company's Revised Manual of Corporate Governance ("Revised Manual"). It reviews and approves all reports of the external auditors prior to presentation to the Board of Directors for approval. The Audit 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) For FY 2015-2016, please refer to the discussion on Independent Public Accountants on pages 8-9 of the Company's **Information Statement**.

#### Compliance with Corporate Governance

On 30 July 2015, the Company amended its Revised Manual of Corporate Governance (the "Revised Manual") to include the provisions on stakeholders as provided in the Revised Code of Corporate Governance as required under SEC Memorandum Circular No. 9, Series of 2014.

The Company has substantially complied with its Revised Manual with the election of two independent directors to the **Company's Board**. The Company has, for the last ten years, complied with the requirement for the creation of the Audit, Compensation, and Nomination and Election Committees and the election of the members of each committee; the regular conduct of meetings of the Board, certification on attendance in meetings of the directors and committee members; has a written Code of Conduct/Policy Manual prepared by its Human Resources Department, and adherence to applicable accounting standards and disclosure requirements.

The Revised Manual provides in detail the qualifications and disqualifications of the Board. The duties and functions of the directors are also provided in the Revised Manual. The performance of the directors will be measured against the criteria established in the Manual.

In compliance with the requirements of the PSE, 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, corporate governance reports and disclosures made by the Company. The website was updated in compliance with the template requirements under SEC Memorandum Circular No. 11, Series of 2014.

A Full Business Interest Disclosure Form has been adopted and has been accomplished by the directors and key officers of the Company. The Company also submitted to the SEC the Certification of Qualification of its Independent Directors. All directors have attended a corporate governance seminar in 2015 in compliance with SEC Memorandum Circular No. 20, Series of 2013. For 2016, five (5) directors have attended a corporate governance seminar.

Company policies on Code of Business Conduct and Ethics, Conflict of Interest, Related Party Transaction, Insider trading, Whistle Blowing, Management Succession and Health, Safety and Welfare have been developed and may be accessed in the POPI website. The Charters of the Nomination Committee, Audit and Risk Committee and Compensation and Remuneration Committee may also be accessed in the website 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 Management Committee reviews the quarterly and annual financial statements before their submission to the Board.

On 28 June 2013, the Corporation submitted to the SEC and PSE its Annual Corporate Governance Report (SEC Form-ACGR) as prescribed in SEC Memorandum Circular No. 5, Series of 2013. Changes and updates to the ACGR have been submitted to the SEC. The Consolidated Changes to the ACGR for the CYs ended 31 December 2015 and 31 December 2014 and FY ended 30 June 2014 have been uploaded in the POPI website.

In compliance with SEC Memorandum Circular No. 1, Series of 2014, the Company, on 5 July 2016, submitted its advisement letter on the attendance of Directors in Board and Committee meetings or five (5) days from the end of the **Company's fiscal year**.

For FY 2015/2016, the BOD had fifteen (15) meetings. Of said meetings, eleven (11) meetings were held before the entry of ALI from 1 July 2015 to 24 February 2016. The members of the Board then attended all eleven (11) meetings, except for one director who was not able to attend one (1) meeting. For remaining four (4) meetings (held from 1 March to 16 May 2016), all the directors were present. Attendance in the meetings of the Board Committees for FY 2015/2016 were as follows: (a) Nomination Committee-100% attendance; (b) Audit Committee- One director was not able to attend one meeting out of six (6) meetings; and (c) Compensation and Remuneration Committee- one director was not able to attend one meeting out of three (3) meetings for the fiscal year. The attendance of directors in Board meetings for 2016 and 2015 are **available in the Company's website**.

**No annual stockholders' meeting was held** in 2015. However, all members of the Board attended the **Special Stockholders' Meeting** held last 20 October 2015.

On 6 October 2015, the Board approved the Self-Assessment Form and Self-Assessment Results of the Board as well as the Self-Assessment Rating Form and Worksheet of the Audit Committee (for FY 2014/2015). The self-assessment results of the Board and the Audit and Risk Management Committee for FY 2013/2014 were approved on 2 October 2014. The self-assessment forms of the Board and Audit Committee for FY 2015/2016 are subject to review.

There were no major deviations to the Revised Manual. The Company will continue to work on its systems and procedures to improve compliance with the Revised Manual.

Audited Consolidated Financial Statements of the Company and Quarterly Report for the Quarter Ended 30 September 2016

Please refer to the attached F/S for the FY ended 30 June 2016 and the following additional components of the financial statements as required under SRC Rule 68 (as amended in October 2011):

1. Auditor's Report;
2. Reconciliation of Retained Earnings Available for Dividend Declaration as of 30 June 2016;
3. Tabular Schedule of Standards and Interpretation as 30 June 2016;
4. Map of the POPI Group of Companies showing the relationships between and among the parent company and its subsidiaries; and
5. Schedule showing financial soundness indicators for 2016 and 2015.

The F/S for FY ended 30 June 2015 and the SEC Form 17-Q for the period ending 30 September 2016 are also attached to this Report and may also be accessed in the website of the Company.

# PrimeOrion Philippines, Inc.

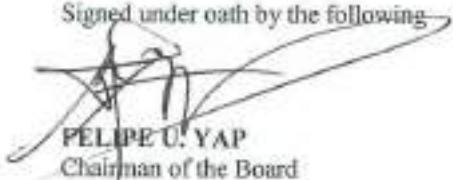
## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of PRIME ORION PHILIPPINES, INC. is responsible for the preparation and fair presentation of the consolidated financial statements for the fiscal years ended June 30, 2015 and 2014, 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:

  
**FELIPE U. YAP**  
Chairman of the Board

  
**YUEN PO SENG**  
President/Chief Executive Officer

  
**RONALD P. SUGAPONG**  
Treasurer/Chief Financial Officer

Signed this 9th day of October 2015.

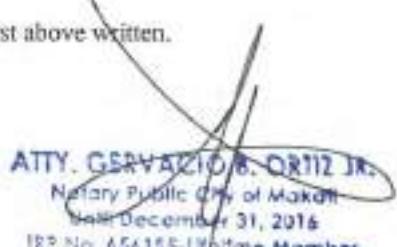
Republic of the Philippines)  
Makati City ) S.S.

SUBSCRIBED AND SWORN to before me this Oct 1, 2015 day of October 2015, 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
Felipe U. Yap	Ppt No. EB371340	9-22-2011 / Manila
Yuen Po Seng	Ppt No. A25169994	10-25-2011/Georgetown, Malaysia
Ronald P. Sugapong	Ppt No. EB7054522	1-3-2013 / Manila

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

Doc. No. 57  
Page No. 13  
Book No. LXII  
Series of 2015.

  
**ATTY. SERVACIO B. ORIÑIZ JR.**  
Notary Public City of Makati  
Dec 31, 2016  
NBI No. 656155-Lifetime Member  
MCLE Compliance No. V-0006934  
Registration No. M-199-(2015-2016)  
PRA No. 4748512 Jan. 5, 2015  
Makati City Roll No. 40091  
101 Union Ave., Campos Rueda Bldg.  
Brgy. Pio del Pilar, Makati City

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Prime Orion Philippines, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2015 and 2014, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the three years ended June 30, 2015, 2014 and 2013 and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Prime Orion Philippines, Inc. and its subsidiaries as at June 30, 2015 and 2014, and their financial performance and their cash flows for the three years then ended June 30, 2015, 2014 and 2013, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

*Jose Pepito E. Zabat*

Jose Pepito E. Zabat III

Partner

CPA Certificate No. 85501

SEC Accreditation No. 0328-AR-3 (Group A),

May 1, 2015, valid until April 30, 2018

Tax Identification No. 102-100-830

BIR Accreditation No. 08-001998-60-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 4751344, January 5, 2015, Makati City

October 9, 2015



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

	June 30	
	2015	2014
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	₱151,763	₱371,534
Receivables (Note 5)	496,116	603,141
Inventories (Note 6)	12,006	18,474
Real estate held for sale and development (Note 7)	430,103	429,507
Amounts owed by related parties (Note 18)	9	22
Available-for-sale (AFS) financial assets (Note 8)	1,507,408	1,643,898
Financial assets at fair value through profit or loss (FVPL) (Note 9)	27,992	—
Other current assets (Note 10)	244,729	232,115
<b>Total Current Assets</b>	<b>2,870,126</b>	<b>3,298,691</b>
<b>Noncurrent Assets</b>		
Investments in an associate (Note 11)	2,571	2,564
Investment properties (Note 12)	1,329,022	737,488
Property, plant and equipment (Note 13)	46,328	672,083
Software costs (Note 14)	8,800	8,957
Other noncurrent assets (Note 15)	204,226	106,207
<b>Total Noncurrent Assets</b>	<b>1,590,947</b>	<b>1,527,299</b>
<b>TOTAL ASSETS</b>	<b>₱4,461,073</b>	<b>₱4,825,990</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 16)	₱667,262	₱673,755
Current portion of rental and other deposits (Note 17)	148,230	166,655
<b>Total Current Liabilities</b>	<b>815,492</b>	<b>840,010</b>
<b>Noncurrent Liabilities</b>		
Rental and other deposits - net of current portion (Note 17)	85,331	48,088
Retirement benefits liability (Note 23)	96,975	99,185
Deferred rent income (Note 27)	792	735
Deferred income tax liabilities - net (Note 24)	234,565	241,561
Subscriptions payable (Note 19)	481,675	481,675
<b>Total Noncurrent Liabilities</b>	<b>899,338</b>	<b>871,244</b>
<b>Total Liabilities</b>	<b>₱1,714,830</b>	<b>₱1,711,654</b>



	June 30	
	2015	2014
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock - ₦1 par value		
Authorized - 2,400,000,000 shares		
Issued and subscribed - 2,367,149,383 shares (net of subscriptions receivable of ₦297,237 and ₦300,792 as at June 30, 2015 and 2014)	₦2,069,912	₦2,066,357
Additional paid-in capital	829,904	829,904
Treasury shares	(21,916)	-
Revaluation increment on property, plant and equipment (Note 13)	244,622	252,233
Unrealized valuation gains (losses) on AFS financial assets (Note 8)	2,066	83,801
Loss on remeasurement of retirement benefits liability (Note 23)	(72,481)	(66,736)
Deficit	(378,204)	(123,362)
	2,673,903	3,042,197
<b>Non-Controlling Interests</b>	72,340	72,139
<b>Total Equity</b>	<b>₦2,746,243</b>	<b>₦3,114,336</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₦4,461,073</b>	<b>₦4,825,990</b>

*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>Years Ended June 30</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>REVENUE</b>			
Rental and other charges (Note 12)	P414,475	P402,520	P419,769
Insurance premiums and commissions - net	236,452	222,126	209,889
Interest income on AFS financial assets (Note 8)	11,753	7,803	21,979
Merchandise sales	8,611	22,070	255,390
Service fees	8,070	6,972	3,446
Gain on sale of AFS financial assets (Note 8)	8,846	159,189	147,303
Dividend income (Notes 8 and 9)	4,228	4,032	1,319
	<b>692,435</b>	<b>824,712</b>	<b>1,059,095</b>
<b>COSTS AND EXPENSES</b>			
Cost of goods sold and services (Note 20)	226,309	242,802	563,630
Operating expenses (Note 20)	357,414	386,673	405,950
Commission and other underwriting expenses	173,252	186,534	185,914
	<b>756,975</b>	<b>816,009</b>	<b>1,155,494</b>
<b>OTHER INCOME (CHARGES)</b>			
Impairment losses on AFS financial assets (Note 8)	(241,187)	(2,600)	(291,501)
Gain on sale of property, plant and equipment (Note 13)	15,344	196	1,206
Reversal of impairment losses on receivables	8,009	—	—
Interest expense and bank charges - net (Note 22)	1,825	(1,866)	(1,845)
Reversal of inventory losses (Note 6)	1,241	4,360	—
Unrealized gain on financial assets at FVPL (Note 9)	280	—	—
Rehabilitation expenses (Note 1)	(609)	(13,495)	(10,660)
Equity in net income (loss) of associates (Note 11)	7	(24)	32
Recovery from insurance (Note 1)	—	269,282	78,086
Loss on write off on investment properties (Note 12)	—	(288)	—
Reversal of probable losses (Note 16)	—	—	243,346
Gain on re-measurement to AFS financial assets (Note 8)	—	—	594,107
Gain on condonation of debt (Note 1)	—	—	199,282
Casualty loss (Notes 12 and 13)	—	—	(63,247)
Reversal of impairment losses on amounts owed by related parties (Note 18)	—	—	62,462
Others - net	28,958	23,585	11,934
	<b>(186,132)</b>	<b>279,150</b>	<b>823,202</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>(250,672)</b>	<b>287,853</b>	<b>726,803</b>
<b>PROVISION FOR INCOME TAX - Net (Note 24)</b>	<b>11,564</b>	<b>81,950</b>	<b>5,590</b>
<b>NET INCOME (LOSS)</b>	<b>(P262,236)</b>	<b>P205,903</b>	<b>P721,213</b>
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent	(P262,453)	P210,618	P728,630
Non-controlling interests	217	(4,715)	(7,417)
	<b>(P262,236)</b>	<b>P205,903</b>	<b>P721,213</b>
<b>EARNINGS (LOSS) PER SHARE (Note 25)</b>			
Basic and diluted, for income for the year attributable to ordinary equity holders of the Parent	(P0.11)	P0.09	P0.31

*See accompanying Notes to Consolidated Financial Statements.*



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

	Years Ended June 30		
	2015	2014	2013
<b>NET INCOME (LOSS)</b>	(₱262,236)	₱205,903	₱721,213
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Unrealized valuation gains on AFS financial assets (Note 8)	251	245,666	62,571
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Loss on remeasurement on retirement benefits liability net of tax (Note 23)	(5,745)	(8,592)	(23,619)
Effect of shortened corporate life of a subsidiary (Note 1)	-	5,026	-
Revaluation increment on property, plant and equipment, net of tax (Note 13)	-	-	(398)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(₱267,730)</b>	<b>₱448,003</b>	<b>₱759,767</b>
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent	(₱275,665)	₱454,024	₱760,937
Non-controlling interests	7,935	(6,021)	(1,170)
	<b>(₱267,730)</b>	<b>₱448,003</b>	<b>₱759,767</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	Revaluation Increment on Property, Plant and Equipment (Note 13)	Gains (Losses) on AFS Financial Assets (Note 8)	Unrealized Valuation Gains (Losses) on Retirement Benefits Plan (Note 23)	Non-Controlling Interests	Total
Balances at July 1, 2012, as restated	P2,066,357	P829,904	P-	P261,017	P63,035	(P51,709)	P85,508	P2,181,535
Net income, as previously stated								
Effect of adoption of revised PAS 19, net of tax								
Net income, as restated								
Other comprehensive income (loss)								
Unrealized valuation gain (loss) on AFS financial assets								
Revaluation increment in property, plant and equipment								
Actuarial loss recognized in OCI								
Total comprehensive income								
Transfer of realized valuation increment on property, plant and equipment								
Unrealized gain transferred from equity to consolidated statement of income								
Balances at July 1, 2013	2,066,357	829,904	-	259,844	(4,859)	(75,328)	(343,172)	75,592
Net income								
Other comprehensive income (loss)								
Unrealized valuation gain (loss) on AFS financial assets								
Actuarial loss recognized in OCI								
Total comprehensive income								

(Forward)



	Capital Stock	Additional Paid-in Capital	Treasury Shares	Revaluation Increment on Property, Plant and Equipment (Note 1)	Unrealized Valuation Gains (Losses) on AFS Financial Assets (Note 8)	Remeasurement of Retirement Benefits Plan Assets (Note 8)	Gains (Losses) on Non-controlling Interests	Total
Transfer of realized valuation increment on property, plant and equipment	P-	P-	-	(P7,611)	P-	P7,611	P-	P-
Unrealized gain transferred from equity to consolidated statement of income	-	-	-	-	(159,189)	-	-	(159,189)
Effect of shortened corporate life of a subsidiary	-	-	-	-	-	-	1,581	3,445
Balances at June 30, 2014	2,066,357	829,904	-	252,233	83,801	(66,736)	(125,362)	72,139
Net income	-	-	-	-	-	-	(262,453)	217
Other comprehensive income (loss)	-	-	-	-	-	-	-	(262,236)
Unrealized valuation gain ( on AFS financial assets	-	-	-	267	-	-	(16)	251
Actuarial gain recognized in OCI	-	-	-	-	(5,745)	-	-	(5,745)
Total comprehensive income	3,555	-	-	267	(5,745)	(262,453)	201	(267,730)
Issuance of capital stock	-	-	-	-	-	-	-	3,555
Treasury shares	-	-	(21,916)	-	-	-	-	(21,916)
Transfer of realized valuation increment on property, plant and equipment	-	-	-	(7,611)	-	-	7,611	-
Unrealized gain transferred from equity to consolidated statement of income	-	-	-	-	(82,002)	-	-	(82,002)
Balances at June 30, 2015	P2,069,912	P829,904	(P21,916)	P244,622	P2,096	(P72,481)	P72,340	P2,746,243

*See accompanying Notes to Consolidated Financial Statements.*



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

	Years Ended June 30		
	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax	(₱250,672)	₱287,853	₱726,803
Adjustments for:			
Depreciation and amortization (Notes 12, 13, 14 and 27)	79,747	81,675	85,107
Provision (Recovery of) for impairment losses on:			
AFS financial assets (Note 8)	241,187	2,600	291,501
Inventories (Note 6)	—	1,588	70,952
Receivables (Note 5)	(5,538)	(553)	20,536
Other current assets (Note 10)	76	61	193
Amounts owed by related parties (Note 18)	15	—	(62,462)
Retirement benefits expense (Note 23)	22,773	25,339	21,345
Interest income	(16,599)	(13,623)	(28,055)
Gain on sale of:			
Property, plant and equipment (Note 13)	(15,345)	(196)	(1,206)
AFS financial assets (Note 8)	(8,846)	(159,189)	(147,303)
Dividend income (Note 8)	(4,228)	(4,032)	(1,319)
Reversal for inventory losses (Note 6)	(1,241)	(4,360)	—
Interest expense and bank charges (Note 22)	523	1,569	812
Gain on valuation of fair value of FVPL	(130)	—	—
Equity in net loss (income) of associates (Note 11)	(7)	24	(32)
Recovery from insurance (Note 1)	—	(269,282)	(78,086)
Loss on write-off investment property (Note 12)	—	288	—
Unrealized foreign exchange losses (gains) - net	—	4	65
Reversal of probable losses (Note 16)	—	—	(243,346)
Gain on re-measurement to AFS financial assets (Note 8)	—	—	(594,107)
Gain on condonation of debt (Note 1)	—	—	(199,282)
Casualty loss (Notes 12 and 13)	—	—	63,247
Operating income (loss) before working capital changes	41,715	(50,234)	(74,637)
Decrease (increase) in:			
Receivables	110,966	539,143	(305,431)
Inventories	7,709	14,744	92,970
Real estate held for sale and development	(596)	(149,328)	(1,059)
Amounts owed by related parties	(2)	—	—
Other current assets	(12,690)	(32,475)	(8,198)
Increase (decrease) in:			
Accounts payable and accrued expenses	(6,510)	(381,846)	364,346
Rental and other deposits	18,818	15,584	(7,162)
Net cash flows generated from (used in) operations	159,410	(44,412)	60,829
Interest received	18,196	14,466	28,055
Income tax paid	(19,712)	(11,589)	(7,057)
Interest paid	(523)	(1,569)	(812)
Net cash flows from (used in) operating activities	₱157,371	(₱43,104)	₱81,015

(Forward)



	Years Ended June 30		
	2015	2014	2013
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Contributions paid	(P30,728)	(P55,881)	(P21,657)
Proceeds from sale of			
AFS financial assets (Note 8)	94,593	222,945	293,437
Property, plant and equipment	15,345	230	2,084
Acquisitions of:			
AFS financial assets (Note 8)	(271,177)	(383,204)	(178,101)
Investment properties (Note 12)	(34,197)	(15,477)	(58,486)
FVPL investments	(27,712)	—	—
Property, plant and equipment (Note 13)	(7,367)	(10,660)	(16,918)
Software cost (Note 14)	(3,805)	(4,183)	(3,095)
Decrease (increase) in:			
Other noncurrent assets	(98,019)	8,363	1,190
Amounts owed by related parties	—	3	(196)
HTM investments	—	2,000	—
Deferred rent income	74	423	684
Dividends received (Note 8)	4,228	4,032	1,319
Net cash flows from (used in) investing activities	(358,765)	(231,409)	20,261
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Acquisition of treasury shares	(21,916)	—	—
Collection of subscription receivables	3,555	—	—
Decrease in minority interest	(16)	2,843	—
Decrease in amounts owed to related parties (Note 18)	—	(2,673)	—
Net cash flows from (used in) financing activities	(18,377)	170	—
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(219,771)</b>	<b>(274,343)</b>	<b>101,276</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>371,534</b>	<b>645,877</b>	<b>544,601</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>P151,763</b>	<b>P371,534</b>	<b>P645,877</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 then was 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 subsidiary) filed a Petition for Rehabilitation (PR) with the Regional Trial Court of Calamba (RTC-Calamba) under Republic Act (RA) No. 10142, otherwise known as the Financial Rehabilitation and Insolvency Act of 2010, 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. On January 13, 2012, RTC-Calamba, Branch 34 (the Court) issued a Commencement Order which stayed enforcement of all claims against LCI accruing prior to January 13, 2012. On March 26, 2012, the Court issued an Order, giving due course to the PR, appointing a Rehabilitation Receiver (RR) and directing him to submit an amended Rehabilitation Plan (RP) based on comments submitted by creditors.

However, the Revised and Restated RP, the Second Amended and Restated RP, and the Third Amended and Restated RP, all of which were crafted by the RR, were respectively voted upon and rejected by the creditors. On November 28, 2012, the RR submitted to the Court the Third Amended and Restated RP with the Recommendation to Confirm the Third Amended and Restated RP Pursuant to Section 63, of RA No. 10142.

On December 20, 2012, the Court issued an Order approving the Third Amended and Restated RP ("Approved RP") and ordering LCI to submit a Status Report on the implementation thereof every 90 days. On January 11, 2013, the RR issued a Notice to Creditors that the pay-out of claims would commence on January 21, 2013.

The following are the conditions provided in the Third Amended and Restated RP approved by the Court:

- a. Class 1 (Workers) shall be paid the full amount of their allowed claims within one (1) year from approval of the Third Amended and Restated RP;
- b. Class 2 (Local Government of Calamba) shall be paid the full amount of its allowed claim within one (1) year from approval of the Third Amended and Restated RP;



- c. Class 3 (Trade) Creditors will condone 85% of their allowed claims;
- d. Class 4 (Non-Trade Unsecured) Creditors will advance to LCI such amount necessary to pay 15% of the allowed claim of each Class 3 (Trade) Creditor;
- e. The post commencement advances of Class 4 (Non-Trade Unsecured) Creditors will be converted to voting common shares;
- f. The pre-commencement allowed claims of Class 4 (Non-Trade Unsecured) Creditors will be condoned;
- g. Class 5 (Secured) Creditors will condone its claims in excess of the market value of the Company's assets which serve as a security for LCI's liability to the Secured Creditor. All servicing of the remaining claims of Class 5 (Secured) Creditor will be made after the Class 3 (Trade) Creditors are settled; and
- h. The common shares held by the Class 5 (Secured Creditor) in LCI will be converted to preferred shares.

As a result of the approval by the Court of the Third Amended and Restated RP, LCI recognized a gain on condonation of debt from trade creditors and related parties amounting to nil and ₱1,499.78 million in 2015 and 2014, respectively (see Note 16). In 2013, the Group also recognize a gain on condonation of debt from trade creditors amounting to ₱199.3 million.

On August 12, 2013, LCI filed a Motion to Amend Rehabilitation Plan seeking the following amendments to the Third Amended and Restated RP:

- a. Inclusion of the Deposit for Future Subscription of Orion I Holdings Philippines, Inc. (OIHPI) in the amount of ₱373.62 million among the claims to be condoned; and
- b. Condonation of the claims of OIHPI to the extent of 60% of the market value of LCI's assets securing the Mortgage Trust Indenture (MTI) and Collateral Trust Indenture, or in the amount of ₱677.50 million and an adjustment on the excess market value of the collateral amounting to ₱451.66 million to attain solvency.
- c. Both RR and the affected creditor, OIHPI, filed their comment to the Motion to Amend, signifying their assent thereto. On March 3, 2014, the Court issued an Order granting the Motion to Amend.

On May 29, 2014, LCI filed a Motion for Termination of Rehabilitation Proceedings, stating that LCI has substantially accomplished the tasks and conditions provided in the Third Amended and Restated RP, as follows:

- a. Payment to claimants - LCI has already paid 50% of its obligation to Class 1 creditors amounting to ₱0.72 million. Class 2 creditor has already been paid in full. Meanwhile, Class 3 creditors have been paid ₱34.23 million or 86% of their claim. The unclaimed payments were deposited to Metropolitan Bank and Trust Company (MBTC) as "Unclaimed Claims Reserve Fund" (the Fund). A creditor or worker may obtain payment from the account upon presentation of sufficient proof of authority or identity within two (2) years from the opening of the account.



- b. Conversion of shares - LCI's Board of Directors (BOD) authorized the conversion of shares of stocks in accordance with the conditions in the Third Amended Plan. On April 30, 2013, the SEC approved the amendment of its Articles of Incorporation to reflect the said conversion.
- c. Condonation of debt - In a special meeting held on March 27, 2014, the BOD of OIHPI approved a resolution condoning the entire unsecured claim and a portion of its secured claim equivalent to 60% of the market value of LCI's collateral assets. Included in the debts condoned are loans listed in the books of LCI as Deposit for Future Subscription under "amounts owed to related parties" amounting to ₱373.62 million.

The rehabilitation expenses incurred by LCI amounted to ₱0.61 million and ₱13.49 million in 2015 and 2014, respectively.

As at June 30, 2015 and 2014, LCI has settled a portion of its liability to its creditors under the approved rehabilitation plan amounting to ₱0.14 million and ₱1.52 million, respectively.

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. The amended articles of incorporation of LCI states that LCI 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 one of its secondary purposes.

On September 4, 2012, certain property and equipment and investment properties of Tutuban Properties, Inc. (TPI; a subsidiary) were damaged by fire. Fixed assets which were completely destroyed were written off, while those partially damaged assets were provided with an allowance for impairment. These property losses, with a net book value of ₱63.25 million are recorded as "Casualty loss" in the 2013 consolidated statement of income.

FLT Prime Insurance Corporation (FPIC), the insurance policy provider and a related party, recognized the incident as a fire loss event. The insurance policy was substantially ceded by FPIC to third party reinsurers. In line with this, TPI recognized recovery from insurance amounting to nil and ₱269.28 million in the consolidated statement of income in 2015 and 2014, respectively.

TPI received insurance proceeds from FPIC amounting to ₱134.43 million and ₱174.71 million in 2015 and 2014, respectively.

In January 2015, TPI opened Orion Café adjacent to Orion Hotel, which is also located at the third level of the Tutuban Primeblock Building. The café offers a comfortable area where guests can relax and enjoy gourmet coffee, refreshing drinks and delicious meals and snacks.

On April 1, 2015, TPI signed a Memorandum of Understanding with the Department of Transportation and Communication (DOTC) and Philippine National Railways (PNR) in connection with the finalization and implementation of plans to North-South Railway Project (NSRP) of DOTC. 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.

The consolidated financial statements of the Group as at June 30, 2015 and 2014 and for years ended June 30, 2015, 2014 and 2013 were approved and authorized for issuance by the BOD on October 9, 2015.



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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 available-for-sale (AFS) financial assets, land, land improvements, building and building improvements (included under "Property, plant and equipment") and financial assets at fair value through profit or loss (FVPL) that are carried at fair values. The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency under Philippines Financial Reporting Standards (PFRS). All values 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 PFRS.

**Basis of Consolidation**

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries as at June 30, 2015 and 2014:

Subsidiaries	Nature of Business	Effective Percentage of Ownership	
		2015	2014
<b>Real Estate, Property Development and Others:</b>			
Orion Land, Inc. (OLI) and Subsidiaries:			
OLI	Real Estate and Investment Holding Company	100.00%	100.00%
TPI and Subsidiaries:			
TPI	Real Estate, Mall Operations	100.00%	100.00%
TPI Holdings Corporation (TPIHC)	Investment Holding Company	100.00%	100.00%
Orion Property Development, Inc. (OPDI) and Subsidiaries:			
OPDI	Real Estate Development	100.00%	100.00%
Orion Beverage, Inc. (OBI) *	Manufacturing	100.00%	100.00%
Luck Hock Venture Holdings, Inc.	Other Business Activities	60.00%	60.00%
<b>Manufacturing and Distribution:</b>			
OIHPI and Subsidiaries:			
OIHPI	Financial Holding Company	100.00%	100.00%
LCL	Manufacture of Ceramic Floor and Wall Tiles	100.00%	100.00%

*(Forward)*



Subsidiaries	Nature of Business	Effective Percentage of Ownership	
<b>Financial Services and Others:</b>			
OE Holdings, Inc. (OEHI) and Subsidiaries:			
OEHI	Wholesale and Trading	100.00%	100.00%
Orion Maxis Inc. (OMI)	Marketing and Administrative Services	100.00%	100.00%
ZHI Holdings, Inc. (ZHI)	Financial Holding Company	100.00%	100.00%
FPIC	Non-Life Insurance Company	100.00%	100.00%
Orion Solutions, Inc. (OSI)	Management Information Technology Consultancy Services	100.00%	100.00%

\* *Inactive*

All of the companies are incorporated and based 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, have been 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

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, 2014.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)  
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The Group is presenting its financial assets and financial liabilities at gross amounts in the consolidated statement of financial position.
- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Nonfinancial Assets* (Amendments)  
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement* on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The application of amendments has no effect on the Group's financial position or performance.



- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)  
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. The Group expects that this amendment will have no effect in consolidated financial statements, as the Group has no derivatives during the current or prior period.
- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)  
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at FVPL. It is not expected that this amendment would be relevant to the Group since the Group would not qualify to be an investment entity under PFRS 10.
- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)  
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. The Group does not expect that IFRIC 21 will have material financial effect in future consolidated financial statements.

*Annual Improvements to PFRSs (2010-2012 cycle)*

In the 2010-2012 annual improvements cycle, seven (7) amendments to six (6) standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no effect on the Group's consolidated financial statements.

*Annual Improvements to PFRSs (2011-2013 cycle)*

In the 2011-2013 annual improvements cycle, four (4) amendments to four (4) standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards-First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no effect on the Group as it is not a first-time PFRS adopter.

Standards and Interpretations Issued but not yet Effective

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have a significant effect on its consolidated financial statements.



*Effective Date to be Determined:*

- **PFRS 9, Financial Instruments - Classification and Measurement (2010 version)**  
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at FVPL. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no effect on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- **Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate**  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectiveness of this interpretation until the final revenue standard is issued by the International Accounting Standards Boards (IASB) and an evaluation of the requirements of the final revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any effect on the Group's consolidated financial statements.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval of the BOA.

*Effective January 1, 2015:*

- **PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)**  
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an



entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since they have no defined benefit contribution plan with contributions from employees and third parties.

*Annual Improvements to PFRSs (2010-2012 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material effect to the Group. They include:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*  
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition.
  - A performance target must be met while the counterparty is rendering service.
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
  - A performance condition may be a market or non-market condition.
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

The amendment does not apply to the Group as it has no share-based payment.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*  
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PAS 39 (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*  
The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.



- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*  
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- PAS 24, *Related Party Disclosures - Key Management Personnel*  
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

*Annual Improvements to PFRSs (2011-2013 cycle)*

The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material effect to the Group. They include:

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*  
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- PFRS 13, *Fair Value Measurement - Portfolio Exception*  
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 or (PFRS 9, as applicable).
- PAS 40, *Investment Property*  
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

*Effective January 1, 2016:*

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*  
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any effect to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.



- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any effect to the Group as the Group does not have any bearer plants.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any effect on the Group's consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. These amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments will not have any effect on the Group's consolidated financial statements.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any effect to the Group.



- **PFRS 14, Regulatory Deferral Accounts**

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and statement of other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

*Annual Improvements to PFRSs (2012-2014 cycle)*

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material effect to the Group. They include:

- **PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal**

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- **PFRS 7, Financial Instruments: Disclosures - Servicing Contracts**

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- **PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements**

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- **PAS 19, Employee Benefits - Regional Market Issue Regarding Discount Rate**

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.



- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

*Effective January 1, 2018:*

- PFRS 9, *Financial Instruments - Hedge Accounting* and Amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)

PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA. The adoption of PFRS 9 is not expected to have any significant effect on the Group's consolidated financial statements.

- PFRS 9, *Financial Instruments* (2014 or Final Version)

In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 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, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and methodology for financial assets, but will have no effect on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group is currently assessing the effect of adopting this standard.



The following new standard issued by the IASB has not yet been adopted by the FRSC.

- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*  
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the effect of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

The revised, amended and additional disclosures or accounting changes provided by the standards and interpretations will be included in the financial statements in the year of adoption, if applicable.

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

##### Presentation of Financial Statements

The Group has elected to present two statements, a consolidated statement of income and a consolidated statement of comprehensive income, rather than a single consolidated statement of comprehensive income containing the two elements.

##### Financial Instruments - Initial Recognition

Financial instruments within the scope of PAS 39 are classified as financial assets and liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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 June 30, 2015 and 2014, 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 June 30, 2015 and 2014.

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.

All financial liabilities are recognized initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.



As at June 30, 2015 and 2014, the Group's financial liabilities are in the nature of other financial liabilities. As at June 30, 2015 and 2014, the Group has no financial liabilities classified as at FVPL and derivatives designated as hedging instruments in an effective hedge.

**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 OCI in the "Unrealized valuation gains (losses) 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 finance costs. 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. This category includes derivative financial instruments entered into by the Company 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 statement of financial position at fair value with changes in fair value recognized in the statement of income.

The Company evaluated its financial assets at FVPL (held for trading) whether the intent to sell them in the near term is still appropriate. When the Company 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 Company 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 Company's redeemable preference shares are classified under this category (see Note 9).

*Other Financial Liabilities*

After initial recognition, interest-bearing 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 and rental and other deposits (see Notes 16 and 17).

*Fair Value of Financial Instruments*

The Group measures financial instruments, such as financial assets at FVPL, 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:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by 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 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 on 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.

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 in 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 Carried at Fair Values*

For AFS financial assets, the Company assesses at each end of the reporting period whether there is objective evidence that an investment is impaired. 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 (losses) on AFS financial assets" in the consolidated statement of changes in equity until the financial asset is derecognized, at which time the cumulative gain or loss is recognized in 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 in finance costs.



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 financial assets are recognized in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. The interest income is recorded in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increased 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.

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.

#### 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). Costs incurred in bringing each product to its present location are accounted for as follows:

- Finished goods - direct materials, labor, and proportion of manufacturing overhead based on normal operating capacity but excluding borrowing costs;
- Factory supplies and spare parts - purchase cost on a moving-average method;

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.

**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 consists 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 tax payable is carried over in the succeeding period for the same purpose.

**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. Input VAT is presented as current 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 investments in associates. 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 on net income 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.

In the Parent Company's separate financial statements, investment in an associate is accounted for at cost less impairment losses.

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

As discussed in Note 8, the SEC approved the debt to equity conversion of Cyber Bay resulting to a change in percentage ownership of POPI from 22.28% to 10.46%. As a result of the change in ownership interest and loss of significant influence, the investment in Cyber Bay has been classified as AFS financial asset starting November 13, 2012.



Investment Properties

The Group's investment properties include properties utilized in its mall operations, condominium unit, commercial building and certain land 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. 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.

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, plant 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.

The lease contract on a land where investment property is located is for twenty five (25) years, which is also the amortization period of the investment property. In December 2009, the lease contract on a land where the Group's primary investment property is located was renewed (see Note 27). As a result of the lease renewal, and the review of the estimated useful life and amortization period of the said investment property, management came to a conclusion that there has been a significant change in the expected pattern of economic benefits from the said property of the Group. As a result, the Group prospectively revised the remaining amortization period of this property from an average of twenty five (25) years (which is the shorter of the lease term and the estimated useful life) to thirty five (35) years effective September 5, 2014. The change has been accounted for as a change in accounting estimates.

Property, Plant and Equipment

*Land and Improvements and Buildings and Improvements at Revalued Amount*

Land and buildings together with their improvements stated at appraised values 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 in property, plant and equipment" 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 on property, plant and equipment" to "Deficit" account in the consolidated statement of financial position.



*Leasehold Improvements, Machinery and Equipment, Transportation Equipment, Furniture, Fixtures and Equipment, Condominium Units and Improvements, and Hotel Equipment at Cost*

Property, plant and equipment are carried at cost, less accumulated depreciation, amortization and any impairment in value. The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Expenditures incurred after the property, plant 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, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

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

	Useful life in years
Land and improvements	30
Buildings and improvements	30
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, plant 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 methods 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 eliminated from the accounts 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 and development costs includes purchase price payments for new software and other directly related costs necessary to bring the asset to use.

**Other Noncurrent Assets**

Other noncurrent assets consist of advance rental, deferred acquisition cost, deferred reinsurance premiums, refundable deposits, deferred input VAT, spareparts and supplies, unclaimed claims reserve fund and other prepayments that will be consume after twelve (12) months 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-forth (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***

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 investments 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 investments 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.



*Real Estate Held for Sale and Development, Investment Properties, Property, Plant and Equipment and Software Costs*

The Group assesses at each end of the reporting period whether there is an indication that real estate for sale and development, investment properties, property, plant 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) 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 provides allowance for impairment losses on nonfinancial other current and noncurrent assets when 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 impairment losses would increase recorded expenses and decrease other current and noncurrent assets.

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 Assets section of the consolidated statement of financial positions. 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.

*Provision 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 payment from tenants on leased properties which are refundable at the end of the lease contract.

**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 exchange of which, the shares of stock will be issued.

**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".

**Other Comprehensive Income (Loss)**

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

**Revenue 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 and included in revenue due to its operating nature. 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 "Insurance contract liabilities" 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 "Reinsurance assets" in the Assets section of the statement of consolidated financial positions. 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 "Deferred reinsurance commissions" in the Liabilities section of the consolidated statement of financial position.

*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.

*Merchandise Sales and sale of assets*

Revenue from sale of merchandise and 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.

*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 completion 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.



*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.

*Cost of Goods Sold and Services*

Cost of sales and services are incurred in the normal course of the business and are recognized when incurred. These comprise cost of goods sold, services, merchandise and handling services.

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 the 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 balance sheet 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, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of 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 deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

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 costs 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, return on plan assets 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 the consolidated statement of comprehensive income in subsequent periods. Remeasurements recognized in OCI after the initial adoption of the Revised PAS 19 are retained in OCI which is included in 'Loss on remeasurement of retirement benefits plan' under equity.

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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.



#### 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. 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 disclosure of contingent assets and contingent liabilities, 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 Functional Currency*

Based on the economic substance of underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates and it is the currency that mainly influences the underlying transactions, events and conditions relevant to the Group.

##### *Determining Classification of Financial Instruments*

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

##### *Determining Loss of Significant Influence*

The Group assesses whether lack of significant influence over an associate is evident. Aside from the presumption that holding of less than 20.0% of the voting power does not give rise to significant influence, the management also considers other circumstances that may lead them to believe that the Group cannot exercise significant influence over its associate. Such circumstances include inability to obtain timely financial information or cannot obtain more information than investors with significant influence, the Group's views and economic decisions are not considered in the operations of the investee, and other investors are opposing the Group's attempt to exercise significant influence. In 2013, the ownership interest of the Group over its investment in Cyber Bay has decreased from 22.28% to 10.46% (see Note 8) and management assessed that the Group has lost its significant influence over its investment in Cyber Bay. The Group therefore reclassified its investment in Cyber Bay as AFS financial asset from investment in associates.

##### *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.

*Assessing Operating Lease Commitments - Group as Lessee*

The Group has entered into a lease agreement for the corporate office space and a subsidiary's mall operations. The Group has determined that it does not obtain all the significant risks and rewards of ownership of the assets 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 Casualty Loss*

As a result of the fire which occurred on September 4, 2012, the Group, in its own initiative, made an assessment of the extent of the damages sustained on its individual assets, including receivables, investment properties and property, plant and equipment. The reassessment was conducted with the joint coordination of the Group's engineering and operations group and other technical consultants, taking into consideration various factors such as assets' net book values, restoration costs and usability as of the reassessment date. Judgment by management was particularly employed when deciding whether an asset should be provided with full or partial allowance for losses.

These property losses, with a net book value of ₦63.25 million are recorded as "Casualty loss" in the consolidated statement of income.

*Estimating Recovery from Insurance*

Management estimates that the recorded amount of the recovery from insurance is virtually certain after an exhaustive review of its existing insurance coverage against the casualty loss incurred and the discussions with and inspections conducted by the insurance company, adjusters, and technical consultants. In 2015 and 2014, the Group recorded recovery from insurance amounting to nil and ₦269.28 million, respectively (see Note 1).



*Estimating Allowance for Impairment Losses on Receivables and Amounts Owed by Related Parties*

The Group reviews its receivables 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 ₦2.46 million, ₦0.73 million and ₦20.94 million in 2015, 2014 and 2013, respectively. Recovery on impairment losses on receivables amounted to ₦8.01 million, ₦1.29 million and ₦0.40 million in 2015, 2014 and 2013, respectively. The Group wrote-off allowance for impairment losses on receivables amounted to ₦1.32 million, ₦6.97 million and ₦0.08 million in 2015, 2014 and 2013, respectively. Receivables amounted to ₦496.12 million and ₦603.14 million as at June 30, 2015 and 2014, respectively, net of allowance for impairment losses amounting to ₦301.89 million and ₦308.76 million as at June 30, 2015 and 2014, respectively (see Note 5).

Provision for impairment loss on amounts owed by related parties amounted to ₦0.02 million in 2015 and nil 2014 and 2013. Reversal of impairment losses on amounts owed by related parties amounted to nil, nil and ₦62.46 million in 2015, 2014 and 2013, respectively. The Group wrote-off allowance for impairment losses on amounts owed by related parties amounted to nil in 2015 and 2014 and ₦0.26 million in 2013. Amounts owed by related parties amounted to ₦0.01 million and ₦0.02 million as at June 30, 2015 and 2014, respectively, net of allowance for impairment losses amounting to ₦1.63 million and ₦1.61 million as at June 30, 2015 and 2014, respectively (see Note 18).

*Estimating Allowance for Inventory Losses*

The Group maintains an allowance for inventory losses. The level of this allowance 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 nil, ₦1.81 million and ₦70.95 million in 2015, 2014 and 2013, respectively. Reversal of allowance for impairment on inventory losses amounted to ₦1,241 million, ₦4.36 million and nil in 2015, 2014 and 2013, respectively. The Group wrote-off allowance for impairment losses on inventories amounted to ₦8.81 million, ₦13.11 million and ₦6.58 million in 2015, 2014 and 2013, respectively. Carrying values of inventories amounted to ₦12.01 million and ₦18.47 million as at June 30, 2015 and 2014, respectively, net of allowance for inventory losses amounting to ₦71.61 million and ₦82.02 million as at June 30, 2015 and 2014, respectively (see Note 6).

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

The Group maintains an allowance for real estate held for sale and development losses. The level of this allowance is evaluated by management on the basis of factors that affect the recoverability of the real estate for sale and development. These factors include, but are not limited to, the physical condition and location of real estate 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 for sale and development item is held.

There was no impairment losses on real estate held for sale and development recognized in 2015, 2014 and 2013. Real estate held for sale and development amounted to ₦430.10 million and ₦429.51 million as at June 30, 2015 and 2014, respectively (see Note 7).

*Estimating Allowances for Impairment Losses of on AFS Financial Assets and Financial Assets at FVPL*

The Group recognizes impairment losses on AFS financial assets and financial assets at FVPL when there has been a significant or prolonged decline in the fair value of such investments below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. 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 ₦241.19 million, ₦2.60 million and ₦291.50 million in 2015, 2014 and 2013, respectively. The fair values of AFS financial assets amounted to ₦1,507.41 million and ₦1,643.90 million as at June 30, 2015 and 2014, respectively, net of allowance for impairment losses amounting to ₦535.29 million and ₦294.10 million as at June 30, 2015 and 2014, respectively (see Note 8).

There was no provision for impairment losses on financial assets at FVPL recognized in 2015 and 2014. As at June 30, 2015 and 2014, the fair values of the financial assets at FVPL amounted to ₦27.99 million and nil, respectively (see Note 9).



*Estimating Allowance for Impairment Losses on Investment in an Associate and Investment Properties*

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of investment properties which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that this asset may not be recoverable. Any resulting impairment loss could have a material adverse impact on financial condition and results of operations of the Group.

There was no provision for impairment loss on investment in an associate recognized in 2015, 2014 and 2013. Investment in an associate amounted to ₦2.57 million and ₦2.56 million as at June 30, 2015 and 2014, respectively (see Note 11).

Provision for impairment losses on investment properties amounted to nil, nil and ₦6.62 million in 2015, 2014 and 2013, respectively. In 2013, the Group recorded the provision for impairment loss amounting to ₦6.62 million as part of casualty loss in relation to the fire. The carrying value of investment properties amounted to ₦1,329.02 million and ₦737.49 million as at June 30, 2015 and 2014, respectively, net of allowance for impairment losses amounting to ₦12.83 million (see Note 12).

*Estimating Useful Lives of Investment Properties, Property, Plant and Equipment and Software and Development Costs*

The estimated useful lives used as bases for depreciating and amortizing the Group's investment properties, property, plant and equipment and software and development costs 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, plant and equipment and software and development costs based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant and equipment and software and development 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 amortization and decrease in the corresponding investment properties, property, plant and equipment and software and development costs.

There were no changes in the estimated useful lives of investment properties. The carrying values of investment properties amounted to ₦1,329.02 million and ₦737.49 million as at June 30, 2015 and 2014, respectively, net of accumulated depreciation and amortization amounting to ₦2.04 million and ₦1.56 million as at June 30, 2015 and 2014, respectively, net of allowance for impairment losses on investment properties amounting to ₦ 12.83 million (see Note 12).

There were no changes in the estimated useful lives of property and equipment. The carrying values of property, plant and equipment amounted to ₦46.33 million and ₦672.08 million as at June 30, 2015 and 2014, respectively, net of accumulated depreciation and amortization amounting to ₦2.21 million and ₦2.19 million as at June 30, 2015 and 2014, respectively (see Note 13).



There were no changes in the estimated useful lives of software costs. The carrying values of software amounted to ₦8.80 million and ₦8.96 million as at June 30, 2015 and 2014, respectively, net of accumulated amortization amounting to ₦27.14 million and ₦23.18 million as at June 30, 2015 and 2014, respectively (see Note 14).

*Estimating Allowance for Impairment Losses of Property, Plant and Equipment, and Software Costs*

The Group assesses impairment of property, plant and equipment, and software costs whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the risk-free rate of interest for a term consistent with the period of expected cash flows.

The carrying values of property, plant and equipment amounted to ₦46.33 million and ₦672.08 million as at June 30, 2015 and 2014, respectively, net of accumulated depreciation and amortization amounting to ₦2.21 million and ₦2.19 million as at June 30, 2015 and 2014, respectively (see Note 13).

The carrying values of software amounted to ₦8.80 million and ₦8.96 million as at June 30, 2015 and 2014, respectively, net of accumulated amortization amounting to ₦27.14 million and ₦23.18 million as at June 30, 2015 and 2014, respectively (see Note 14).

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

The Group provides allowance for losses on prepayments non-financial 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 non-financial other current and noncurrent assets.



Provisions for impairment losses on nonfinancial other current assets amounted to ₦0.08 million, ₦0.06 million and ₦0.19 million in 2015, 2014 and 2013, respectively. The Group wrote-off allowance for impairment losses on nonfinancial other current assets amounted to nil, ₦0.21 million and ₦3.46 million in 2015, 2014 and 2013, respectively. As at June 30, 2015 and 2014, the carrying values of nonfinancial other current assets amounted to ₦244.73 million and ₦232.12 million, respectively, net of allowance for impairment losses amounting to ₦2.90 million and ₦2.82 million as at June 30, 2015 and 2014, respectively (see Note 10).

There was no provision for impairment losses on nonfinancial other noncurrent assets recognized in 2015, 2014 and 2013. As at June 30, 2015 and 2014, the carrying values of nonfinancial other noncurrent assets amounted to ₦184.59 million and ₦100.62 million, respectively (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 ₦230.61 million and ₦266.95 million as at June 30, 2015 and 2014, 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. All assumptions are reviewed at each end of the reporting period.

Retirement benefit costs amounted to ₦22.77 million, ₦25.34 million and ₦21.35 million in 2015, 2014 and 2013, respectively. As at June 30, 2015 and 2014, the retirement benefits liability of the Group amounted to ₦96.98 million and ₦99.19 million, respectively (see Note 23).

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.

#### *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 ₦69.65 million and ₦62.62 million as at June 30, 2015 and 2014, respectively (see Note 24).

Temporary differences 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 amounted to ₦4,643.24 million and ₦1,236.64 million as at June 30, 2015 and 2014, respectively (see Note 24).

*Estimating Contingencies*

The Group is currently involved in various legal proceedings. 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.

*Estimating Fair Values of Financial Instruments*

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Any change in the fair value of these financial instruments would directly affect the consolidated statement of income and consolidated statement of changes in equity.

Fair values of financial assets as at June 30, 2015 and 2014 amounted to ₦3,021.73 million and ₦3,243.29 million, respectively, while the fair values of financial liabilities as at June 30, 2015 and 2014 amounted to ₦1,363.04 million and ₦876.42 million, respectively (see Note 31).

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**4. Cash and Cash Equivalents**

	2015	2014
	(In Thousands)	
Cash on hand and in banks	₦56,304	₦91,528
Short-term investments	95,459	280,006
	<b>₦151,763</b>	<b>₦371,534</b>

Cash in banks earn interest at the respective bank deposit rates. Short-term investments 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 ₦0.26 million, ₦0.98 million and ₦0.32 million in 2015, 2014 and 2013, respectively. Interest earned from short-term investments amounted to ₦1.42 million, ₦4.77 million and ₦5.54 million in 2015, 2014 and 2013, respectively (see Note 22).



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**5. Receivables**

	2015	2014
	(In Thousands)	
Trade debtors	₱140,907	₱141,187
Insurance receivables	416,290	506,857
Others	240,804	263,855
	798,001	911,899
Less allowance for impairment losses	301,885	308,758
	<b>₱496,116</b>	<b>₱603,141</b>

Trade debtors are both interest and non-interest bearing and are generally collectible on thirty (30) days' term. The interest rates used ranges from 5% to 10% per annum.

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 (sixty) 60 to (one hundred eighty) 180 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 and ₱167.81 million as at June 30, 2015 and 2014, respectively. These receivables are collateralized by the shares of stock of Cyber Bay owned by CLC. The receivables from CLC are fully provided with allowance.

Advances to suppliers and contractors, advances to officers and employees and interest receivables also form part of other receivables. These are noninterest-bearing and are generally collectible on demand.

In 2014, the Parent Company has written-off portion of its advances to service providers and other receivables amounting to ₱6.97 million. While in 2015, LCI and OMI has written-off portion of its trade receivables amounting to ₱0.84 million and ₱0.48 million, respectively.

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
	(In Thousands)			
At July 1, 2012	₱70,081	₱7,576	₱194,499	₱272,156
Provisions (Note 20)	20,759	179	-	20,938
Write-off	-	-	(77)	(77)
Recovery	(402)	-	-	(402)
Reclassification (Note 18)	-	-	23,666	23,666
At June 30, 2013	₱90,438	₱7,755	₱218,088	₱316,281
Provisions (Note 20)	₱146	₱586	₱-	₱732
Write-off	(2)	-	(6,968)	(6,970)
Recovery	(1,285)	-	-	(1,285)
At June 30, 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	<b>₱87,873</b>	<b>₱8,759</b>	<b>₱205,253</b>	<b>₱301,885</b>



Interest earned from trade receivables amounted to nil, ₱0.07 million and ₱0.05 million in 2015, 2014 and 2013, respectively (see Note 22).

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#### 6. Inventories

	2015	2014
	(In Thousands)	
<b>At NRV:</b>		
Finished goods	₱11,130	₱17,773
Factory supplies and spare parts	682	701
Materials in transit	194	—
	<b>₱12,006</b>	<b>₱18,474</b>

Movements in the allowance for inventory losses are as follows:

	2015	2014
	(In Thousands)	
Beginning balances	₱82,016	₱97,893
Reversal	(1,241)	(4,360)
Write-off	(8,804)	(13,105)
Provisions (Note 20)	—	1,813
	<b>₱71,614</b>	<b>₱82,016</b>

Inventories charged to operations amounted to ₱15.80 million, ₱34.16 million and ₱136.40 million in 2015, 2014 and 2013, respectively (see Note 20).

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#### 7. Real Estate Held for Sale and Development

	2015	2014
	(In Thousands)	
Land for development	₱395,549	₱395,509
Homelands	34,554	33,998
	<b>₱430,103</b>	<b>₱429,507</b>

Land for development pertains to parcels of land located in Calamba, Laguna, Sto. Tomas, Batangas and San Vicente, Palawan. The composition of cost as at June 30, 2015 and 2014 are as follows:

	2015	2014
	(In Thousands)	
Land cost	₱299,239	₱299,239
Construction overhead and other related costs	73,957	73,917
Professional fees	17,932	17,932
Taxes	4,421	4,421
	<b>₱395,549</b>	<b>₱395,509</b>

Homelands pertain to land held for sale which is located in Calamba, Laguna.



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

	2015	2014
(In Thousands)		
Balances at beginning of year	₱429,507	₱280,179
Additions	39	149,328
Repossessions	557	—
Balances at end of year	<b>₱430,103</b>	<b>₱429,507</b>

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

Repossessions pertain to the cost of repossessed land held for sale located in Calamba, Laguna due to the delinquent payment from land buyers.

#### 8. AFS Financial Assets

	2015	2014
(In Thousands)		
Listed equity securities	₱1,384,648	₱1,390,601
Nonlisted equity securities	382,509	299,661
Quoted debt securities	259,134	241,655
Unquoted debt securities	16,405	6,082
	<b>2,042,696</b>	<b>1,937,999</b>
Allowance for impairment losses	535,288	294,101
	<b>₱1,507,408</b>	<b>₱1,643,898</b>

AFS financial assets in quoted shares of stock are carried at fair value with cumulative changes in fair values presented as a separate account in equity. Meanwhile, unquoted debt and nonlisted equity AFS financial assets are based on discounted future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

On November 13, 2012, the SEC approved the conversion of debt to equity of Cyber Bay resulting to a change in percentage ownership of POPI from 22.28% to 10.46%. The management assessed that the Group ceased to have significant influence over Cyber Bay. As a result of the reduction in the ownership interest and loss of significant influence, the investment in Cyber Bay was reclassified to AFS financial asset starting November 13, 2012. The Group recognized a gain on re-measurement of ₱594.11 million from the reclassification of Cyber Bay investment.

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.

Movements in the allowance for impairment losses are as follows:

	2015	2014
(In Thousands)		
Balances at beginning of year	₱294,101	₱291,501
Provisions	241,187	2,600
Balances at end of year	<b>₱535,288</b>	<b>₱294,101</b>



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

	Equity Holders	Non-Controlling Interests (In Thousands)	Total
July 1, 2012	P63,035	P4,615	P67,650
Gain (loss) recognized directly in equity	65,070	(2,499)	62,571
Loss transferred from equity to consolidated statement of income	(132,964)	—	(132,964)
June 30, 2013	(4,859)	2,116	(2,743)
Gain (loss) recognized directly in equity	247,849	(2,183)	245,666
Loss transferred from equity to consolidated statement of income	(159,189)	—	(159,189)
June 30, 2014	83,801	(67)	83,734
Gain (loss) recognized directly in equity	267	(16)	251
Loss transferred from equity to consolidated statement of income	(82,002)	—	(82,002)
June 30, 2015	P2,066	(P83)	P1,983

Proceeds from the sale of AFS financial assets amounted to P94.59 million, P222.95 million and P293.44 million in 2015, 2014 and 2013, respectively, with a corresponding gain on sale of P8.85 million, P159.19 million and P147.30 million in 2015, 2014 and 2013, respectively.

Interest earned from AFS financial assets amounted to P11.75 million, P7.80 million and P21.98 million in 2015, 2014 and 2013, respectively.

Dividend income received on AFS financial assets amounted to P4.23 million, P4.03 million and P1.32 million in 2015, 2014 and 2013, respectively.

#### 9. Financial Assets at FVPL

In 2015, the Group has 143,600 redeemable preferred shares with a cost of P27.99 million recorded as financial assets at FVPL upon initial recognition. Fair value of financial assets at FVPL as at June 30, 2015 amounted to P27.99 million resulting to an unrealized gain of P0.28 million. Dividend income earned from these shares amounted to P0.96 million.

#### 10. Other Current Assets

	2015	2014
	(In Thousands)	
CWTs	P198,258	P185,961
Input VAT	28,330	25,784
Prepayments	14,656	16,809
Unclaimed claims reserve fund	6,380	6,380
	247,624	234,934
Less allowance for impairment losses	2,895	2,819
	P244,729	P232,115



CWTs are available for offset against income tax payable in the future periods.

Input VAT pertains to taxes earned from transactions with VAT registered vendors during the year.

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

Unclaimed claims reserve fund pertains to the unclaimed payments on its trade creditors under Rehabilitation Plan which were deposited to MBTC to serve as the Fund. This is equivalent to the total amount of allowed claims that remain unclaimed as of filing of motion for termination of rehabilitation proceedings of the Company. All payments should be taken from the Fund upon presentation of sufficient evidence of identity. A creditor or worker may obtain payment within two (2) years from the opening of the account and should discharge the Company from its obligation. The Fund is classified as current asset. The Fund is readily available as payment for claims and classified under prepayments though there is a certain restriction in its use.

Movements in the allowance for impairment losses are as follows:

	2015	2014	2013
(In Thousands)			
Balances at beginning of year	₱2,819	₱2,970	₱6,239
Provisions (Note 20)	76	61	193
Write-off	—	(212)	(3,462)
Balances at end of year	₱2,895	₱2,819	₱2,970

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#### 11. Investments in an Associate

	2015	2014
(In Thousands)		
Acquisition costs:		
Balances at end of year	₱5,959	₱5,959
Accumulated equity in net losses of associates:		
Balances at beginning of year	(3,395)	(3,371)
Equity in net income of associates	7	(24)
Balances at end of year	(3,388)	(3,395)
	₱2,571	₱2,564

Summarized combined financial statement information of the associate follows:

	2015	2014
(In Thousands)		
Current assets	₱10,036	₱10,098
Noncurrent assets	21	21
Total liabilities	201	297
Revenue	223	450
Costs and expenses	266	524
Net income (loss)	35	(125)



**12. Investment Properties**

	2015		
	Buildings and Improvements	Land and Improvements	Total
	(In Thousands)		
<b>Cost</b>			
At beginning of year	₱2,181,041	₱131,624	₱2,312,665
Additions	33,960	237	34,197
Reclass	692,379	338,470	1,030,849
<b>At end of year</b>	<b>2,907,380</b>	<b>470,331</b>	<b>3,377,711</b>
<b>Accumulated Depreciation and Amortization</b>			
At beginning of year	1,561,791	552	1,562,343
Depreciation and amortization			
(Note 20)	60,643	829	61,472
Reclass	393,515	18,525	412,040
<b>At end of year</b>	<b>2,015,949</b>	<b>19,906</b>	<b>2,035,855</b>
<b>Balance</b>	<b>891,431</b>	<b>450,425</b>	<b>1,335,304</b>
<b>Less: Allowance for impairment losses</b>	<b>12,834</b>	<b>—</b>	<b>12,834</b>
<b>Net book values</b>	<b>₱878,597</b>	<b>₱450,425</b>	<b>₱1,329,022</b>
 2014			
	Buildings and Improvements	Land and Improvements	Total
	(In Thousands)		
<b>Cost</b>			
At beginning of year	₱2,167,397	₱131,624	₱2,299,021
Additions	15,477	—	15,477
Write-off	(1,833)	—	(1,833)
<b>At end of year</b>	<b>2,181,041</b>	<b>131,624</b>	<b>2,312,665</b>
<b>Accumulated Depreciation and Amortization</b>			
At beginning of year	1,530,829	414	1,531,243
Depreciation and amortization			
(Note 20)	32,167	138	32,305
Write-off	(1,205)	—	(1,205)
<b>At end of year</b>	<b>1,561,791</b>	<b>552</b>	<b>1,562,344</b>
<b>Balance</b>	<b>619,250</b>	<b>131,072</b>	<b>750,322</b>
<b>Less: Allowance for impairment losses</b>	<b>12,834</b>	<b>—</b>	<b>12,834</b>
<b>Net book values</b>	<b>₱606,416</b>	<b>₱131,072</b>	<b>₱737,488</b>

Investment properties of TPI substantially represent leasehold improvements on the land leased from Philippine National Railways (PNR) which are utilized in TPI's office space, mall operations and held for rentals. Upon adoption of PAS 40, *Investment Property*, upon its transition in 2005, TPI chose the cost model and continues to carry these investment properties at deemed cost using their revalued amount as allowed under PFRS.

TPI's investment properties were valued by independent professionally qualified appraisers. Fair value represents 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 (i.e. an exit price).



The appraised property consists of land, other land improvements, and building, machinery and equipment, 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 2.

- a. Based on the lease contract, TPI leases a land consisting of sixty nine (69) lots, containing an aggregate area of 227,773 square meters.

The value of the land was estimated using the Sales Comparison Approach. This is a comparative approach 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.

- b. The method used to determine the value of other land improvements and building, machinery and equipment is the Sales Comparison 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 a 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 (accrued) depreciation.

LCI has historically classified land and improvements and buildings and improvements at revalued amounts as property, plant and equipment. On July 1, 2014, LCI transferred its land and improvements and buildings and improvements at revalued amounts to investment property valued at cost. The transfer was made in accordance with PAS 40, *Investment Property* since the properties were held by the Company to earn rentals or for capital appreciation or both, 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.

TPI and LCI has assessed that the highest and best use for its investment properties held for lease is its current use.

Based on the latest appraisal reports, as determined by an independent firm of appraisers, the appraised values of the TPI's and LCI's investment properties amounted to P4.38 billion as at June 30, 2015 and 2014.

In accordance with the general requirement under PFRS 1, the Group closed out the "Revaluation Reserve" on investment properties account to retained earnings which pertains to the remaining balance of the deemed cost adjustment on investment properties account which arose when the Group transitioned to PFRS in 2005.

On June 30, 2015 and 2014, the net book values of these properties follow:

	2015	2014
	(In Thousands)	
At net book value:		
Original cost	P298,580	P318,859
Revaluation reserve	495,522	264,911
	<u>P794,102</u>	<u>P583,770</u>



As discussed in Note 1, certain investment properties were damaged by the fire which occurred on September 4, 2012. After the assessment on the extent of the damage on the individual assets by the Company's engineering and operations group, and together with third party technical consultants, investment properties that were completely destroyed were written off and those that were partially damaged were impaired. These property losses are recorded as "Casualty loss" in the consolidated statements of income.

In 2014, the Company written-off the remaining carrying value of Boni Plaza amounting to ₱0.34 million and the allowance for impairment loss recognized in 2013 amounting to ₱0.29 million as the demolition of CB1 affected the operations of Boni Plaza. The property losses on the remaining carrying value of Boni Plaza are recorded as "Loss on write-off on investment properties" in the consolidated statements of income.

Movements in the allowance for impairment losses on investment properties are as follows:

	2015	2014
(In Thousands)		
Beginning balance	₱12,834	₱13,174
Write-off	-	(340)
	<b>₱12,834</b>	<b>₱12,834</b>

Below is the detail of casualty loss sustained by the Group on investment properties:

	Cost	Accumulated depreciation	Write- off	Allowance for impairment	Casualty Loss
(In Thousands)					
Cluster Building 1	₱78,144	₱21,685	₱56,459	-	₱56,459
Cluster Building 2	45,399	20,277	-	6,281	6,281
Bonifacio Plaza	1,834	1,179	-	340	340
	<b>₱125,377</b>	<b>₱43,141</b>	<b>₱56,459</b>	<b>₱6,621</b>	<b>₱63,080</b>

Rental revenue from investment properties amounted to ₱414.48 million, ₱402.52 million and ₱419.80 million in 2015, 2014 and 2013, respectively. Direct operating expenses incurred for investment properties amounted to ₱212.81 million, ₱210.96 million and ₱233.90 million in 2015, 2014 and 2013, respectively.



### 13. Property, Plant and Equipment

	2015						
	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	Total
(In Thousands)							
<b>Cost</b>							
At beginning of year	P6,948	P2,095,822	P39,484	P89,557	P8,692	P7,093	P1,247,596
Additions	279	1,260	2,301	2,087	-	1,440	7,367
Disposals	-	(492)	(848)	-	-	-	(1,340)
At end of year	7,227	2,096,590	40,937	91,644	8,692	8,533	1,253,623
<b>Accumulated Depreciation and Amortization</b>							
At beginning of year	6,517	2,065,198	32,163	82,631	4,404	3,407	2,194,320
Depreciation and amortization (Note 20)	208	5,110	3,283	3,123	218	2,372	14,314
Disposals	-	(491)	(848)	-	-	-	(1,339)
At end of year	6,725	2,069,817	34,598	85,754	4,622	5,779	2,207,295
<b>Net Book Values</b>	<b>P502</b>	<b>P26,773</b>	<b>P6,339</b>	<b>P5,890</b>	<b>P4,070</b>	<b>P2,754</b>	<b>P46,328</b>
2015							
			Land and Improvements	Buildings and Improvements		Total	
	(In Thousands)						
<b>At revalued amounts:</b>							
At beginning of year			P338,470		P692,379		P1,030,849
Reclassification to Investment property			(338,470)		(692,379)		(1,030,849)
At end of year			-		-		-
<b>Accumulated depreciation and amortization</b>							
At beginning of year			18,526		393,516		412,042
Reclassification as Investment property			(18,526)		(393,516)		(412,042)
At end of year			-		-		-
<b>Net book values</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>		<b>P-</b>	<b>P-</b>	<b>P-</b>
2014							
	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	Total
	(In Thousands)						
<b>Cost</b>							
At beginning of year	P6,891	P2,096,141	P38,663	P87,034	P8,692	P6,994	P1,244,413
Additions	57	1,154	1,703	2,827	-	99	5,870
Disposals	-	-	(882)	(304)	-	-	(1,186)
Reclassification	-	(1,503)	-	-	-	-	(1,503)
At end of year	6,948	2,095,822	39,484	89,557	8,692	7,093	1,247,595
<b>Accumulated Depreciation and Amortization</b>							
At beginning of year	6,317	2,060,066	29,203	79,740	4,187	3,395	2,180,878
Depreciation and amortization (Note 20)	300	5,112	3,842	3,161	217	2,042	14,394
Disposals	-	-	(882)	(270)	-	-	(1,152)
At end of year	6,517	2,065,198	32,163	82,631	4,404	3,407	2,194,320
<b>Net Book Values</b>	<b>P431</b>	<b>P26,624</b>	<b>P7,321</b>	<b>P6,926</b>	<b>P4,288</b>	<b>P3,686</b>	<b>P43,276</b>



	2014		
	Land and Improvements	Buildings and Improvements	Total
At revalued amounts:			(In Thousands)
At beginning of year	P338,470	P687,589	P1,026,059
Additions	-	4,790	4,790
At end of year	338,470	692,379	1,030,849
Accumulated depreciation and amortization			
At beginning of year	17,846	367,332	385,178
Depreciation and amortization (Note 20)	680	26,184	26,864
At end of year	18,526	393,516	412,042
Net book values	P319,944	P298,863	P618,807

Certain items of property, plant and equipment identified as idle and included under machinery and equipment were written down to their estimated recoverable amounts.

Gain on sale of property, plant and equipment was recognized in 2015 and 2014 and 2013 amounting to P15.34 million, P0.20 million and P1.21 million respectively.

The fair value of land and improvements and buildings and improvements, which has been determined based on the latest valuations performed by Asian Appraisal Company, Inc. (Asian Appraisal) dated July 23, 2013, exceeds its carrying cost. Asian Appraisal is an industry specialist in valuing these types of properties. Revaluation increment in properties amounted to nil and P252.23 million in 2015 and 2014, respectively.

In 2015, the Company transferred its land and improvements and buildings and improvements at revalued amounts from property, plant and equipment to investment property valued at cost to reflect the change in use of the properties on July 1, 2014 (see Note 10). The reclassification of land and improvements and buildings and improvements at revalued amounts to investment property at cost.

As at June 30, 2015 and 2014, the Group continues to utilize fully depreciated property, plant and equipment with an aggregate acquisition cost amounting to P66.15 million and P1,884.59 million, respectively.

As discussed in Note 1, certain property, plant and equipment were damaged by the fire which occurred on September 4, 2012. After the assessment on the extent of the damage on the individual assets by the Company's engineering and operations group, and together with third party technical consultants, property, plant and equipment that were completely destroyed were written off and those that were partially damaged were impaired. These property losses are recorded as "Casualty loss" in the consolidated statement of income.

Below is the detail of casualty loss sustained by the Group on property, plant and equipment:

	Cost	Accumulated depreciation (In Thousands)	Write-off	Casualty Loss
Cluster Building 1	P454	P431	P23	P23
Cluster Building 2	211	199	12	12
TPI-Offices	1,836	1,704	132	132
	P2,501	P2,334	P167	P167



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**14. Software Costs**

	<b>2015</b>	<b>2014</b>
	(In Thousands)	
At cost:		
Beginning balances	₱32,135	₱27,952
Additions	3,805	4,183
Ending balances	<b>35,940</b>	<b>32,135</b>
Accumulated amortization:		
Beginning balances	23,178	19,774
Amortization (Note 20)	3,962	3,404
Ending balances	<b>27,140</b>	<b>23,178</b>
Net book values	<b>₱8,800</b>	<b>₱8,957</b>

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**15. Other Noncurrent Assets**

	<b>2015</b>	<b>2014</b>
	(In Thousands)	
Advance rental	₱115,264	₱-
Deferred acquisition cost	22,395	25,641
Deferred reinsurance premiums	22,141	24,059
Refundable deposits	19,637	27,313
Deferred input VAT	9,111	9,697
Spare parts and supplies	8,630	7,712
Prepaid expenses	568	832
Others	6,480	10,953
	<b>₱204,226</b>	<b>₱106,207</b>

Advance rental paid by the Company to PNR for the renewal of the lease contract which will be amortized for 25 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.

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

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 and deposits to lessors which shall be applied in the future.



Unclaimed claims reserve fund pertains to fund deposited to MBTC for payment for Class 3 creditors of LCI (see Note 1).

Others consist mainly of various assets that are individually immaterial.

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#### 16. Accounts Payable and Accrued Expenses

	2015	2014
(In Thousands)		
Claims payables	₱230,608	₱266,951
Reserves for unearned premiums	106,092	111,909
Accrued expenses	118,437	93,690
Nontrade payables	91,689	92,903
Trade payables	49,197	46,997
Due to reinsurers and ceding companies	41,865	29,132
Others	29,374	32,173
	<b>₱667,262</b>	<b>₱673,755</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, utilities and other accrued expenses.

The management reversed accrual of certain provisions amounting to nil in 2015, 2014 and ₱243.34 million, respectively.

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.

As mentioned in Note 1, as a result of the approval of the Court of the Third Amended and Restated RP on December 20, 2012, the Group recognized a gain on condonation of debt from trade creditors amounting to ₱199.28 million.



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#### 17. Rental and Other Deposits

	2015			2014		
	Due within One Year	Beyond One Year	Total	Due within One Year	Beyond One Year	Total
(In Thousands)						
Rental deposits	P28,295	P11,324	P39,619	P50,453	P4,979	P55,432
Security deposits	72,297	31,334	103,631	70,757	18,619	89,376
Deferred rent	26,643	32,937	59,580	34,998	12,796	47,794
Customer deposits	13,222	1,582	14,804	1,317	4,563	5,880
Construction bond	3,848	4,167	8,015	4,192	3,621	7,813
Other deposits	3,925	3,987	7,912	4,938	3,510	8,448
	<b>P148,230</b>	<b>P85,331</b>	<b>P233,561</b>	<b>P166,655</b>	<b>P48,088</b>	<b>P214,743</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.

Deferred rent pertains to rent received in advance amounted to P59.58 million and P47.79 million as at June 30, 2015 and 2014, respectively.

Customer deposits consist of priority premiums paid by tenants which serve as their reservation deposits. Discounted security deposits amounted to P13.29 million and P9.12 million as at June 30, 2015 and 2014, respectively (see Note 27).

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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 noninterest-bearing advances with no fixed repayment terms and are due and demandable.



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

Category	Amount/Volume		Outstanding Balance (In Thousands)		Terms	Conditions				
<i>Amounts owed by related parties:</i>										
<i>Under common control</i>										
Guoman Philippines, Inc.	2015	P2	₱1,628	Demandable and collectible on demand	Unsecured, non-interest bearing, with impairment of ₱1,625, and unguaranteed					
	2014	3	₱1,626							
Genex Investments Corp.	2015	—	6	Demandable and collectible on demand	Unsecured, noninterest bearing, no impairment, and unguaranteed					
	2014	—	6							
Total	2015	P2	₱1,634							
Total	2014	P3	₱1,632							

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

	2015	2014	2013
	(In Thousands)		
Balances at beginning of year	₱1,610	₱1,610	₱87,995
Provision for the year	15	—	—
Reversal during the year	—	—	(62,462)
Write-off during the year	—	—	(257)
Reclassification (Note 5)	—	—	(23,666)
Balances at end of year	₱1,625	₱1,610	₱1,610

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.

Significant transactions entered into among subsidiaries other than advances include:

- Insurance premium coverage for certain properties of the subsidiaries (see Note 1).
  - Condonation of debt as a result of the RP amounting to nil, ₦1,499.8 million and ₦2,630.2 million in June 30, 2015, 2014 and 2013, respectively (see Note 1).
  - Management contract and service agreement between the parent company and a subsidiary.

Compensation of key management personnel, including retirement and other benefits, amounted to ₦78.1 million, ₦71.8 million and ₦73.2 million in 2015, 2014 and 2013, respectively.



#### **Retirement Fund**

The Group's retirement fund is being held in trust by a trustee bank. The carrying amount and fair value of the retirement fund follows:

	2015	2014
	(In Thousands)	
Carrying value	₱163,470	₱135,062
Fair value	163,470	135,062

The retirement fund consists of the following (see Note 23):

	2015	2014
Cash	5.49%	31.40%
Equity	72.85%	65.20%
Fixed income	4.96%	3.30%
Others	16.70%	0.10%
	<b>100.00%</b>	<b>100.00%</b>

There were no other transactions made between the Group or its parent company and the retirement fund during the year.

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#### **19. Subscription Payable**

##### **Cyber Bay and Central Bay**

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 June 30, 2015 and 2014 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. Cyber Bay under "AFS financial assets" amounted to ₦610.76 million and ₦930.03 million as at June 30, 2015 and 2014, respectively, net of allowance for impairment losses amounted to ₦527.48 million and ₦291.50 million as at June 30, 2015 and 2014, respectively.

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

	2015	2014	2013
		(In Thousands)	
Personnel expenses (Note 21)	₦204,980	₦210,231	₦220,132
Rental (Note 27)	99,801	90,819	92,546
Depreciation and amortization (Notes 12, 13 and 14)	79,747	81,675	85,107
Share in CUSA related expenses	56,304	89,356	116,736
Taxes and licenses	30,935	37,873	21,300
Professional and legal fees	29,970	21,563	21,553
Materials used and changes in inventories (Note 6)	15,799	34,158	136,398
Insurance	13,127	8,249	8,002
Janitorial and security services	11,670	10,436	10,809
Communication and transportation	8,869	10,236	11,488
Marketing expenses	7,459	7,852	24,462
Supplies and repairs	5,153	7,158	23,486
Representations	2,163	1,955	3,359
Provision for impairment losses - net of recovery (Notes 5, 6 and 10)	2,964	1,096	91,682
Utilities and fuel	-	-	89,154
Others	14,782	16,818	13,366
	₦583,723	₦629,475	₦969,580



**21. Personnel Expenses**

	2015	2014	2013
Compensation and employee benefits	₱184,705	₱191,008	₱205,886
Retirement benefits costs (Note 23)	20,275	19,223	14,246
	<b>204,980</b>	<b>₱210,231</b>	<b>₱220,132</b>

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

	2015	2014	2013
Interest income:		(In Thousands)	
AFS financial assets	₱3,164	₱-	₱-
Short-term investments (Note 4)	1,421	4,770	5,535
Cash in banks (Note 4)	260	978	315
Receivables (Note 5)	1	71	46
HTM investments	-	-	180
	<b>4,846</b>	<b>5,819</b>	<b>6,076</b>
Interest expense and bank charges:			
Retirement benefits liability (Note 23)	2,498	6,116	7,109
Bank charges	444	1,394	662
Interest expense	-	175	-
Others	79	-	150
	<b>3,021</b>	<b>7,685</b>	<b>7,921</b>
	<b>₱1,825</b>	<b>(₱1,866)</b>	<b>(₱1,845)</b>

**23. Retirement Plan**

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 August 18, 2015 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:

	2015	2014
Retirement benefits liability:		(In Thousands)
Present value of obligation (PVO)	₱271,321	₱242,467
Fair value of plan assets	174,346	(143,282)
Unfunded obligation	<b>₱96,975</b>	<b>₱99,185</b>



	2015	2014
	(In Thousands)	
Retirement benefits costs:		
Current service cost	₱20,275	₱20,843
Interest cost - net (Note 22)	2,498	6,116
Past service cost	-	(1,620)
	<b>₱22,773</b>	<b>₱25,339</b>

Movements in the retirement benefits liability are as follows:

	2015	2014
	(In Thousands)	
Balances at beginning of year	₱99,185	₱138,319
Benefit expense	22,773	25,339
Actuarial losses (gains) - net	5,745	(8,592)
Actual contributions	(30,728)	(55,881)
Balances at end of year	<b>₱96,975</b>	<b>₱99,185</b>

Changes in the PVO are as follows:

	2015	2014
	(In Thousands)	
Balances at beginning of year	₱242,467	₱231,516
Current service cost	20,275	20,843
Interest cost	10,031	10,980
Benefits paid	(9,628)	(9,648)
Actuarial gain	8,176	(7,497)
Past service cost	-	(3,727)
Balances at end of year	<b>₱271,321</b>	<b>₱242,467</b>

Changes in fair value of plan assets are as follows:

	2015	2014
	(In Thousands)	
Balances at beginning of year	₱143,282	₱93,197
Actual contributions	30,727	55,881
Interest income	7,534	4,864
Actuarial gain on plan assets	2,431	1,095
Benefits paid	(9,628)	(11,755)
Balances at end of year	<b>₱174,346</b>	<b>₱143,282</b>

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

	2015	2014
Cash	15.39%	31.40%
Equity	68.63%	65.20%
Fixed income	4.04%	3.30%
Others	11.94%	0.10%
	<b>100.0%</b>	<b>100.0%</b>



The Group expects to contribute ₢78.7 million to the retirement plan in 2016.

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

	2015	2014
Discount rates	4.82%	5.20%
Expected rates of return on plan assets	6.00%	6.00%
Salary increase rate	7.50%	7.50%

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

	2015	2014	2013	2012	2011
(In Thousands)					
Defined benefit obligation	₱271,521	₱242,467	₱231,516	₱190,820	₱111,059
Plan assets	167,328	143,282	93,197	75,808	43,403
Unfunded obligation	₱103,993	₱99,185	₱138,319	115,012	67,636
Experience adjustment on plan liabilities - loss (gain)	(664)	(21,676)	6,256	(3,275)	(789)
Experience adjustment on plan assets - gain (loss)	40	4,565	4,714	(727)	3,339
Change in actuarial assumptions	9,454	(3,919)	20,793	15,615	620

#### 24. Income Taxes

The Group's current provision for income tax in 2015 and 2014 represents regular corporate income tax.

	2015	2014	2013
(In Thousands)			
Current	₱15,721	₱10,105	₱5,974
Final	3,991	1,485	3,417
Deferred	(8,148)	70,360	(3,801)
	<b>₱11,564</b>	<b>₱81,950</b>	<b>₱5,390</b>

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

	2015	2014	2013
At statutory tax rates	30.0%	30.0%	30.0%
Additions to (reductions in) income taxes resulting from:			
Exempt income from extinguishment of debt	-	(16.9)	(31.6)
Gain on sale of AFS investments	0.9	(1.7)	(2.4)
Expired NOLCO	(15.3)	0.8	1.4
Movement in unrecognized deferred income tax assets	(28.1)	(9.6)	(8.1)
Interest income subjected to final taxes	(1.3)	(0.1)	(0.4)
Expired MCIT	(0.6)	0.1	0.1

*(Forward)*



	2015	2014	2013
Exempt income from dividend	8.9	-	-
Dilution loss on reversal of allowance	-	-	3.6
Other nontaxable income	-	0.5	7.7
Others	(0.9)		
At effective tax rates	(6.4%)	3.1%	0.3%

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

	2015	2014
	(In Thousands)	
<b>Deferred income tax assets:</b>		
Casualty loss	₱18,974	₱18,974
Deferred rent	17,874	14,338
Allowance for impairment losses on receivables	15,425	11,976
Unamortized past service cost	6,605	6,704
Retirement benefits liability	6,990	8,041
Uncarned rent	-	317
Deferred reinsurance commission	1,393	-
Others	2,391	2,268
	<b>69,652</b>	<b>62,618</b>
<b>Deferred income tax liabilities:</b>		
Revaluation increment on property, plant, and equipment	(108,100)	(108,100)
Recovery on insurance	(98,382)	(98,382)
Revaluation reserve on investment properties	(75,149)	(79,474)
Remeasurement gain on retirement	(6,982)	(9,280)
Deferred acquisition cost	(6,753)	-
Undepreciated capitalized rent, interest and customs duties	(6,474)	(6,466)
Unrealized gain on valuation of AFS	(1,865)	(165)
Retirement plan assets	(661)	(611)
Accrued rent income	327	(1,696)
Unrealized gain on valuation of FVPL	(150)	-
Unrealized foreign exchange gain	(28)	(5)
	<b>(304,217)</b>	<b>(304,179)</b>
	<b>(₱234,565)</b>	<b>(₱241,561)</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 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:



	2015	2014
	(In Thousands)	(In Thousands)
NOLCO	₱366,267	₱343,093
Allowance for impairment losses on receivables, other current assets, inventories and others	4,203,175	674,971
Retirement benefits liability	75,463	93,181
Loss(gain) on remeasurement of retirement benefits plan	(49,085)	84,606
Unamortized past service cost	44,110	37,927
MCIT	2,950	1,856
Accrued rent	323	909
Unrealized foreign exchange losses	36	93
Excess of reserve for unearned premiums	-	-
	₱4,643,239	₱1,236,636

As at June 30, 2015, 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
2013	2016	₱137,731	₱464
2014	2017	112,218	214
2015	2018	46,744	1,338
		₱296,693	₱2,016

The following are the movements in NOLCO as at June 30, 2015 and 2014:

	2015	2014
	(In Thousands)	(In Thousands)
Balances at beginning of year	₱342,585	₱302,473
Additions	46,744	112,218
Expirations	(92,636)	(72,106)
	₱296,693	₱342,585

The following are the movements in MCIT as at June 30, 2015 and 2014:

	2015	2014
	(In Thousands)	(In Thousands)
Balances at beginning of year	₱1,856	₱3,189
Additions	1,338	214
Expirations	(1,178)	(1,547)
	₱2,016	₱1,856

The Group did not avail of the optional standard deduction in 2015, 2014 and 2013.



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## 25. Earnings Per Share

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

	2015	2014	2013
(In Thousands)			
a. Net income attributable to equity holders of the Parent	(P262,453)	P210,618	P723,630
b. Weighted average number of shares	2,367,149	2,367,149	2,367,149
Basic earnings per share (a/b)	(P0.11)	P0.09	P0.31

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



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

**2015**

Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution	Others	Total	Elimination	Total
			(In Thousands)				
Revenue	P50,935	P247,881	P27,757	P5,140	P741,435	(50,000)	691,435
Cost and expenses	(34,713)	(238,053)	(68,639)	(15,643)	(764,452)	7,476	(756,976)
Other income (charges)	(225,793)	31,918	(5,207)	19,301	1,121	(178,660)	(186,131)
Income (Loss) before income tax	(209,571)	34,247	4,621	(21,592)	(9,382)	(201,677)	(49,995)
Provision for income tax	186	7,282	3,746	246	104	11,564	11,564
<b>Net income (loss)</b>	<b>(209,757)</b>	<b>26,965</b>	<b>875</b>	<b>(21,838)</b>	<b>(9,486)</b>	<b>(213,241)</b>	<b>(49,995)</b>
Segment assets	2,577,618	2,306,905	761,126	790,404	54,840	6,090,874	2,029,320
Segment liabilities	693,724	640,939	532,229	333,761	196,110	2,288,663	(681,933)

**2014**

Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution	Others	Total	Elimination	Total
			(In Thousands)				
Revenue	P2,979	P552,562	P237,094	P9,551	P324,712	P-	P324,712
Cost and expenses	(25,637)	(431,981)	(248,836)	(95,233)	(820,348)	4,339	(816,009)
Other income (charges)	2,972	289,438	(2,629)	(5,899)	(393)	283,489	(4,339)
Income (Loss) before income tax	(19,686)	410,019	(14,371)	(78,596)	(9,513)	287,653	287,853
Provision for income tax	95	83,432	1,232	(3,490)	681	81,950	—
<b>Net income (loss)</b>	<b>(P19,781)</b>	<b>P326,587</b>	<b>(P15,603)</b>	<b>(P75,106)</b>	<b>(10,194)</b>	<b>P205,903</b>	<b>P-</b>
Segment assets	P2,641,421	P2,275,700	P891,177	P829,981	P50,624	P6,788,903	P1,932,913
Segment liabilities	690,675	602,730	671,888	323,446	187,110	2,475,849	(764,195)



2013

	Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution	Others	Total	Elimination	Total
Revenue		<b>P3,397</b>	<b>P562,841</b>	<b>P232,282</b>	<b>P5,287</b>	<b>P1,059,095</b>	<b>P-</b>	<b>P1,059,095</b>
Cost and expenses		(38,907)	(520,923)	(246,459)	(425,404)	(183,950)	(1,415,643)	(1,155,494)
Other income (charges)		367,809	15,859	(8,161)	1,126,900	13,263	1,515,670	823,202
Income (Loss) before income tax		312,299	57,777	(22,338)	956,784	(165,400)	- 1,159,122	726,803
Provision for income tax		117	3,011	2,465	(169)	166	5,590	5,590
<b>Net income (loss)</b>		<b>P332,182</b>	<b>P54,766</b>	<b>(P24,803)</b>	<b>P956,953</b>	<b>(165,566)</b>	<b>P1,153,532</b>	<b>(432,319)</b>
Segment assets		P2,546,405	P1,943,020	P1,135,473	P69,384	P6,691,720	(P1,830,189)	P4,861,531
Segment liabilities		710,272	561,904	893,610	674,277	184,690	3,024,753	(971,560)

#### Geographical Segments

The Group does not have geographical segments.



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## 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 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. Rent expense charged to operations amounted to ₱99.80 million, ₱90.82 million and ₱92.54 million in 2015, 2014 and 2013, respectively (see Note 20).

As at June 30, 2015 and 2014, the aggregate annual commitments on these existing lease agreements for the succeeding years are as follows:

	2015 (In Thousands)	2014 (In Thousands)
Less than one (1) year	₱137,614	₱121,991
More than one (1) year but not more than five (5) years	689,402	620,835
More than five (5) years	3,056,840	3,238,920
	<b>₱3,883,856</b>	<b>₱3,981,746</b>

Leashold rights pertaining to the leased property has a book value of nil as at June 30, 2015 and 2014.

### 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 ₱13.3 million and ₱9.1 million as at June 30, 2015 and 2014, respectively.



The table below shows the movement analysis of the carrying value of noncurrent security deposits as at June 30, 2015:

	2015 (In Thousands)	2014
Undiscounted amount at beginning of year	₱10,241	₱5,663
Additions	4,324	4,578
	<u>14,565</u>	<u>10,241</u>
Discount on security deposit:		
Balance at beginning of year	1,121	688
Addition	445	628
Accretion of interest	(291)	(195)
Balance at end of year	1,275	1,121
Net carrying value	₱13,290	₱9,120

Accretion of interest for the fiscal year ended June 30, 2015 is included under "Other Income (Charges)" in the consolidated statement of income.

	2015 (In Thousands)	2014
Beginning of year	₱1,107	₱684
Additions	446	627
Amortization	(372)	(204)
Balance at end of year	₱1,181	₱1,107

The excess of the principal amounts of the rent deposits over the carrying values is presented as "Deferred rent income" in the consolidated statements of financial position. Deferred rent income is amortized to rent revenue in the statements of comprehensive income over the lease term using the straight-line method.

## 28. Contingencies

The Group is contingently liable for lawsuits or claims, and assessments, which 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.

## 29. Events after the Reporting Period

On August 14, 2015, the Group entered into an agreement with Ayala Land, Inc. (ALI) whereby ALI will subscribe to 2,500,000,000 common shares of stock of the Group or 51.36% equity interest in the Group (which will come from Group's increase in authorized capital stock) for a total consideration of ₱5.625 billion, subject to certain terms and conditions.

The Group, through its wholly-owned subsidiary, TPI, owns Tutuban Center in Manila City. 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 Tutuban Center. Tutuban Center, which sits on a 20-hectare property, will be the location of the North South Railway Project Transfer Station which will interconnect with the LRT 2 West Station.



In connection with the foregoing, on August 13, 2015, the BOD of the Group approved the amendment of its Articles of Incorporation, specifically: (1) Article Sixth - to increase the number of its directors from 7 to 9; and (2) Article Seventh - to increase its authorized capital stock from ₱2.4 billion to ₱7.5 billion.

On September 7, 2015, the Group sold its investment properties located in Mandaue City, Cebu, as discussed in Note 12, for ₱432.6 million. The sale was approved by the BOD on September 4, 2015.

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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, deposits under other current assets and subscriptions payable. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group. The Group has other financial liabilities such as accounts payable and accrued expenses and rental and other deposits, which arise directly from its operations.

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

#### *Credit Risk*

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

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

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



*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:

2015

	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	₱151,035	—	—	₱151,035
<i>Receivables:</i>				
Trade debtors	8,814	36,164	95,066	140,044
Insurance receivables	351,174	—	65,116	416,490
Others	24,605	3,296	192,707	220,608
Amounts owed by related parties	9	—	1,625	1,634
Deposits (under "Other noncurrent assets")	19,338	200	99	19,637
<i>AFS Financial Assets:</i>				
Listed equity securities	849,360	—	535,288	1,384,64
Quoted debt securities	259,134	—	—	259,134
Unquoted debt securities	16,405	—	—	16,405
Nonlisted equity securities	382,509	—	—	382,509
Financial assets at FVPL	27,992	—	—	27,992
	₱2,090,375	₱39,660	₱889,901	₱1,636,936

2014

	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	₱353,677	—	—	₱353,677
<i>Receivables:</i>				
Trade debtors	41,933	9,956	89,298	141,187
Insurance receivables	315,135	183,380	8,342	506,857
Others	42,129	3,513	211,118	256,760
Amounts owed by related parties	22	—	1,610	1,632
Deposits (under "Other noncurrent assets")	27,214	—	99	27,313
<i>AFS Financial Assets:</i>				
Listed equity securities	1,096,500	—	294,101	1,390,601
Quoted debt securities	241,655	—	—	241,655
Unquoted debt securities	6,082	—	—	6,082
Nonlisted equity securities	299,661	—	—	299,661
	₱2,424,008	₱196,849	₱604,568	₱3,225,425



The tables below show the aging analyses of financial assets per class that the Group held as at June 30, 2015 and 2014. A financial asset is past due when a counterparty has failed to make payment when contractually due.

**2015**

	Neither past due nor impaired	Past due but not impaired					Individually impaired	Total
		Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days			
(In Thousands)								
<i>Loans and Receivables:</i>								
Cash and cash equivalents	P151,035	P-	P-	P-	P-	P-	P-	P151,035
Receivables:-								
Trade debtors	44,978	4,206	694	169	3,512	86,575	140,044	
Insurance receivables	351,174	-	-	-	48,948	16,168	416,490	
Others	27,901	-	-	-	349	192,358	220,685	
Amounts owed by related parties	9	-	-	-	-	1,625	1,634	
Deposits (under "Other noncurrent assets")	19,538	-	-	-	-	99	19,637	
<i>AFS Financial Assets</i>								
Listed equity securities	849,360	-	-	-	-	535,288	1,384,64	
Quoted debt securities	259,134	-	-	-	-	-	259,134	
Unquoted debt securities	16,405	-	-	-	-	-	16,405	
Nonlisted equity securities	382,509	-	-	-	-	-	382,509	
Financial asset at FVPL	27,992	-	-	-	-	-	27,992	
	P2,130,635	P4,206	P684	P169	P52,309	P832,113	P1,636,936	

**2014**

	Neither past due nor impaired	Past due but not impaired					Individually impaired	Total
		Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days			
(In Thousands)								
<i>Loans and Receivables:</i>								
Cash and cash equivalents	P353,677	P-	P-	P-	P-	P-	P-	P353,677
Receivables:-								
Trade debtors	43,998	2,480	251	-	5,160	89,298	141,187	
Insurance receivables	315,135	-	-	-	183,380	8,342	506,857	
Others	43,901	-	-	-	1,741	211,118	256,760	
Amounts owed by related parties	22	-	-	-	-	1,610	1,632	
Deposits (under "Other noncurrent assets")	27,214	-	-	-	76	23	27,313	
<i>AFS Financial Assets</i>								
Listed equity securities	1,096,500	-	-	-	-	294,101	1,390,601	
Quoted debt securities	241,655	-	-	-	-	-	241,655	
Unquoted debt securities	6,082	-	-	-	-	-	6,082	
Nonlisted equity securities	299,661	-	-	-	-	-	299,661	
	P2,477,845	P2,480	P251	P-	P190,357	P604,492	P3,225,425	

*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 June 30, 2015 and 2014 based on contractual undiscounted payments.

**2015**

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	Total
(In Thousands)					
Accounts payable and accrued expenses	₱526,333	₱54,949	₱68,798	₱-	₱128
Rental and other deposits	481,675	-	-	-	-
	50,788	15,169	77,554	4,880	83,375

**2014**

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	Total
(In Thousands)					
Accounts payable and accrued expenses	₱558,194	₱30,533	₱15,349	₱57,598	₱661,674
Rental and other deposits	51,424	52,747	62,484	48,088	214,743
	₱609,618	₱83,280	₱77,833	₱105,686	₱876,417

*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.

The table below summarizes the Group's exposure to foreign currency risk as at June 30, 2015 and 2014. Included in the table are the Group's assets and liabilities at carrying amounts:

	2015		2014	
	Foreign Currency	Peso Equivalent	Foreign Currency	Peso Equivalent
(In Thousands)				
Financial Asset:				
Cash in banks				
USD	\$22	₱1,009	\$18	₱786
Short-term investments				
USD	35	1,578		
Financial Liability:				
Accounts payable				
USD	2	80	2	87
EUR	1	50	1	60
GBP	1	42	1	75
Net financial asset	\$53	₱2,415	\$14	₱564



As at June 30 2015 and 2014, the exchange rates of other currencies to Philippine Peso are as follows:

	2015	2014
USD	P45.09	P43.65
EUR	50.80	59.76
GBP	71.13	74.59

The following table presents the impact on the Group's income before income tax due to changes in the fair value of its financial assets and liabilities, brought about by a reasonably possible change in the foreign currencies/P exchange rate (holding all other variables constant) as at June 30, 2015 and 2014.

		Increase/ decrease in currency rate	Effect on income (loss) before income tax (In Thousands)
		(In Thousands)	
2015	USD	+0.41%	P22.79
		-0.65%	(36.13)
	EUR	+2.34%	(2.30)
		-1.30%	1.28
	GBP	+1.98%	(1.16)
		-1.41%	0.83
2014	USD	+0.69%	(P11.04)
		-0.59%	9.44
	EUR	+1.14%	(1.14)
		-0.82%	0.82
	GBP	+1.70%	(1.70)
		-0.73%	0.73

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 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  (In Thousands)	Effect on Equity
<b>2015</b>		
Upper Limit	+11.59%	₱34,680
Lower Limit	(11.59%)	(34,680)
<b>2014</b>		
Upper Limit	+17.62%	₱232,049
Lower Limit	(17.62%)	(232,049)
<b>2013</b>		
Upper Limit	+19.06%	251,022
Lower Limit	(19.06%)	(251,022)

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

#### *Interest Rate Risk*

The Group's exposure to the risk for changes in market interest rate relates to quoted debt instrument.

The Group regularly monitors the market interest rate movements to assess exposure impact.

The sensitivity to a reasonably possible change in the interest rate (in basis points), with all other variables held constant, of the Group's equity as at June 30, 2015 and 2014 are as follows:

The impact on the Group's equity is caused by the changes in the market value of quoted debt due to interest rate movements. The quoted debt instruments of the Group pertain to HTM investments which matured in July 2013.

	Changes in interest rates  (in basis points)	Sensitivity to equity
<b>2013</b>	+155 (155)	(₱2,572) 2,572
<b>2012</b>	+141 (141)	(₱1,871) 1,871



#### 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 June 30, 2015 and 2014.

As at June 30, 2015 and 2014, the Group considers the following accounts as capital:

	2015	2014
(In Thousands)		
Capital stock	₱2,069,912	₱2,066,357
Additional paid-in capital	829,904	829,904
	<b>₱2,899,816</b>	<b>₱2,896,261</b>

The Group is not subject to externally imposed capital requirements.

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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 June 30, 2015 and 2014 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" approximate its amortized cost which was based on the present value of the future cash flows.

##### *AFS Financial Assets*

AFS equity financial assets that are listed are based on their bid prices as at June 30, 2015 and 2014. AFS debt financial assets that are quoted are based on market prices. Unquoted debt and nonlisted AFS financial assets are based on latest available transaction price at the end of the reporting period.

##### *Financial Assets at FVPL*

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



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**32. Other Matters**

Certain accounts in the 2014 financial statements were reclassified to conform with the 2015 presentation.





SyCip Gorordo Veza & Co  
6780 Ayala Avenue  
1226 Makati City  
Philippines

BOA/PFC Reg. No. 0001,  
December 28, 2012, valid until December 31, 2015  
SET Accreditation No. 2012-HF-3 (Group A)  
November 15, 2012, valid until November 18, 2015

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Prime Orion Philippines, Inc. and its subsidiaries as at June 30, 2015 and 2014 and for each of the three years in the period ended June 30, 2015, included in this Form 17-A, and have issued our report thereon dated October 9, 2015. 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 the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company'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 has 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.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III  
Partner  
CPA Certificate No. 85501  
SEC Accreditation No. 0328-AR-1 (Group A),  
May 1, 2015, valid until April 30, 2018  
Tax Identification No. 102-100-830  
DIR Accreditation No. 08-001998-60-2015,  
February 27, 2015, valid until February 26, 2018  
PTI# No. 4751344, January 5, 2015, Makati City

October 9, 2015



**SCHEDULE I**  
**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE OF EFFECTIVE STANDARDS AND**  
**INTERPRETATIONS UNDER THE PFRS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**JUNE 30, 2015**

**List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as at June 30, 2015:**

	Effective Date of Adoption	Scope of Adoption	Effective Date of Application
<b>Philippine Financial Reporting Standards</b>			
<b>PFRS 1 First-time Adoption of Philippine Financial Reporting Standards</b>	✓		
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 Grants			✓
<b>PFRS 2 Share-based Payment</b>			✓
Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 Business Combinations</b>			✓
<b>PFRS 4 Insurance Contracts</b>	✓		
Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
<b>PFRS 5 Non-current Assets Held for Sale and Discontinued Operations</b>			✓
<b>PFRS 6 Exploration for and Evaluation of Mineral Resources</b>			✓

Philippine Accounting Standards (Revised) and PFRS (Amendments) adopted by the PBC on April 1, 2014		Adopted	Not yet adopted	Not applicable
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	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			✓
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments: Classification and Measurement of Financial Assets		Not early adopted	
	Financial Instruments: Classification and Measurement of Financial Liabilities		Not early adopted	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		Not early adopted	
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
<b>PFRS 11</b>	Joint Arrangements			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities			✓
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	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	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Date	✓		
<b>PAS 11</b>	Construction Contracts			✓

Statement of Standard or Interpretation Issued by IASB (or IFRIC) / Date of Adoption in France (or effective date)		Adopted Development Stage	Approved for application in France
PAS 12	Income Taxes	✓	
	Amendment to PAS 12 - Deduced Tax: Recovery of Underlying Assets		✓
PAS 16	Property, Plant and Equipment	✓	
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	✓	
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	✓	
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓	
PAS 27	Consolidated and Separate Financial Statements	✓	
PAS 27 (Amended)	Separate Financial Statements	✓	
PAS 28	Investments in Associates	✓	
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 Issued		✓
	Amendments to PAS 12: Offsetting Financial Assets and Financial Liabilities		✓

		Approved	Published	Stage 3A	Stage 3B
		✓	✓	✓	✓
<b>Philippine Accounting Standards</b>					
PAS 33	Earnings per Share	✓			
PAS 34	Interior Financial Reporting	✓			
PAS 36	Impairment of Assets	✓			
	Recoverable Amount Disclosures for Non-financial Assets				✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓			
PAS 38	Intangible Assets	✓			
PAS 39	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- Novation of Derivatives and Continuation of Hedge Accounting				✓
PAS 40	Investment Property	✓			
PAS 41	Agriculture				✓
<b>Philippine Interpretations</b>					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities				✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments				✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓			
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds				✓

International Financial Reporting Standard (IFRS) / Philippine Accounting Standard (PAS) / Philippine Interpretation (IFRIC)		Scope	Applicability	Effective Date
<i>Interpretations issued prior to 2008</i>				
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Fairvalued Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	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			✓
IFRIC 15	Agreements for the Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Juridical Controlled Entities - Non-Monetary Contributions by Ventures			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving			✓

PESO 2011 PFRSSs and Service Concession Arrangements (SCAs) adopted by the Group effective July 1, 2011 onwards		PESO 2011 PAS and Key Interpretations adopted by the Group effective July 1, 2011 onwards	
the Legal Form of a Lease			
SIC-29	Service Concession Arrangements: Disclosures		✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services		✓
SIC-33	Intangible Assets - Web Site Costs		✓

The Group has not early adopted any PFRSSs, PAS and Philippine Interpretations effective July 1, 2015 onwards.

**Prime Orion Philippines, Inc. and Subsidiaries**  
 20th Floor LKG Tower, 6801 Ayala Avenue, Makati City

**SCHEDULE II**  
**RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**AS OF JUNE 30, 2015**

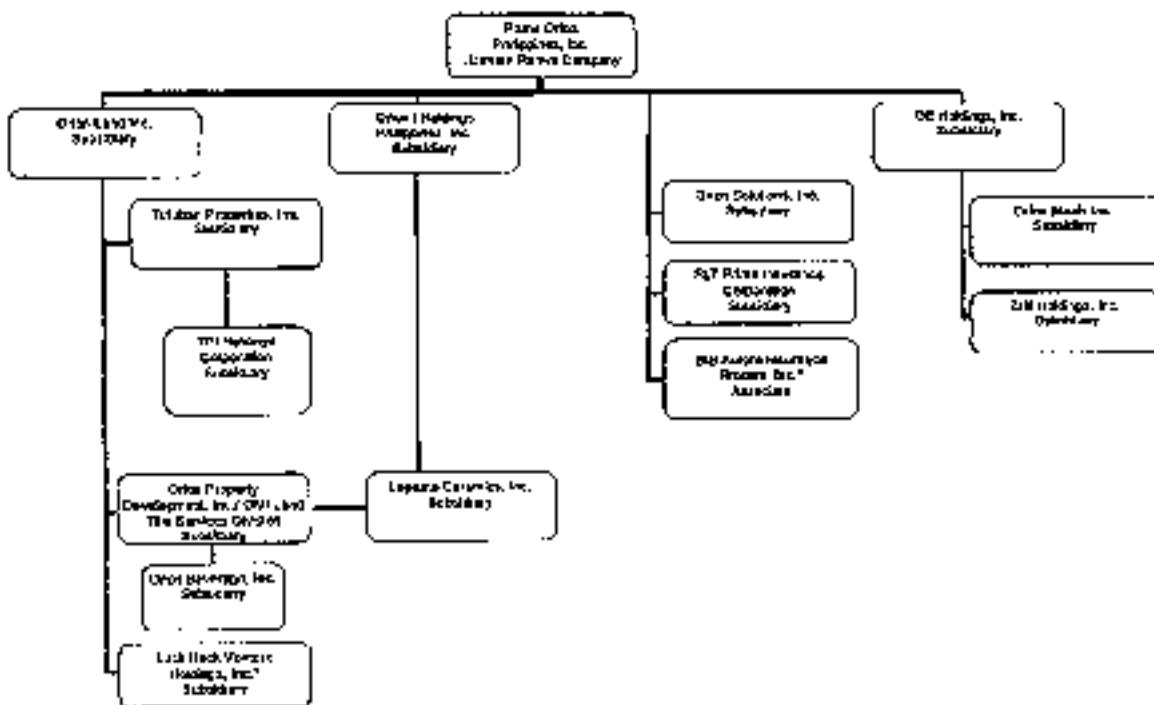
*(Figures based on functional currency  
 audited financial statements)*

	AMOUNTS (In Thousands)
Unappropriated Retained Earnings, as adjusted to available, as of 30 June 2014	(123,367)
Prior period adjustments	(360,634)
Unappropriated Retained Earnings, as adjusted to available, as of 30 June 2014, as adjusted	<u>(483,996)</u>
 Add: Net income actually earned/realized during the period	
Net loss during the period closed to Retained Earnings	<u>(263,236)</u>
 Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	7
Recognized deferred tax asset that increased the net income	162
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	<u>(241,187)</u>
Sub-total	<u>(241,018)</u>
 Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	<u>14,415</u>
Sub-total	<u>14,415</u>
 Net income actually earned during the period	<u>16,803</u>
 Add (Less):	
Treasury shares	21,916
 <b>TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND</b>	<u>(468,653)</u>

**SCHEDULE II**  
**FINANCIAL RATIOS**  
**PURSUANT TO SEC RULE 6B, AS AMENDED**

	Formula	2015	2014
Return on assets	$\frac{\text{Net Income} (\text{Loss})}{\text{Average Assets}}$	(0.06)	0.04
Return on equity	$\frac{\text{Net Income} (\text{Loss})}{\text{Average Equity}}$	(0.03)	0.07
Gross profit margin	$\frac{\text{Gross Profit}}{\text{Total Revenues}}$	0.12	0.18
Net profit margin	$\frac{\text{Net income}}{\text{Sales revenue}}$	(0.10)	0.32
Cost to income ratio	$\frac{\text{Cost and expenses}}{\text{Revenues}}$	1.09	0.99
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	3.52	3.95
Quick ratio	$\frac{\text{Current Assets less Inventory}}{\text{Current Liabilities}}$	3.50	3.90
Solvency ratio	$\frac{\text{After tax net profit/(loss)} + \text{Depreciation}}{\text{Long Term Liabilities - Short Term Liabilities}}$	(0.11)	0.17
Asset to equity ratio	$\frac{\text{Total Assets}}{\text{Equity}}$	1.67	1.59
Debt to equity ratio	$\frac{\text{Total Liability}}{\text{Equity}}$	0.64	0.56
Interest rate coverage ratio	$\frac{\text{EBITDA}}{\text{Interest expense}}$		not applicable
Gross Profit Margin	$\frac{\text{Sales - COGS or COS}}{\text{Sales}}$	(0.44)	(0.12)
Price/Earnings Ratio	$\frac{\text{Price Per Share}}{\text{Earnings Per Common Share}}$	(18.49)	6.32

**SCHEDULE IV**  
**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**  
**AS AT JUNE 30, 2010**



\*Holdings

## PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

## SCHEDULE A - FINANCIAL ASSETS

AS AT JUNE 30, 2015

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		5,795	1
Banco de Oro Universal Bank		17,215	40
Bank of Commerce		894	0
Bank of the Philippine Islands		2,157	1
Development Bank of the Philippines		52	-
Landbank of the Philippines		17	0
Maybank Philippines, Inc.		321	2
Metropolitan Bank and Trust Company		10,910	43
Philippine Business Bank		167	0
Rural Commercial Banking Corp.		7,020	3
Security Bank		305	0
Union Bank of the Philippines		119	0
United Coconut Planters Bank		14,229	31
<b>Sub-total</b>		<b>55,199</b>	<b>120</b>
<b>SAVINGS/CURRENT ACCOUNT (FCDOU)</b>			
Banco de Oro Universal Bank		192	0
Metropolitan Bank and Trust Company		51	0
		<b>243</b>	<b>1</b>
<b>SPECIAL SAVINGS ACCOUNT</b>			
Bank of Commerce		535	8
China Bank Savings		1,001	78
Chinatrust (Philippines) Commercial Bank Corporation		736	8
Maybank Philippines, Inc.		1,001	11
Metropolitan Bank and Trust Company		1,239	11
Philippine Business Bank		4,146	49
Philippine Commercial Capital, Inc.		1,010	2
Philippine National Bank		119	1
Philippine Savings Bank		5,818	87
Raja Commercial Banking Corporation		534	5
Security Bank Corporation		2,612	16
Sterling Bank		507	10
Union Bank of the Philippines		504	4
		<b>17,633</b>	<b>291</b>
<b>TIME DEPOSIT</b>			
Asia United Bank		1,015	1
Banco de Oro Universal Bank		14,328	45
Banco de Oro Universal Bank - FCDOU		1,578	7
Metropolitan Bank and Trust Company		1,179	117
Philippine Commercial Capital, Inc.		4,148	104
Raja Commercial Banking Corp		55,808	865
		<b>77,826</b>	<b>960</b>
		<b>150,901</b>	<b>1,371</b>

## PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

## SCHEDULE A - FINANCIAL ASSETS

AS AT JUNE 30, 2015

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 balance sheet	Interest received and accrued
<b>B. INVESTMENT IN BONDS AND OTHER SECURITIES</b>			
Available-for-sale investments			
Listed equity securities			
Alliance Global	120,200	2,695	
Asia United Bank	6,500	475	
Atlas Consolidated Mining and Development Corporation	98,000	645	
Ayala Corporation (Preferred)	11,000	5,781	
Cosco Capital, Inc.	125,200	977	
Cyber Bay Corporation	1,268,231,404	610,822	
Dej Monte Pacific Minad	35,900	414	
DMCI Holdings, Inc.	62,000	818	
Energy Development Corporation	750,000	5,610	
Filinvest Land, Inc.	612,400	1,139	
First Gen (Preferred - Series G)	10,000	1,195	
First Gen Corporation	20,000	540	
Global Estate Resorts, Inc.	1,000,000	1,220	
Globe - Preferred	13,000	6,760	
International Container Terminal Services	8,200	904	
Lazcano Consolidated Mining Company	1,000,000	221	
LF Group, Inc.	50,000	738	
Manila Mining Corporation	24,000,000	512	
Mercola	21,360	53,905	
Metro Pacific Investments Corporation	1,637,000	7,743	
National Reinsurance Corporation of the Philippines	700	1	
Pepsi Cola Product Philippines, Inc.	45	0	
Petron Corporation	228,700	2,024	
Philex Mining Corporation	548,100	3,350	
Philippine Business Bank	68,300	1,135	
Philippine Long Distance Telephone Company	500	142	
Premier Leisure	550,000	649	
Puregold Price Club Inc.	79,200	2,930	
Rizal Commercial Banking Corporation	53,840	2,159	
San Miguel Corporation	196,200	11,734	
San Miguel Corporation (Preferred)	114,000	9,567	
SM Investment Corp	2,401	2,149	
Solid Grove Inc.	1,001,300	1,210	
Super Store Inc. Group	70,000	692	
Top Frontier Holdings, Inc.	9,670	723	
Trans Asia Oil and Energy Dev'l. Corp.	3,000,000	6,450	
Trans-Asia Petroleum	88,995	981	
Travelers International Hotel Group, Inc.	556,400	2,883	
Zeus Holdings, Inc.	11,225,452	3,199	
	2,435,626,368	713,508	
Quoted debt securities			
Ayma Corporation	16,000,000	14,773	154
Ayala Corporation	3,200,000	3,168	135
Ayala Land, Inc.	11,680,000	30,685	1,142
Ayala Land, Inc.	9,310,000	9,243	132
FIMC Fixed Rate Bond	7,200,000	7,262	788
GI Capital Holdings	10,000,000	10,141	256
GT Capital Holdings, Inc. - Bonds	16,000,000	16,511	539
IS Summit Holdings	23,000,000	21,913	695

## PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

## SCHEDULE A - FINANCIAL ASSETS

AS AT JUNE 30, 2015

AMOUNTS IN THOUSANDS (Except for Number of Shares)

Name of issuing entity and description of each issued	Number of shares or principal amounts of bonds and notes	Amount shown in the balances sheet	Income received and accrued
<i>Meralco</i>	10,000,000	10,000	340
<i>PLDT</i>	10,500,000	11,012	300
<i>Retail Treasury Bond</i>	5,000,000	5,103	371
<i>Retail Treasury Bond</i>	72,600,000	82,649	2,615
<i>San Miguel Brewery Bond</i>	3,000,000	3,190	172
<i>SM Investments Corp.</i>	12,500,000	12,398	124
<i>SM Prime Holdings</i>	18,000,000	18,201	-
	224,430,000	258,206	8,009
<i>Unquoted debt securities</i>			
<i>Caja Bank of the Philippines</i>	5,000,000	5,000	184
<i>Caja Bank of the Philippines</i>	600,000	614	2
<i>Security Bank - Tier 2</i>	10,000,000	10,268	495
<i>United Coconut Planters Bank</i>	500,000	500	-
	16,100,000	15,405	679
<i>Mutualized equity securities - net</i>			
<i>Asia United Bank Money Market</i>	97,377	10,000	-
<i>BDO Money Market Fund</i>	5,000,000	4,726	-
<i>Cardubang Golf &amp; Country Club</i>	1	800	-
<i>Global Business Holdings</i>	378	25	-
<i>McKinley Sports Club, Inc.</i>	1	250	-
<i>Metrobank M&amp;S Bond Fund</i>	15,111,211	25,814	-
<i>Metrobank Money Market Fund</i>	19,472,158	29,800	382
<i>Philcom Bond Fund</i>	287,872	4,931	-
<i>Philippine Central Depository, Inc.</i>	5,000	500	-
<i>Philippine Machinery Management Services</i>	20	20	-
<i>Quedancor</i>	10,000	10	-
<i>RCBC Real Estate Bond Fund</i>	70,500,000	71,013	-
<i>RCBC Savings Money Market Fund</i>	15,876,440	339,813	-
<i>Sta. Elena Golf Club</i>	1	2,800	113
<i>Sunlife Prosperity Bond Fund</i>	9,726,715	26,317	-
<i>TAT International</i>	1	550	-
<i>Volley Golf Club</i>	7	350	-
<i>Zeus Holdings, Inc. - unlisted shares</i>	7,175,600	1,176	-
	138,270,175	518,889	495
<b>TOTAL INVESTMENTS IN BONDS &amp; OTHER SECURITIES</b>		<b>1,507,408</b>	<b>9,183</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 at June 30, 2015

AMOUNTS IN THOUSANDS

Account Type	Balances at Beginning period	Additions	Deductions			Balances at end period
			Amounts Collected / Settlements	Amounts written off	Current	
Advances to Employees for Company expenses	4,246	7,902	7,702	-	146	4,377
Salary due	1,645	1,265	1,947	213	430	414
Car loan	-	1,125	114	-	225	786
Others	3,896	490	852	513	1,607	324
	8,286	11,419	10,616	732	2,397	4,921
						8,380

## PRIME LIGON PHILIPPINES, INC. AND SUBSIDIARIES

SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE  
AGGREGATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

As of June 30, 2015

AMOUNTS IN THOUSANDS

Name and Description of Debtor	Balance at Beginning period	Additions	Amounts Collected/ Settlements	Accounts written off	Current	Not Current	Balance at end period
Orion Holdings Philippines, Inc./Subsidiary	190,001	153	(11)	-	-	192,154	192,154
Lapu-Lapu Ceramics, Inc./Subsidiary	7	130	(114)	-	5	-	5
OIT Holdings, Inc./Subsidiary	34,018	72	(1)	-	34,069	-	34,069
Orion Match Inc./Subsidiary	10,393	8,903	(154)	-	19,340	-	19,340
A.T. Prime Insurance Corp./Subsidiary	30,945	42,158	(177)	-	968	21,000	72,963
Turukan Properties, Inc./Subsidiary	56	310	(369)	-	57	-	57
Orion Property Development, Inc./Subsidiary	138	94	(123)	-	-	-	-
Orion Land Inc./Subsidiary	1	0	-	-	1	-	1
Rock Hole Ventures Holdings, Inc./Subsidiary	-	3	-	-	3	-	3
TP Holdings Corporation/Subsidiary	0	7	-	-	2	-	2
Orion Beverage, Inc./Subsidiary	1	1	-	-	2	-	2
ZHI Holdings, Inc./Subsidiary	1	(3)	-	-	1	-	1
	275,165	\$1,864	(818)	-	54,963	291,154	320,163

## PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

## SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

As of June 30, 2015

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	26,059	-	-	-	(1,517)	22,141
Deferred acquisition cost	15,642	-	-	-	(3,246)	22,335
Deferred input tax	9,697	-	-	-	1568	9,131
	59,197	-	-	-	(5,745)	53,648

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

**SCHEDULE E - LONG-TERM DEBT**

**As of June 30, 2015**

<b>Title of issue and type of obligation</b>	<b>Amount authorized by Indenture</b>	<b>Amount shown under the caption "Current Portion of long-term debt" in related balance sheet</b>	<b>Amount shown under the caption "Long-Term Debt" in related balance sheet</b>
<b>NOT APPLICABLE</b>			

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES  
SCHEDULE F - INDENTURE(S) TO RELATED PARTIES (LONG TERM LOANS FROM RELATED COMPANIES)  
As of June 30, 2015  
AMOUNTS IN THOUSANDS

Name of Related Party	Balance at beginning of period	Balance at end of period
NOT APPLICABLE		

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
As of June 30, 2015  
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 position for which statement is filed	Nature of guarantee
NOT APPLICABLE				

**PRIME CRIMSON PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE K - CAP. TBL. STOCK**  
As of June 30, 2015

Type of share	Number of shares authorized	Number of shares issued and outstanding as at June 30, 2015 holders and non-related shareholders	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by Directors, officers and employees	Number of shares held by Others
<b>COMMON SHARES</b>	<b>2,400,000,000</b>					
ISSUED		1,862,907,583		745,306,238	49,130,233	
NON-REDUCED		464,247,000				
		<b>2,367,149,383</b>				

# PrimeOrion Philippines, Inc.

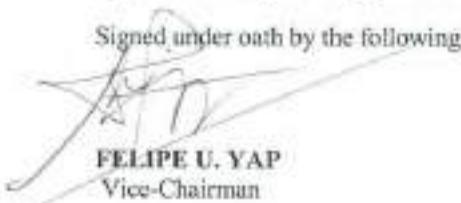
## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PRIME ORION PHILIPPINES, INC.** is responsible for the preparation and fair presentation of the consolidated financial statements for the fiscal years ended June 30, 2016 and 2015, 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

  
**FELIPE U. YAP**  
Vice-Chairman

  
**JOSE EMMANUEL H. JALANDONI**  
President

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

Signed this 6th day of October 2016.

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

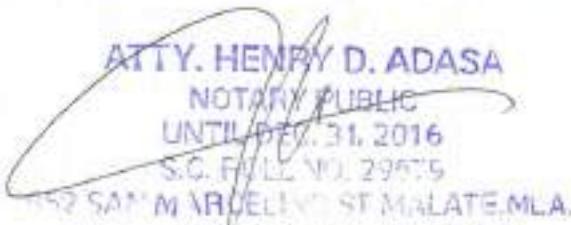
OCT 28 2016

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of October 2016, 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
Felipe U. Yap	Ppt No. EC6551281	01-22-2016 / Manila
Jose Emmanuel H. Jalandoni	Ppt No. EB6926167	12-11-2012 / Manila
Rhodora Estrella B. Revilla	Ppt No. EB8658544	07-13-2013 / Manila

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

Doc. No. 84  
Page No. 24  
Book No. 24  
Series of 2016.

  
**ATTY. HENRY D. ADASA**

NOTARY PUBLIC

UNTIL APR. 31, 2016

S.C. FILE NO. 29575

152 SAN MARCOS ST. MALATE, MLA.

Tel. No. 975545, M/F 2/16 Z.N.

PTB NO. 491514/6/16/2016 MLA.

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Prime Orion Philippines, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended June 30, 2016 and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Prime Orion Philippines, Inc. and its subsidiaries as at June 30, 2016 and 2015, and their financial performance and their cash flows for each of the three years in the period ended June 30, 2016 in accordance with Philippine Financial Reporting Standards.

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. 5321694, January 4, 2016, Makati City

October 6, 2016



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

	June 30	
	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 4 and 30)	₱1,306,884	₱151,763
Receivables (Notes 5 and 30)	1,919,932	496,125
Inventories (Note 6)	8,836	12,006
Real estate held for sale and development (Note 7)	264,464	430,103
Available-for-sale financial assets (Notes 8, 19 and 30)	1,397,514	1,507,408
Financial assets at fair value through profit or loss (Notes 9 and 30)	12,703	27,992
Other current assets (Note 10)	240,815	244,729
<b>Total Current Assets</b>	5,151,148	2,870,126
<b>Noncurrent Assets</b>		
Investment in an associate (Note 11)	1,942	2,571
Investment properties (Note 12)	1,163,169	1,329,022
Property and equipment (Note 13)	19,507	46,328
Software costs (Note 14)	6,216	8,800
Other noncurrent assets (Note 15)	95,422	204,226
<b>Total Noncurrent Assets</b>	1,286,256	1,590,947
<b>TOTAL ASSETS</b>	₱6,437,404	₱4,461,073
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Notes 16 and 30)	₱895,144	₱667,262
Current portion of rental and other deposits (Note 17)	141,362	148,230
Deposit for future stock subscriptions (Note 1)	1,406,250	—
<b>Total Current Liabilities</b>	2,442,756	815,492
<b>Noncurrent Liabilities</b>		
Rental and other deposits - net of current portion (Note 17)	88,425	85,331
Net retirement benefits liability (Note 23)	75,704	96,975
Deferred rent income (Note 27)	536	792
Deferred income tax liabilities - net (Note 24)	220,974	234,565
Subscriptions payable (Note 19)	481,675	481,675
<b>Total Noncurrent Liabilities</b>	867,314	899,338
<b>Total Liabilities</b>	₱3,310,070	₱1,714,830

(Forward)



	<b>June 30</b>	
	<b>2016</b>	<b>2015</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock - ₲1 par value (Note 1)		
Authorized - 2,400,000,000 shares		
Issued and subscribed - 2,378,638,123 shares (net of subscriptions receivable of ₲248,062 and ₲297,237 as at June 30, 2016 and 2015, respectively) (Note 1)	₦2,130,576	₦2,069,912
Additional paid-in capital	829,904	829,904
Equity reserves (Notes 3 and 29)	27,469	-
Treasury shares	(21,916)	(21,916)
Revaluation increment (Notes 12 and 13)	237,011	244,622
Unrealized valuation gains on AFS financial assets (Note 8)	276,226	2,066
Loss on remeasurement of retirement benefits liability (Note 23)	(66,639)	(72,481)
Deficit	(340,166)	(378,204)
<b>Non-Controlling Interests</b>	<b>3,072,465</b>	2,673,903
<b>Total Equity</b>	<b>3,127,334</b>	2,746,243
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₦6,437,404</b>	₦4,461,073

*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>Years Ended June 30</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>REVENUE AND INCOME</b>			
Rental and other charges (Note 12)	₱467,927	₱414,475	₱402,520
Real estate sales (Note 7)	274,082	—	—
Insurance premiums and commissions - net	237,243	236,452	222,126
Service fees	17,927	8,070	6,972
Gain on sale of AFS financial assets (Note 8)	17,240	8,846	159,189
Interest income on AFS financial assets (Note 8)	15,411	11,753	7,803
Merchandise sales	4,768	8,611	22,070
Dividend income (Notes 8 and 9)	2,495	4,228	4,032
	<b>1,037,093</b>	692,435	824,712
<b>COSTS AND EXPENSES</b>			
Cost of goods sold and services (Note 20)	430,237	226,309	242,802
Cost of real estate sold (Notes 7 and 20)	186,607	—	—
Operating expenses (Note 20)	556,944	357,414	386,673
Commission and other underwriting expenses	197,052	173,252	186,534
	<b>1,370,840</b>	756,975	816,009
<b>OTHER INCOME (CHARGES)</b>			
Impairment losses on AFS financial assets (Note 8)	(3,115)	(241,187)	(2,600)
Gain on sale of investment property (Note 12)	578,965	—	—
Gain on sale of property and equipment (Note 13)	5,972	15,346	196
Reversal of impairment losses on receivables (Note 5)	—	8,009	—
Interest income (expense) and bank charges - net (Note 22)	10,359	1,825	(1,866)
Reversal of inventory losses (Note 6)	4,223	1,242	4,360
Unrealized gain (loss) on financial assets at FVPL (Note 9)	(425)	280	—
Rehabilitation expenses (Note 1)	—	(609)	(13,495)
Equity in net income (loss) of an associate (Note 11)	(19)	7	(24)
Recovery from insurance (Note 1)	—	—	269,282
Loss on write off on investment properties (Note 12)	—	—	(288)
Net unrealized foreign exchange gain	93	—	—
Provision for probable losses and impairment losses (Note 28)	(262,424)	—	—
Others - net	20,188	28,956	23,585
	<b>353,817</b>	(186,132)	279,150
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>20,070</b>	(250,672)	287,853
<b>PROVISION FOR INCOME TAX - Net (Note 24)</b>	<b>7,114</b>	11,564	81,950
<b>NET INCOME (LOSS)</b>	<b>12,956</b>	(₱262,236)	₱205,903
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent	₱30,427	(₱262,453)	₱210,618
Non-controlling interests	(17,471)	217	(4,715)
	<b>₱12,956</b>	(₱262,236)	₱205,903
<b>EARNINGS (LOSS) PER SHARE (Note 25)</b>			
Basic and diluted, for income for the year attributable to ordinary equity holders of the Parent	₱0.01	(₱0.11)	₱0.09



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

	<b>Years Ended June 30</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>NET INCOME (LOSS)</b>	<b>₱12,956</b>	(₱262,236)	₱205,903
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Unrealized valuation gains on AFS financial assets (Note 8)	<b>277,649</b>	251	245,666
<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)	<b>5,842</b>	(5,745)	(8,592)
Effect of shortened corporate life of a subsidiary	—	—	5,026
	<b>283,491</b>	(5,494)	242,100
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>₱296,447</b>	(₱267,730)	₱448,003
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent	<b>₱313,918</b>	(₱275,665)	₱454,024
Non-controlling interests	<b>(17,471)</b>	7,935	(6,021)
	<b>₱296,447</b>	(₱267,730)	₱448,003

*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 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, 2013	₱2,066,357	₱829,904	₱-	₱-	₱259,844	(₱4,859)	(₱75,328)	(₱343,172)	₱2,732,746	₱75,592	₱2,808,338
Net income	-	-	-	-	-	-	-	210,618	210,618	(4,715)	205,903
Other comprehensive income (loss)											
Unrealized valuation gain (loss) on											
AFS financial assets	-	-	-	-	-	247,849	-	-	247,849	(2,183)	245,666
Actuarial loss recognized in OCI	-	-	-	-	-	-	8,592	-	8,592	-	8,592
Total comprehensive income	-	-	-	-	-	247,849	8,592	210,618	467,059	(6,898)	460,161
Transfer of realized valuation increment	-	-	-	-	(7,611)	-	-	7,611	-	-	-
Unrealized gain transferred from equity											
to consolidated statement of income	-	-	-	-	-	(159,189)	-	-	(159,189)	-	(159,189)
Effect of shortened corporate life of a subsidiary	-	-	-	-	-	-	-	1,581	1,581	3,445	5,026
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

(Forward)



	Capital Stock	Additional Paid-in Capital	Treasury Shares	Equity Reserves	Revaluation Increment (Notes 12 and 13)	Unrealized Valuation Gains AFS Financial Assets (Note 8)	Losses on Remeasurement of Retirement Benefits Plan (Note 23)	Equity attributable to Equity Holders of Prime Orion Philippines, Inc.	Non-Controlling Interests	Total	
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											
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	30,427	313,918	(17,471)	296,447
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)	(₱340,166)	₱3,072,465	₱54,869	₱3,127,334

See accompanying Notes to Consolidated Financial Statements.



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

	<b>Years Ended June 30</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax	₱20,070	(₱250,672)	₱287,853
Adjustments for:			
Depreciation and amortization (Notes 12, 13, 14 and 20)	79,733	79,748	77,167
Provision for impairment losses on:			
AFS financial assets (Note 8)	3,115	241,187	2,600
Investment in an associate (Note 11)	610	—	—
Noncurrent assets	12,870	—	—
Retirement benefits expense (Note 23)	16,018	22,773	25,339
Interest income	(29,765)	(16,599)	(13,623)
Gain on sale of:			
Investment property (Note 12)	(578,965)	—	—
Property and equipment (Note 13)	(5,972)	(15,346)	(196)
AFS financial assets (Note 8)	(17,240)	(8,846)	(159,189)
Dividend income (Notes 8 and 9)	(2,495)	(4,228)	(4,032)
Interest expense and bank charges (Note 22)	331	523	1,569
Gain on valuation of fair value of FVPL	—	(130)	—
Equity in net loss (income) of associates (Note 11)	19	(7)	24
Recovery from insurance (Note 1)	—	—	(269,282)
Loss on write-off of investment property (Note 12)	—	—	288
Unrealized foreign exchange losses (gains) - net	(93)	—	4
Provision for probable losses (Note 28)	231,144	—	—
Share-based expense (Note 29)	27,469	—	—
Operating income (loss) before working capital changes	(241,698)	48,403	(51,478)
Decrease (increase) in:			
Receivables	(1,423,764)	105,428	538,590
Inventories	2,842	6,468	11,972
Real estate held for sale and development	165,640	(596)	(149,328)
Amounts owed by related parties	—	13	—
Other current assets	(4,656)	(12,614)	(32,414)
Increase (decrease) in:			
Accounts payable and accrued expenses	(17,014)	(6,510)	(381,846)
Rental and other deposits	(3,774)	18,818	15,584
Net cash flows generated from (used in) operations	(1,522,424)	159,410	(48,920)
Interest received	29,765	18,196	14,466
Income tax paid	—	(19,712)	(11,589)
Interest paid	(331)	(523)	(1,569)
Net cash flows from (used in) operating activities	(₱1,492,990)	₱157,371	(₱47,612)

(Forward)



	<b>Years Ended June 30</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Contributions paid for retirement plan	(₱29,997)	(₱30,727)	(₱55,881)
Proceeds from sale of			
Investment properties	<b>703,148</b>	—	—
AFS financial assets (Note 8)	<b>21,360</b>	94,593	222,945
Property, plant and equipment	<b>19,305</b>	15,346	230
Disposal (acquisitions) of:			
AFS financial assets (Note 8)	<b>379,485</b>	(271,179)	(383,204)
Investment properties (Note 12)	<b>(22,435)</b>	(34,197)	(15,477)
FVPL investments	<b>5,298</b>	(27,712)	—
Property, plant and equipment (Note 13)	<b>(4,068)</b>	(7,367)	(6,152)
Software cost (Note 14)	<b>(1,568)</b>	(3,805)	(4,183)
Decrease (increase) in:			
Other noncurrent assets	<b>108,217</b>	(98,019)	8,363
Amounts owed by related parties	<b>(43)</b>	—	3
HTM investments	<b>—</b>	—	2,000
Deferred rent income	<b>—</b>	74	423
Dividends received (Note 8)	<b>2,495</b>	4,228	4,032
Net cash flows from (used in) investing activities	<b>1,181,197</b>	(358,765)	(226,901)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Acquisition of treasury shares	<b>—</b>	(21,916)	—
Receipt of deposit for future stock subscriptions (Note 1)	<b>1,406,250</b>	—	—
Collection of subscription receivables	<b>60,664</b>	3,555	—
Decrease in minority interest	<b>—</b>	(16)	2,843
Decrease in amounts owed to related parties (Note 18)	<b>—</b>	—	(2,673)
Net cash flows from (used in) financing activities	<b>1,466,914</b>	(18,377)	170
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,155,121</b>	(219,771)	(274,343)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>151,763</b>	371,534	645,877
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱1,306,884</b>	₱151,763	₱371,534

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 and ₱13.49 million in 2015 and 2014, respectively (nil in 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 amended 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.

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. In line with this, TPI recognized recovery from insurance amounting to ₱269.28 million in 2014 (nil in 2016 and 2015). TPI received insurance proceeds from FPIC amounting to ₱17.89 million, ₱204.90 million and ₱174.71 million in 2016, 2015 and 2014, respectively.



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. In 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 2018.

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 51.36% 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 BOD approved the amendment of POPI's AOI, 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). The increase in authorized capital stock was approved by the SEC on July 4, 2016. On February 24, 2016, the Deed of Subscription was executed. 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 2016 statement of financial position.

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.

The consolidated financial statements of the Group as at June 30, 2016 and 2015 and for years ended June 30, 2016, 2015 and 2014 were approved and authorized for issue in accordance with the resolution by the BOD on October 6, 2016.



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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 Group's functional and presentation currency. All values 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 June 30, 2016 and 2015:

Subsidiaries	Nature of Business	Effective Percentage of Ownership	
		2016	2015
<b>Real Estate, Property Development and Others:</b>			
Orion Land Inc. (OLI) and Subsidiaries:			
OLI	Real Estate and Investment Holding Company	<b>100%</b>	100%
TPI and Subsidiaries:			
TPI (Note 1)	Real Estate, Mall Operations	<b>100%</b>	100%
TPI Holdings Corporation (TPIHC)	Investment Holding Company	<b>100%</b>	100%
OPDI and Subsidiaries:			
OPDI (Note 1)	Real Estate Development	<b>100%</b>	100%
Orion Beverage, Inc. (OBI) *	Manufacturing	<b>100%</b>	100%
LCI (Note 1)	Manufacturing and Distribution	<b>100%</b>	100%
Luck Hock Venture Holdings, Inc.*	Other Business Activities	<b>60%</b>	60%
<b>Financial Services and Others:</b>			
OE Holdings, Inc. (OEHI) and Subsidiaries:			
OEHI	Wholesale and Trading	<b>100%</b>	100%
OMI (Note 1)	Marketing and Administrative Services	<b>100%</b>	100%
ZHI Holdings, Inc. (ZHI)	Financial Holding Company	<b>100%</b>	100%
OIHPI	Financial Holding Company	<b>100%</b>	100%
FPIC (Note 1)	Non-Life Insurance Company	<b>78.77%</b>	70%
OSI (Note 1)	Management Information Technology Consultancy Services	<b>100%</b>	100%

\* *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

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, 2015.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)  
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. This amendment became effective for annual periods beginning on or after January 1, 2015 but has no impact to the Group since it has no defined benefit plan with contributions from employees and third parties.

#### *Annual Improvements to PFRSs (2010-2012 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after July 1, 2015 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*  
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition.
  - A performance target must be met while the counterparty is rendering service.
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
  - A performance condition may be a market or non-market condition.
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*  
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PAS 39. The Group shall consider this amendment for future business combinations.



- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*  
The amendments are applied retrospectively and clarify that:
    - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
    - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
  - PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*  
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
  - PAS 24, *Related Party Disclosures - Key Management Personnel*  
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
- Annual Improvements to PFRSs (2011-2013 cycle)*  
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after July 1, 2015 and did not have material effect to the Group. They include:
- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*  
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
    - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
    - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
  - PFRS 13, *Fair Value Measurement - Portfolio Exception*  
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.
  - PAS 40, *Investment Property*  
The description of ancillary services in PAS 40 differentiates between the investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).



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 July 1, 2016:*

- PAS 1, *Presentation of Financial Statements - Disclosure Initiative* (Amendments)  
The amendments are intended to assist entities in applying judgment when meeting the presentation disclosure requirements in PFRS. The amendments include various clarifications in the presentation and disclosure of the amounts in the face of and in the notes to the financial statements.
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)  
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are not expected to have any effect to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)  
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. These amendments are not expected to apply to the Group as the Group does not have any bearer plants.
- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)  
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. These amendments will not have any effect on the Group's consolidated financial statements.
- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments)  
These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments will not have any effect on the Group's consolidated financial statements.



- **PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)**

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3) must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any effect to the Group.

- **PFRS 14, *Regulatory Deferral Accounts***

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. This standard is not expected to apply to the Group.

*Annual Improvements to PFRSs (2012-2014 cycle)*

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after July 1, 2015 and are not expected to have a material effect to the Group. They include:

- **PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal***

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- **PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts***

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- **PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements***

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.



- PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*  
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*  
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

*Effective July 1, 2018:*

**PFRS 9, Financial Instruments**

- In July 2014, the IASB issued the final version of International Financial Reporting Standard (IFRS) 9, Financial Instruments. The new standard (renamed as 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, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.”

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets but will have no effect on the classification and measurement of the Group’s financial liabilities. The adoption will also have an effect on the Group’s application of hedge accounting. The Group is currently assessing the effect of adopting this standard.

**• IFRS 15, *Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the effect of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.



*Effective in July 1, 2019*

- **PFRS 16, *Leases***

PFRS 16, *Leases*, replaces PAS 17, the current standard for leases, and its related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases in their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.”

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt PFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

*Effectivity Deferred*

- **PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investment in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The FRSC decided to postpone the original effective date of January 1, 2016 until the IASB 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.

The revised, amended and additional disclosures or accounting changes provided by the standards and interpretations will be included in the financial statements in the year of adoption, if applicable.

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

**Presentation of Financial Statements**

The Group has elected to present two statements, a consolidated statement of income and a consolidated statement of comprehensive income, rather than a single consolidated statement of comprehensive income containing the two elements.



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 liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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 June 30, 2016 and 2015, 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 June 30, 2016 and 2015.

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.

All financial liabilities are recognized initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

As at June 30, 2016 and 2015, the Group's financial liabilities are in the nature of other financial liabilities. As at June 30, 2016 and 2015, the Group has no financial liabilities classified as at FVPL and derivatives designated as hedging instruments in an effective hedge.



#### 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 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 OCI in the "Unrealized valuation gains (losses) 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 finance costs. 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. 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, interest-bearing 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, subscriptions payable and deposit for future subscriptions (see Notes 1, 16, 17, and 19).

#### Fair Value Measurement

The Group measures financial instruments, such as financial assets at FVPL, at fair value at each end of the reporting period. Also, fair values of financial instruments measured are disclosed in Note 30.

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 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 on 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.

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 in 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 Carried at Fair Values*

For investments in debt securities, the Group assesses at each end of the reporting period whether there is objective evidence that an investment is impaired. The losses arising from impairment of such financial assets are recognized in the consolidated statement of income.

In the case of 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 charges" 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.

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 and investment income" 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.

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.

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.

#### 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 consists 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 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 previously 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 “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).

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

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

The estimated useful lives of investment properties follow:

Useful life in years	
Land improvements	30
Buildings and improvements	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, plant 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. The lease contract on a land where investment property is located is for twenty five (25) years, which is also the depreciation period of the investment property. In December 2009, the lease contract on a land where the Group's primary investment property is located was renewed (see Note 27). As a result of the lease renewal, and the review of the estimated useful life and depreciation period of the said investment property, management came to a conclusion that there has been a significant change in the expected pattern of economic benefits from the said property of the Group. As a result, the Group prospectively revised the remaining depreciation period of this property from an average of twenty five (25) years (which is the shorter of the lease term and the estimated useful life) to thirty five (35) years effective September 5, 2014. The change has been accounted for as a change in accounting estimates.

#### Property and Equipment

##### *Land and Improvements and Buildings and Improvements at Revalued Amount*

Land and buildings together with their improvements stated at appraised values 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 in property, plant and equipment" 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 on property, plant and equipment” to “Deficit” account in the consolidated statement of financial position. In 2015, these properties were reclassified to investment properties, with the carrying amount as the deemed cost.

*Leasehold Improvements, Machinery and Equipment, Transportation Equipment, Furniture, Fixtures and Equipment, Condominium Units and Improvements, and Hotel Equipment at Cost*

Property, plant and equipment are carried at cost, less accumulated depreciation, amortization and any impairment in value. The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Expenditures incurred after the property, plant 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, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

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

	Useful life in years
Buildings	30
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, plant 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 methods 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 eliminated from the accounts 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 provides allowance for impairment losses on nonfinancial other current and noncurrent assets when 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 impairment losses would increase recorded expenses and decrease other current and noncurrent assets.

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.

*Provision 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.

#### 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".

#### Treasury Shares

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.

#### 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 (including items previously presented under the consolidated statement of changes in equity) 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 and included in revenue due to its operating nature. 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 "Insurance contract liabilities" 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 "Reinsurance assets" in the consolidated statement of financial positions. 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 "Deferred reinsurance commissions" in the Liabilities section of the consolidated statement of financial position.

*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.

*Merchandise Sales, Real Estate Sales and Sale of Assets*

Revenue from sale of merchandise and 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.

*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 the 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 disclosure of contingent assets and contingent liabilities, 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.

*Assessment of Impairment Indicators of Property and Equipment, and Software Costs*

The Group assesses impairment of property, plant and equipment, and software costs whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.



There were no impairment indicators identified on the Group's property and equipment and software costs. The carrying values of property and equipment amounted to ₦19.51 million and ₦46.33 million as at June 30, 2016 and 2015, respectively, net of accumulated depreciation and amortization amounting to ₦2.11 billion and ₦2.21 billion as of the same dates (see Note 13). The carrying values of software costs amounted to ₦6.22 million and ₦8.80 million as of the same dates, respectively (see Note 14).

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 Recovery from Insurance*

Management estimates that the recorded amount of the recovery from insurance is virtually certain after an exhaustive review of its existing insurance coverage against the casualty loss incurred and the discussions with and inspections conducted by the insurance company, adjusters, and technical consultants. In 2014, the Group recorded recovery from insurance amounting to ₦269.28 million (nil in 2016 and 2015; see Note 1).

*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 ₦36.79 million, ₦2.46 million and ₦0.73 million in 2016, 2015 and 2014, respectively. Recovery on impairment losses on receivables amounted to nil, ₦8.01 million and ₦1.29 million in 2016, 2015 and 2014, respectively. The Group wrote-off allowance for impairment losses on receivables amounting to ₦25.89 million, ₦1.32 million and ₦6.97 million in 2016, 2015 and 2014, respectively. The carrying values of the receivables amounted to ₦1,919.93 million and ₦496.12 million as at June 30, 2016 and 2015, respectively, net of allowance for impairment losses amounting to ₦312.77 million and ₦301.89 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 ₦1.81 million in 2014 (nil in 2016 and 2015).

Reversal of allowance for impairment on inventory losses amounted to ₦4.22 million, ₦8.97 million and ₦4.59 in 2016, 2015 and 2014, respectively. The Group wrote-off allowance for impairment losses on inventories amounting ₦1.43 million and ₦13.11 million in 2015 and 2014, respectively (nil in 2016). The carrying values of inventories amounted to ₦8.84 million and ₦12.01 million as at June 30, 2016 and 2015, respectively, net of allowance for inventory losses amounting to ₦67.39 million and ₦71.61 million as at June 30, 2016 and 2015, 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 in 2016 amounted to ₦16.03 million (nil in 2015 and 2014). The carrying values of real estate held for sale and development amounted to ₦264.46 million and ₦430.10 million as at June 30, 2016 and 2015, respectively (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, ₦241.19 million and ₦2.60 million in 2016, 2015 and 2014, respectively. The fair values of AFS financial assets amounted to ₦1,397.51 million and ₦1,507.41 million as at June 30, 2016 and 2015, respectively, net of allowance for impairment losses amounting to ₦538.40 million and ₦535.29 million as at June 30, 2016 and 2015, respectively (see Note 8).



*Estimating Allowance for Impairment Losses on Investment in an Associate and Investment Properties*

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of investment in an associate and investment properties which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that this asset may not be recoverable. Any resulting impairment loss could have a material adverse impact on financial condition and results of operations of the Group.

Provision for impairment losses on investment in an associate amounted to ₦0.61 million in 2016 (nil in 2015 and 2014). The carrying values of the investment in an associate amounted to ₦1.94 million and ₦2.57 million as at June 30, 2016 and 2015, respectively (see Note 11).

The carrying value of investment properties amounted to ₦1,163.17 million and ₦1,329.02 million as at June 30, 2016 and 2015, respectively, net of allowance for impairment losses amounting to ₦12.83 million as of the same dates (see Note 12).

*Estimating Useful Lives of Depreciable Investment Properties, Property and Equipment and Software Costs*

The estimated useful lives used as bases for depreciating and amortizing the Group's investment properties, property and equipment and software costs 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, plant and equipment and software costs based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant and equipment and software 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 amortization and decreases the carrying value of investment properties, property, plant and equipment and software costs.

The carrying values of investment properties amounted to ₦1,163.17 million and ₦1,329.02 million as at June 30, 2016 and 2015, respectively (see Note 12).

The carrying values of property and equipment amounted to ₦19.51 million and ₦46.33 million as at June 30, 2016 and 2015, respectively, net of accumulated depreciation and amortization amounting to ₦2.11 billion and ₦2.21 billion as of the same dates (see Note 13).

The carrying values of software costs amounted to ₦6.22 million and ₦8.80 million as at June 30, 2016 and 2015, respectively, net of accumulated amortization amounting to ₦31.30 million and ₦27.14 million as of the same dates (see Note 14).

Information on the estimated useful life of investment properties, property and equipment and software cost 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 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 ₦2.85 million and ₦2.90 million, respectively, as at June 30, 2016 and 2015. As of the same dates, the carrying values of nonfinancial other current assets amounted to ₦240.82 million and ₦244.73 million, respectively (see Note 10).

There was no provision for impairment losses on nonfinancial other noncurrent assets recognized in 2016, 2015 and 2014. As at June 30, 2016 and 2015, the carrying values of nonfinancial other noncurrent assets amounted to ₦76.02 million and ₦184.59 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 ₦226.39 million and ₦230.61 million as at June 30, 2016 and 2015, 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.

Retirement benefit costs amounted to ₦20.49 million, ₦22.77 million and ₦25.34 million in 2016, 2015 and 2014, respectively. As at June 30, 2016 and 2015, the net retirement benefits liability of the Group amounted to ₦75.70 million and ₦96.98 million, respectively (see Note 23).

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.

#### *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 ₦71.04 million and ₦69.65 million as at June 30, 2016 and 2015, 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 in 2016 and nil in both 2015 and 2014 (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. In 2016, personnel expense and the corresponding equity reserve recognized in relation to the ESOWN amounted to ₦27.47 million. See Note 29 for further details on the ESOWN, including the assumptions used in the valuation.

*Estimating Fair Values of Financial Instruments*

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Any change in the fair value of these financial instruments would directly affect the consolidated statement of income and consolidated statement of changes in equity.

Fair values of financial assets as at June 30, 2016 and 2015 amounted to ₦4,642.09 million and ₦2,173.65 million, respectively, while the fair values of financial liabilities as at June 30, 2016 and 2015 amounted to ₦1,560.24 million and ₦1,362.64 million, respectively (see Notes 30 and 31).



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#### 4. Cash and Cash Equivalents

	<b>2016</b>	<b>2015</b>
	(In Thousands)	
Cash on hand and in banks	<b>₱475,593</b>	₱56,304
Short-term investments	<b>831,291</b>	95,459
	<b>₱1,306,884</b>	<b>₱151,763</b>

Cash in banks earn interest at the respective bank deposit rates. Short-term investments 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 ₱0.57 million, ₱0.26 million and ₱0.98 million in 2016, 2015 and 2014, respectively. Interest earned from short-term investments amounted to ₱2.77 million, ₱1.42 million and ₱4.77 million in 2016, 2015 and 2014, respectively (see Note 22).

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#### 5. Receivables

	<b>2016</b>	<b>2015</b>
	(In Thousands)	
Trade debtors	<b>₱112,888</b>	₱140,907
Loans receivable	<b>1,425,750</b>	—
Insurance receivables	<b>397,077</b>	416,290
Others (Note 18)	<b>298,663</b>	242,438
	<b>2,234,378</b>	799,635
Less allowance for impairment losses	<b>314,446</b>	303,510
	<b>₱1,919,932</b>	<b>₱496,125</b>

Trade debtors are both interest and non-interest bearing and are generally collectible on thirty (30) days' term. The interest rates on outstanding interest-bearing receivables range from 5% to 10% per annum.

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

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 June 30, 2016 and 2015. 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
(In Thousands)				
At July 1, 2013	₱90,438	₱7,755	₱218,088	₱316,281
Provisions (Note 20)	146	586	—	732
Write-off	(2)	—	(6,968)	(6,970)
Recovery	(1,285)	—	—	(1,285)
At June 30, 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	33,115	3,031	36,768
Write-off	(21,984)	—	(4,171)	(25,885)
<b>At June 30, 2016</b>	<b>₱66,511</b>	<b>₱41,874</b>	<b>₱204,113</b>	<b>₱312,768</b>

Interest earned from trade receivables amounted to ₱11.01 million, ₱1,115 and ₱0.07 million in 2016, 2015 and 2014, respectively (see Note 22).

In 2015, LCI and OMI have written-off portion of its trade receivables amounting to ₱0.84 million and ₱0.48 million, respectively. While in 2016, ₱25.82 million worth of receivables 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 ₱4.28 million pertains to the aggregate long outstanding trade and other receivables of the Group that were assessed to be uncollectible.

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## 6. Inventories

	2016	2015
(In Thousands)		
At NRV:		
Finished goods	₱8,149	₱11,130
Factory supplies and spare parts	687	682
Materials in transit	—	194
	<b>₱8,836</b>	<b>₱12,006</b>

Movements in the allowance for inventory losses are as follows:

	2016	2015
(In Thousands)		
Beginning balances	₱71,614	₱82,016
Reversal	(4,223)	(1,242)
Write-off	—	(9,160)
	<b>₱67,391</b>	<b>₱71,614</b>

Inventories charged to operations amounted to ₱5.34 million, ₱15.80 million and ₱34.16 million in 2016, 2015 and 2014, respectively (see Note 20).



## 7. Real Estate Held for Sale and Development

	2016	2015
(In Thousands)		
Land for development	<b>₱237,973</b>	₱395,549
Held for sale	<b>42,533</b>	34,554
	<b>280,506</b>	430,103
Allowance for impairment losses (Note 20)	<b>16,042</b>	-
	<b>₱264,464</b>	₱430,103

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 June 30, 2016 and 2015 are as follows:

	2016	2015
(In Thousands)		
Land cost	<b>₱212,558</b>	₱299,239
Construction overhead and other related costs	<b>22,882</b>	73,957
Professional fees	-	17,932
Taxes	<b>2,517</b>	4,421
	<b>₱237,957</b>	₱395,549

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

	2016	2015
(In Thousands)		
Balances at beginning of year	<b>₱430,103</b>	₱429,507
Additions	<b>4,449</b>	39
Repossessions	-	557
Sale/disposal (Note 20)	<b>(154,046)</b>	-
Impairment loss (Note 20)	<b>(16,042)</b>	-
Balances at end of year	<b>₱264,464</b>	₱430,103

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

Repossessions pertain to the cost of repossessed land held for sale located in Calamba, Laguna due to the delinquent payment from land buyers.

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, a subsidiary, 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

	2016	2015
(In Thousands)		
Listed equity securities	<b>₱1,518,088</b>	₱1,249,196
Nonlisted equity securities	<b>106,420</b>	518,889
Quoted debt securities	<b>300,489</b>	258,206
Unquoted debt securities	<b>10,820</b>	16,405
	<b>1,935,917</b>	2,042,696
Allowance for impairment losses	<b>538,403</b>	535,288
	<b>₱1,397,514</b>	₱1,507,408

AFS financial assets in quoted and unquoted shares of stock are carried at fair value with cumulative changes in fair values presented as a separate account in equity. Meanwhile, unquoted debt and equity financial assets are carried at cost, net of any impairment, until the investment is derecognized.

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.

Movements in the allowance for impairment losses are as follows:

	2016	2015	2014
(In Thousands)			
Balances at beginning of year	<b>₱535,288</b>	₱294,101	₱291,501
Provisions	<b>3,115</b>	241,187	2,600
Balances at end of year	<b>₱538,403</b>	₱535,288	₱294,101

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

	Equity Holders	Non-Controlling Interests	Total
(In Thousands)			
June 30, 2013	(₱4,859)	₱2,116	(₱2,743)
Gain (loss) recognized directly in equity	247,849	(2,183)	245,666
Loss transferred from equity to consolidated statement of income	(159,189)	–	(159,189)
June 30, 2014	83,801	(67)	83,734
Gain (loss) recognized directly in equity	267	(16)	251
Loss transferred from equity to consolidated statement of income	(82,002)	–	(82,002)
June 30, 2015	2,066	(83)	1,983
Gain recognized directly in equity	277,649	–	277,649
Loss transferred from equity to consolidated statement of income	(3,489)	–	(3,489)
<b>June 30, 2016</b>	<b>₱276,226</b>	<b>(₱83)</b>	<b>₱276,143</b>

Proceeds from the sale of AFS financial assets amounted to ₱21.36 million, ₱94.59 million and ₱222.95 million in 2016, 2015 and 2014, respectively, with a corresponding gain on sale of ₱17.24 million, ₱8.85 million and ₱159.19 million in 2016, 2015 and 2014, respectively.



Interest earned from AFS financial assets amounted to ₦15.41 million, ₦11.75 million and ₦7.80 million in 2016, 2015 and 2014, respectively.

Dividend income received on AFS financial assets amounted to ₦2.50 million, ₦3.27 million and ₦4.03 million in 2016, 2015 and 2014, respectively.

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#### 9. Financial Assets at FVPL

In 2016, the Group has 15,000 redeemable preferred shares with a cost of ₦2.92 million recorded as financial assets at FVPL upon initial recognition. Fair value of financial assets at FVPL as at June 30, 2016 and 2015 amounted to ₦12.70 million and ₦27.99 million, respectively, resulting to an unrealized gain (loss) of (₦0.43 million) and ₦0.28 million in 2016 and 2015, respectively (nil in 2014). During the fiscal year, 128,600 shares amounting to ₦9.66 million were redeemed. Dividend income earned from these shares amounted to ₦0.96 million in 2015 (nil in 2016 and 2014).

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#### 10. Other Current Assets

	2016	2015
(In Thousands)		
CWTs	<b>₦185,608</b>	₦198,258
Input VAT	<b>33,485</b>	28,330
Prepayments	<b>24,574</b>	14,656
Unclaimed claims reserve fund	—	6,380
	<b>243,667</b>	247,624
Less allowance for impairment losses	<b>2,852</b>	2,895
	<b>₦240,815</b>	₦244,729

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

Input VAT pertains to taxes earned from transactions with VAT registered vendors during the year.

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

Unclaimed claims reserve fund pertains to the unclaimed payments on its trade creditors under rehabilitation plan which were deposited to Metropolitan Bank and Trust Company to serve as the fund. This is equivalent to the total amount of allowed claims that remain unclaimed as of filing of motion for termination of rehabilitation proceedings of the Company. All payments should be taken from the Fund upon presentation of sufficient evidence of identity. A creditor or worker may obtain payment within two (2) years from the opening of the account and should discharge the Company from its obligation. The fund is classified as current asset. The fund is readily available as payment for claims and was reclassified to AFS investment on June 30, 2016 upon the lapse of the two (2) - year period.



Movements in the allowance for impairment losses are as follows:

	2016	2015	2014
(In Thousands)			
Balances at beginning of year	<b>₱2,895</b>	₱2,819	₱2,970
Provisions (Note 20)	23	76	61
Write-off	(66)	—	(212)
Balances at end of year	<b>₱2,852</b>	₱2,895	₱2,819

#### 11. Investment in an Associate

	2016	2015
(In Thousands)		
Acquisition costs:		
Balances at end of year	<b>₱5,959</b>	₱5,959
Accumulated equity in net losses		
Balances at beginning of year	(3,388)	(3,395)
Equity in net income (loss)	(19)	7
Balances at end of year	<b>(3,407)</b>	(3,388)
	2,552	2,571
Allowance for impairment loss	(610)	—
	<b>₱1,942</b>	₱2,571

Summarized of the financial statement information of the associate follows:

	2016	2015
(In Thousands)		
Current assets	<b>₱9,941</b>	₱10,036
Noncurrent assets	21	21
Total liabilities	<b>261</b>	201
Revenue	146	223
Costs and expenses	311	266
Net income (loss)	(94)	35



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## 12. Investment Properties

	2016		
	Buildings and Improvements	Land and Improvements	Total
	(In Thousands)		
<b>Cost</b>			
At beginning of year	<b>₱2,907,380</b>	<b>₱470,331</b>	<b>₱3,377,711</b>
Additions	<b>22,301</b>	<b>134</b>	<b>22,435</b>
Reclassification	<b>246</b>	<b>—</b>	<b>246</b>
Disposals	<b>—</b>	<b>(124,838)</b>	<b>(124,838)</b>
<b>At end of year</b>	<b>2,929,927</b>	<b>345,627</b>	<b>3,275,554</b>

	2016		
	Buildings and Improvements	Land and Improvements	Total
	(In Thousands)		
<b>Accumulated Depreciation and Amortization</b>			
At beginning of year	<b>2,015,949</b>	<b>19,906</b>	<b>2,035,855</b>
Depreciation and amortization (Note 20)	<b>62,851</b>	<b>845</b>	<b>63,696</b>
<b>At end of year</b>	<b>2,078,800</b>	<b>20,751</b>	<b>2,099,551</b>
Balance before impairment	<b>851,127</b>	<b>324,876</b>	<b>1,176,003</b>
Less: Allowance for impairment losses	<b>12,834</b>	<b>—</b>	<b>12,834</b>
<b>Net book values</b>	<b>₱838,293</b>	<b>₱324,876</b>	<b>₱1,163,169</b>

	2015		
	Buildings and Improvements	Land and Improvements	Total
	(In Thousands)		
<b>Cost</b>			
At beginning of year	<b>₱2,181,041</b>	<b>₱131,624</b>	<b>₱2,312,665</b>
Additions	<b>33,960</b>	<b>237</b>	<b>34,197</b>
Transfer (Note 13)	<b>692,379</b>	<b>338,470</b>	<b>1,030,849</b>
<b>At end of year</b>	<b>2,907,380</b>	<b>470,331</b>	<b>3,377,711</b>
<b>Accumulated Depreciation and Amortization</b>			
At beginning of year	<b>1,561,791</b>	<b>552</b>	<b>1,562,343</b>
Depreciation and amortization (Note 20)	<b>60,643</b>	<b>829</b>	<b>61,472</b>
Transfer (Note 13)	<b>393,515</b>	<b>18,525</b>	<b>412,040</b>
<b>At end of year</b>	<b>2,015,949</b>	<b>19,906</b>	<b>2,035,855</b>
Balance before impairment	<b>891,431</b>	<b>450,425</b>	<b>1,341,856</b>
Less: Allowance for impairment losses	<b>12,834</b>	<b>—</b>	<b>12,834</b>
<b>Net book values</b>	<b>₱878,597</b>	<b>₱450,425</b>	<b>₱1,329,022</b>



Based on the latest appraisal reports, as determined by an independent firm of appraisers, the appraised values of the TPI's and LCI's investment properties amounted to ₱4.82 billion and ₱5.08 billion as at June 30, 2016 and 2015, respectively.

**TPI**

Investment properties of TPI substantially represent other land improvements, and building, machinery and equipment on the land leased from PNR which are utilized for TPI's office space, mall operations and held for rentals. These were valued by independent professionally qualified appraisers.

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.

- a. Based on the lease contract, TPI leases a land consisting of sixty nine (69) lots, containing an aggregate area of 227,773 square meters.

The value of the land was estimated using the Sales Comparison Approach. This is a comparative approach 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.

- b. The method used to determine the value of other land improvements and building, machinery and equipment is the Sales Comparison 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 a 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 (accrued) depreciation.

**LCI**

LCI has historically classified land and improvements and buildings and improvements at revalued amounts as property and equipment. On July 1, 2014, LCI transferred its land and improvements and buildings and improvements under property and equipment. The carrying fair value of these assets was the deemed cost of the investment property upon transfer. The transfer was made in accordance with PAS 40, *Investment Property*, since the properties were held by the Company to earn rentals or for capital appreciation or both, 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.

Movement of revaluation increment are as follows:

	2016	2015
	(In Thousands)	
Beginning balance	₱244,622	₱-
Reclassification (see Note 13)	-	252,233
Transfer of realized valuation increment	(7,611)	(7,611)
Balances at end of year	<b>₱237,011</b>	₱244,622



On June 30, 2016 and 2015, the net book values of TPI's and LCI's investment properties follow:

	<b>2016</b>	<b>2015</b>
	(In Thousands)	
<b>At net book value:</b>		
Original cost	<b>₱285,059</b>	₱298,580
Revaluation reserve (OCI)	<b>237,011</b>	244,622
Revaluation reserve (closed to retained earnings)	<b>236,083</b>	250,900
	<b>₱758,153</b>	₱794,102

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 ₱467.93 million, ₱414.48 million and ₱402.52 million in 2016, 2015 and 2014, respectively. Direct operating expenses incurred for investment properties amounted to ₱406.99million, ₱212.81 million and ₱210.96 million in 2016, 2015 and 2014, respectively, and include depreciation, real property taxes and repairs and maintenance.

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 ₱432.6 million.

Gain on sale of these properties recognized in 2016 amounted to ₱578.97 million.

### 13. Property and Equipment

	<b>2016</b>						
	Leasehold Improvements	Machinery and Equipment	Transportatio n n Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	Total
	(In Thousands)						
<b>At cost</b>							
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/Retirement	—	(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
<b>Accumulated Depreciation and Amortization</b>							
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/retirements	—	(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
<b>Net Book Values</b>	<b>₱261</b>	<b>₱4,756</b>	<b>₱4,414</b>	<b>₱4,955</b>	<b>₱3,852</b>	<b>₱1,267</b>	<b>₱19,507</b>



	2015						
	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	Total
(In Thousands)							
At cost							
At beginning of year	₱6,948	₱2,095,822	₱39,484	₱89,557	₱8,692	₱7,093	₱2,247,596
Additions	279	1,260	2,301	2,087	—	1,440	7,367
Disposals	—	(492)	(848)	—	—	—	(1,340)
At end of year	7,227	2,096,590	40,937	91,644	8,692	8,533	2,253,623
Accumulated Depreciation and Amortization							
At beginning of year	6,517	2,065,198	32,163	82,631	4,404	3,407	2,194,320
Depreciation and amortization (Note 20)	208	5,110	3,283	3,123	218	2,372	14,314
Disposals	—	(491)	(848)	—	—	—	(1,339)
At end of year	6,725	2,069,817	34,598	85,754	4,622	5,779	2,207,295
Net Book Values	₱502	₱26,773	₱6,339	₱5,890	₱4,070	₱2,754	₱46,328
	2015						
	Land and Improvements		Buildings and Improvements		Total		
(In Thousands)							
At revalued amounts:							
At beginning of year		₱338,470		₱692,379		₱1,030,849	
Transfers (Note 12)		(338,470)		(692,379)		(1,030,849)	
At end of year		—		—		—	
Accumulated depreciation and amortization							
At beginning of year		18,525		393,515		412,040	
Transfers (Note 12)		(18,525)		(393,515)		(412,040)	
At end of year		—		—		—	
Net book values		₱—		₱—		₱—	

Certain items of property and equipment identified as idle and included under machinery and equipment were written down to their estimated recoverable amounts by ₱12.3 million.

Gain on sale of property and equipment was recognized in 2016 and 2015 and 2014 amounting to ₱5.97 million, ₱15.35 million and ₱0.20 million, respectively.

In 2015, LCI transferred its land and improvements and buildings and improvements carried at revalued amounts from property and equipment to investment property valued at deemed cost to reflect the change in use of the properties on July 1, 2014 (see Note 12).

Movement of revaluation increment are as follows:

	2016	2015
	(In Thousands)	
Beginning balance	₱—	₱252,233
Reclassification (see Note 12)	—	(252,233)
Balances at end of year	₱—	₱—

As at June 30, 2016 and 2015, the Group continues to utilize fully depreciated property and equipment with an aggregate acquisition cost amounting to ₱41.58 million and ₱66.15 million, respectively.



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#### 14. Software Costs

	<b>2016</b>	<b>2015</b>
	(In Thousands)	
At cost:		
Beginning balances	<b>₱35,940</b>	₱32,135
Additions	<b>1,568</b>	3,805
Ending balances	<b>37,508</b>	35,940
Accumulated amortization:		
Beginning balances	<b>27,140</b>	23,178
Amortization (Note 20)	<b>4,152</b>	3,962
Ending balances	<b>31,292</b>	27,140
Net book values	<b>₱6,216</b>	₱8,800

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#### 15. Other Noncurrent Assets

	<b>2016</b>	<b>2015</b>
	(In Thousands)	
Deferred acquisition cost	<b>₱21,344</b>	₱22,395
Deferred reinsurance premiums	<b>27,555</b>	22,141
Refundable deposits (Note 30)	<b>19,400</b>	19,637
Deferred input VAT	<b>7,572</b>	9,111
Spare parts and supplies	<b>9,180</b>	8,630
Prepaid rent and other expenses	<b>3,707</b>	115,832
Others	<b>6,664</b>	6,480
	<b>₱95,422</b>	₱204,226

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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.

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.

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.



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## 16. Accounts Payable and Accrued Expenses

	2016	2015
(In Thousands)		
Claims payables	<b>₱226,387</b>	₱230,608
Reserves for unearned premiums	<b>118,074</b>	106,092
Trade payables	<b>61,298</b>	49,197
Nontrade payables	<b>58,652</b>	91,689
Due to reinsurers and ceding companies	<b>32,993</b>	41,865
Accrued expenses and others (Notes 27 and 28)	<b>397,740</b>	147,811
	<b>₱895,144</b>	₱667,262

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

Reserves for unearned premiums are portion of the premiums that relates to unexpired periods. Accrued expenses include janitorial, security, utilities and other accrued expenses.

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

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

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

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## 17. Rental and Other Deposits

	2016			2015		
	Due within One Year	Beyond One Year	Total	Due within One Year	Beyond One Year	Total
(In Thousands)						
Rental deposits	<b>₱37,405</b>	<b>₱1,275</b>	<b>₱38,680</b>	₱28,295	₱11,324	₱39,619
Security deposits	<b>55,779</b>	<b>54,576</b>	<b>110,355</b>	72,297	31,334	103,631
Deferred rent	<b>32,971</b>	<b>21,263</b>	<b>54,234</b>	26,643	32,937	59,580
Customer deposits	<b>8,420</b>	<b>1,621</b>	<b>10,041</b>	13,222	1,582	14,804
Construction bond	<b>5,286</b>	<b>2,904</b>	<b>8,190</b>	3,848	4,167	8,015
Other deposits	<b>1,501</b>	<b>6,786</b>	<b>8,287</b>	3,925	3,987	7,912
	<b>₱141,362</b>	<b>₱88,425</b>	<b>₱229,787</b>	₱148,230	₱85,331	₱233,561

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.

Deferred rent pertains to rent received in advance amounting to ₱54.23 million and ₱59.58 million as at June 30, 2016 and 2015, respectively.

Customer deposits consist of priority premiums paid by tenants which serve as their reservation deposits. The fair value of noncurrent security deposits amounted to ₱15.55 million and



₱13.29 million as at June 30, 2016 and 2015, respectively (see Note 27).

## 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 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:

Category	Year	Amount/ Volume	Outstanding Balance	Terms	Conditions
(In Thousands)					
<i>Amounts owed by related parties:</i>					
<i>Under common control</i>					
Guoman Philippines, Inc	2016	₱50	₱1,677	To be settled in cash and collectible on demand	Unsecured, non-interest bearing, impaired, and unguaranteed
	2015	₱2	₱1,628		
Genez Investments Corp.	2016	–	–	To be settled in cash and collectible on demand	Unsecured, non-interest bearing, impaired, and unguaranteed
	2015	–	6		
<b>Total</b>	<b>2016</b>	<b>₱50</b>	<b>₱1,677</b>		
Total	2015	₱2	₱1,634		

	<b>2016</b>	<b>2015</b>
(In Thousands)		
Amounts owed by related parties	<b>₱1,677</b>	<b>₱1,634</b>
Less allowance for impairment losses	<b>(1,625)</b>	<b>(1,625)</b>
	<b>₱52</b>	<b>₱9</b>

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>
(In Thousands)			
Balances at beginning of year	<b>₱1,625</b>	<b>₱1,610</b>	<b>₱1,610</b>
Provision for the year (Note 20)	–	15	–
Balances at end of year	<b>₱1,625</b>	<b>₱1,625</b>	<b>₱1,610</b>

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.



Significant transactions entered into among subsidiaries other than advances include:

- Insurance premium coverage for certain properties of the subsidiaries (see Note 1).
- Management contract and service agreement between the parent company and a subsidiary.

Compensation of key management personnel which pertains mostly to salaries and wages amounted to ₱75.0 million, ₱78.1 million and ₱71.8 million in 2016, 2015 and 2014, respectively.

There were no other transactions made between the Group or its parent company and the retirement fund during the year.

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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 June 30, 2016 and 2015, 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 ₦888.38 million and ₦610.76 million as at June 30, 2016 and 2015, respectively, net of allowance for impairment losses amounting to ₦527.48 million and ₦527.48 million as at June 30, 2016 and 2015, respectively (see Note 8).

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

	2016	2015	2014
	(In Thousands)		
Personnel expenses (Notes 21 and 29)	<b>₦231,251</b>	₦204,980	₦210,231
Rental (Note 27)	<b>285,139</b>	99,801	90,819
Cost of real estate and services sold (Note 7)	<b>205,014</b>	—	—
Share in CUSA related expenses	<b>92,816</b>	56,304	89,356
Taxes and licenses	<b>92,133</b>	30,935	37,873
Depreciation and amortization (Notes 12, 13 and 14)	<b>79,733</b>	79,748	89,356
Professional and legal fees	<b>71,171</b>	29,970	21,563
Provision for impairment losses (Notes 5, 7, 10 and 18)	<b>49,168</b>	2,547	2,606
Janitorial and security services	<b>13,423</b>	11,670	10,436
Marketing expenses	<b>12,718</b>	7,459	7,852
Communication and transportation	<b>8,167</b>	8,869	10,236
Supplies and repairs	<b>8,378</b>	5,153	7,158
Materials used and changes in inventories (Note 6)	<b>5,337</b>	15,799	34,158
Insurance	<b>4,203</b>	13,127	8,249
Representations	<b>2,210</b>	2,163	1,955
Others	<b>12,900</b>	15,198	7,627
	<b>₦1,173,788</b>	₦583,723	₦629,475

## 21. Personnel Expenses

	2016	2015	2014
	(In Thousands)		
Compensation and employee benefits	<b>₦210,761</b>	₦182,208	₦184,892
Retirement benefits costs (Note 23)	<b>20,490</b>	22,772	25,339
	<b>₦231,251</b>	₦204,980	₦210,231



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## 22. Interest Income (Expense) and Bank Charges - net

	2016	2015	2014
Interest income:	(In Thousands)		
AFS financial assets	₱-	₱3,164	₱-
Short-term investments (Note 4)	2,772	1,421	4,770
Cash in banks (Note 4)	569	260	978
Receivables (Note 5)	11,013	1	71
	<b>14,354</b>	4,846	5,819
Interest expense and bank charges:			
Retirement benefits liability (Note 23)	3,664	2,498	6,116
Bank charges	331	444	1,394
Interest expense	-	-	175
Others	-	79	-
	<b>3,995</b>	3,021	7,685
	<b>₱10,359</b>	₱1,825	(₱1,866)

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## 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 August 18, 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:

	2016	2015
Retirement benefits liability:	(In Thousands)	
Present value of obligation (PVO)	₱159,862	₱271,321
Fair value of plan assets	(84,158)	(174,346)
Unfunded obligation	<b>₱75,704</b>	₱96,975
	2016	2015
Retirement benefits costs:	(In Thousands)	
Current service cost	₱16,825	₱20,275
Interest cost - net (Note 22)	3,664	2,497
Past service cost	-	-
	<b>₱20,489</b>	₱22,772
	<b>₱20,489</b>	₱25,339



Movements in the retirement benefits liability are as follows:

	<b>2016</b>	2015
(In Thousands)		
Balances at beginning of year	<b>₱96,975</b>	₱99,186
Benefit expense	20,489	22,772
Actuarial losses (gains) - net	(5,842)	5,745
Actual contributions	(35,918)	(30,728)
Balances at end of year	<b>₱75,704</b>	₱96,975

Changes in the PVO are as follows:

	<b>2016</b>	2015
(In Thousands)		
Balances at beginning of year	<b>₱271,321</b>	₱242,467
Current service cost	16,825	20,275
Interest cost	10,878	10,031
Benefits paid	(126,737)	(9,628)
Actuarial loss (gain)	(12,425)	8,176
Balances at end of year	<b>₱159,862</b>	₱271,321

Changes in fair value of plan assets are as follows:

	<b>2016</b>	2015
(In Thousands)		
Balances at beginning of year	<b>₱174,346</b>	₱143,282
Actual contributions	35,918	30,727
Interest income	7,214	7,534
Actuarial gain (loss) on plan assets	(6,583)	2,431
Benefits paid	(126,737)	(9,628)
Balances at end of year	<b>₱84,158</b>	₱174,346

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

	<b>2016</b>	2015
Cash	17.03%	15.39%
Equity	69.67%	68.63%
Fixed income	3.30%	4.04%
Others	10.00%	11.94%
	<b>100.00%</b>	100.0%

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>2016</b>	2015
Discount rates	5.19%	4.82%
Expected rates of return on plan assets	4.85%	6.00%
Salary increase rate	7.00%	7.50%



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>2016</b>		
<b>Discount rate</b>	<b>+1%</b> <b>(1%)</b>	<b>(₱2,502,500)</b> <b>2,941,292</b>
<b>Future salary increases</b>	<b>+1%</b> <b>(1%)</b>	<b>2,994,291</b> <b>(2,594,950)</b>
<b>2015</b>		
Discount rate	+1% (1%)	(3,477,684) 4,042,367
Future salary increases	+1% (1%)	3,723,532 (3,216,121)

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

	2016	2015	2014	2013	2012
(In Thousands)					
Defined benefit obligation	<b>₱159,862</b>	₱271,321	₱242,467	₱231,516	₱190,820
Plan assets	<b>84,158</b>	174,346	143,282	93,197	75,808
Unfunded obligation	<b>75,704</b>	96,975	99,185	138,319	115,012
Experience adjustment on plan liabilities - loss (gain)	<b>2,863</b>	(664)	(21,676)	6,256	(3,275)
Experience adjustment on plan assets - gain (loss)	<b>6,583</b>	40	4,565	4,714	(727)
Change in actuarial assumptions	<b>(15,288)</b>	9,454	(3,919)	20,793	15,615

#### 24. Income Taxes

The Group's current provision for income tax in 2016, 2015 and 2014 represents regular corporate income tax.

	2016	2015	2014
(In Thousands)			
Current	<b>₱21,478</b>	₱15,721	₱10,105
Final	<b>2,599</b>	3,991	1,485
Deferred	<b>(16,963)</b>	(8,148)	70,360
	<b>₱7,114</b>	₱11,564	₱81,950



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

	2016	2015	2014
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	(78.6)	(28.1)	(9.6)
Expired NOLCO	<b>(27.3)</b>	(15.3)	0.8
Exempt income from dividend	—	8.9	—
Interest income already subjected to final taxes	(1.3)	(1.3)	(0.1)
Gain on sale of AFS financial assets	—	0.9	(1.7)
Nondeductible expenses	<b>(56.5)</b>	(0.9)	—
Expired MCIT	<b>(0.3)</b>	(0.6)	0.1
Other nontaxable income	<b>128.1</b>	(0.1)	0.5
Exempt income from extinguishment of debt	—	—	(16.9)
At effective tax rates	<b>(5.9%)</b>	(6.5%)	3.1%

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

	2016	2015
(In Thousands)		
Deferred income tax assets:		
Casualty loss	₱—	₱18,974
Deferred rent	<b>18,453</b>	17,874
Allowance for impairment losses on receivables	<b>11,902</b>	11,976
Retirement benefits liability	<b>6,110</b>	6,990
PAS 17 rent expense	<b>10,054</b>	—
Unamortized past service cost	<b>5,048</b>	6,605
MCIT	<b>2,742</b>	—
NOLCO	<b>14,307</b>	
Allowance for impairment losses on insurance receivables	—	3,449
Deferred reinsurance commission	—	1,393
Excess of reserve for unearned premiums per books over tax basis - net	—	123
Others	<b>2,428</b>	2,268
	<b>₱71,044</b>	₱69,652

(Forward)



	2016	2015
	(In Thousands)	
<b>Deferred income tax liabilities:</b>		
Revaluation increment on property and equipment	(₱101,577)	(₱108,100)
Recovery on insurance	(98,382)	(98,382)
Remeasurement gain on retirement benefits liability	(19,992)	(6,982)
Unrealized gain on valuation of AFS financial assets	(1,198)	(1,865)
Accrued rent income	—	327
Unrealized foreign exchange loss (gain)	(38)	(28)
Revaluation reserve on investment properties	(70,825)	(75,149)
Deferred acquisition cost	(7)	(6,753)
Undepreciated capitalized rent, interest and customs duties		(6,474)
Retirement plan assets	—	(661)
Unrealized gain on valuation of FVPL	—	(150)
	<b>(292,019)</b>	(304,217)
	<b>(₱220,975)</b>	(₱234,565)

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:

	2016	2015
	(In Thousands)	
NOLCO	<b>₱413,585</b>	₱354,391
Allowance for impairment losses on receivables, other current assets, inventories and others	1,914,683	4,201,175
Retirement benefits liability	5,122	73,675
Gain on remeasurement of retirement benefits plan	87,823	—
Unamortized past service cost	53,438	44,110
MCIT	2,945	2,602
Incurred but not reported losses	3,003	2,000
Accrued rent	108	323
Unrealized foreign exchange losses	444	36



As at June 30, 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
2014	2017	₱106,072	₱179
2015	2018	46,744	1,296
2016	2019	308,459	4,194
		<b>₱461,275</b>	<b>₱5,669</b>

The following are the movements in NOLCO as at June 30, 2016 and 2015:

	<b>2016</b>	2015
(In Thousands)		
Balances at beginning of year	<b>₱354,391</b>	₱412,160
Additions	<b>308,459</b>	46,744
Expirations/Application	<b>(201,575)</b>	(104,513)
	<b>₱461,275</b>	₱354,391

The following are the movements in MCIT as at June 30, 2016 and 2015:

	<b>2016</b>	2015
(In Thousands)		
Balances at beginning of year	<b>₱2,602</b>	₱2,789
Additions	<b>4,194</b>	1,338
Expirations/Application	<b>(1,127)</b>	(1,525)
	<b>₱5,669</b>	₱2,602

## 25. Earnings Per Share

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

	<b>2016</b>	2015	2014
(In Thousands)			
a. Net income (loss) attributable to equity holders of the Parent	<b>₱30,427</b>	(₱262,453)	₱210,618
b. Weighted average number of shares	<b>2,378,638</b>	2,367,149	2,367,149
Basic earnings per share (a/b)	<b>₱0.01</b>	(₱0.11)	₱0.09



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## 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



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

**2016**

	Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution (In Thousands)	Others	Total	Elimination	Total
<b>Revenue and income</b>	<b>₱6,006</b>	<b>₱740,178</b>	<b>₱248,402</b>	<b>₱40,308</b>	<b>₱2,559</b>	<b>₱1,037,453</b>	<b>(₱360)</b>	<b>₱1,037,093</b>
Cost and expenses	(165,384)	(864,414)	(301,888)	(77,645)	(18,240)	(1,427,571)	56,731	(1,370,840)
Other income (charges)	304,463	(17,379)	(2,336)	862	(3,669)	281,941	71,876	353,817
Income (loss) before income tax	145,085	(141,615)	(55,822)	(36,475)	(19,350)	(108,177)	128,247	20,070
Provision for income tax	308	12,486	2,348	(7,972)	(55)	7,114	–	7,114
<b>Net income (loss)</b>	<b>144,777</b>	<b>(154,101)</b>	<b>(58,170)</b>	<b>(28,503)</b>	<b>(19,295)</b>	<b>(115,291)</b>	<b>128,247</b>	<b>12,956</b>
Segment assets	4,536,835	2,289,280	689,220	754,882	47,155	8,317,272	(1,879,968)	6,437,304
Segment liabilities	2,137,053	776,421	443,928	333,725	202,865	3,893,992	(583,922)	3,310,070

**2015**

	Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution (In Thousands)	Others	Total	Elimination	Total
Revenue	₱50,935	₱409,742	₱247,881	₱27,737	₱6,140	₱742,435	(₱50,000)	₱692,435
Cost and expenses	(34,713)	(407,413)	(238,053)	(68,630)	(15,642)	(764,451)	7,476	(756,975)
Other income (charges)	(225,793)	31,918	(5,207)	19,301	1,120	(178,661)	(7,471)	(186,132)
Income (Loss) before income tax	(209,571)	34,247	4,621	(21,592)	(8,382)	(200,677)	(49,995)	(250,672)
Provision for income tax	186	7,282	3,746	246	104	11,564	–	11,564
<b>Net income (loss)</b>	<b>(209,757)</b>	<b>26,965</b>	<b>875</b>	<b>(21,838)</b>	<b>(8,486)</b>	<b>(212,241)</b>	<b>(49,995)</b>	<b>(262,236)</b>
Segment assets	2,577,618	2,306,905	761,126	790,404	54,840	6,490,893	(2,029,820)	4,461,073
Segment liabilities	693,724	640,939	532,229	333,761	196,110	2,396,763	(681,933)	1,714,830



2014

	Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution	Others	Total	Elimination	Total
(In Thousands)								
Revenue	₱2,979	₱552,562	₱237,094	₱22,526	₱9,551	₱824,712	₱-	₱824,712
Cost and expenses	(25,637)	(431,981)	(248,836)	(95,223)	(18,671)	(820,348)	4,339	(816,009)
Other income (charges)	2,972	289,438	(2,629)	(5,899)	(393)	283,489	(4,339)	279,150
Income (Loss) before income tax	(19,686)	410,019	(14,371)	(78,596)	(9,513)	287,853	-	287,853
Provision for income tax	95	83,432	1,232	(3,490)	681	81,950	-	81,950
Net income (loss)	(₱19,781)	₱326,587	(₱15,603)	(₱75,106)	(10,194)	₱205,903	₱-	₱205,903
Segment assets	₱2,641,421	₱2,275,700	₱891,177	₱929,981	₱50,624	₱6,788,903	(₱1,962,913)	₱4,825,990
Segment liabilities	690,675	602,730	671,888	323,446	187,110	2,475,849	(764,195)	1,711,654

#### Geographical Segments

The Group does not have geographical segments.



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## 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 ₱264.74 million, ₱99.80 million and ₱90.82 million in 2016, 2015 and 2014, respectively (see Note 20).

As at June 30, 2016 and 2015, the aggregate annual commitments on these existing lease agreements for the succeeding years are as follows:

	2016	2015
	(In Thousands)	
Less than one (1) year	₱118,907	₱137,614
More than one (1) year but not more than five (5) years	447,675	689,402
More than five (5) years	2,941,659	3,056,840
	<b>₱3,508,241</b>	<b>₱3,883,856</b>

### 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 table below shows the movement analysis of the carrying value of noncurrent security deposits as at June 30, 2016 and 2015, respectively.

	2016	2015
	(In Thousands)	
Undiscounted amount at beginning of year	₱14,565	₱10,241
Additions	2,626	4,324
	<b>17,191</b>	<b>14,565</b>
Discount on security deposit:		
Balance at beginning of year	1,275	1,121
Addition	899	445
Accretion of interest	(529)	(291)
Balance at end of year	<b>1,645</b>	<b>1,275</b>
Net carrying value	<b>₱15,546</b>	<b>₱13,290</b>

The discounted amount of noncurrent rental deposits amounted to ₱15.55 million and ₱13.29 million as at June 30, 2016 and 2015.



Accretion of interest for the fiscal year ended June 30, 2016 is included under “Other Income (Charges)” in the consolidated statement of income.

	<b>2016</b>	<b>2015</b>
	(In Thousands)	
Beginning of year	<b>₱1,181</b>	₱1,107
Additions	—	446
Amortization	—	(372)
Balance at end of year	<b>₱1,181</b>	₱1,181

The excess of the principal amounts of the rent deposits over the carrying values is presented as “Deferred rent income” in the consolidated statements of financial position. Deferred rent income is amortized to rent revenue in the consolidated statements of comprehensive income over the lease term using the straight-line method.

The table below shows the movement analysis of the carrying value of deferred rent income as at June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
	(In Thousands)	
Beginning of year	<b>₱1,181</b>	₱1,107
Additions	—	446
Amortization	—	(372)
Balance at end of year	<b>₱1,181</b>	₱1,181

The amounts of deferred rent income were distributed as follows:

	<b>2016</b>	<b>2015</b>
Current portion	<b>₱645</b>	₱389
Noncurrent portion	<b>536</b>	792
	<b>₱1,181</b>	₱1,181

The current portion of the deferred rent income was included in “Accrued expenses and others” under “Accounts payable and accrued expenses”.

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## 28. Provisions and Contingencies

The Group is contingently liable for lawsuits, claims and assessments, which 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 recognized amounted to ₱251.15 million in 2016 and nil in 2015 and 2014. Related liability recognized as at June 30, 2016 and 2015 amounted to ₱251.15 million and nil, respectively (see Note 16).

Other information normally required under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, are not disclosed as they may prejudice the Group’s position.



On March 15, 2016, management announced its plans to evaluate and assess the Group's performance, including initiatives to effectively transition and turnaround the Group. In September 2016, management announced its intention to restructure the Group to remove certain redundancies.

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## 29. 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 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.

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 in 2016 amounted to ₱27.47 million (see Note 20).

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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, deposits under other current assets and subscriptions payable. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group. The Group has other financial liabilities such as accounts payable and accrued expenses and rental and other deposits, which arise directly from its operations.



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

*Credit Risk*

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

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

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

*Credit quality of neither past due nor impaired financial asset*

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

**2016**

	<u>Neither past due nor impaired</u>		Past due or individually impaired	Total
	High grade	Standard grade		
(In Thousands)				
<i>Loans and Receivables:</i>				
Cash and cash equivalents	<b>₱1,306,884</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,306,884</b>
Receivables:				
Trade debtors	<b>24,480</b>	<b>–</b>	<b>88,408</b>	<b>112,888</b>
Insurance receivables	<b>231,993</b>	<b>7,876</b>	<b>157,208</b>	<b>397,077</b>
Loans receivable	<b>1,467,859</b>	<b>–</b>	<b>–</b>	<b>1,467,859</b>
Others	<b>57,698</b>	<b>–</b>	<b>198,856</b>	<b>256,554</b>
Deposits (under "Other noncurrent assets")	<b>18,992</b>	<b>–</b>	<b>408</b>	<b>19,400</b>
<i>AFS Financial Assets:</i>				
Listed equity securities	<b>979,685</b>	<b>–</b>	<b>538,403</b>	<b>1,518,088</b>
Quoted debt securities	<b>300,489</b>	<b>–</b>	<b>–</b>	<b>300,489</b>
Unquoted debt securities	<b>10,820</b>	<b>–</b>	<b>–</b>	<b>10,820</b>
Nonlisted equity securities	<b>106,420</b>	<b>–</b>	<b>–</b>	<b>106,420</b>
<i>Financial Assets at FVPL</i>	<b>12,703</b>	<b>–</b>	<b>–</b>	<b>12,703</b>
	<b>₱4,518,123</b>	<b>₱7,876</b>	<b>₱983,283</b>	<b>₱5,509,282</b>



2015

	Neither past due nor impaired		Past due or individually impaired (In Thousands)	Total
	High grade	Standard grade		
<i>Loans and Receivables:</i>				
Cash and cash equivalents	₱151,035	₱-	₱-	₱151,035
Receivables:				
Trade debtors	8,118	33,429	95,066	136,613
Insurance receivables	400,122	–	16,168	416,290
Others	26,758	3,838	195,077	225,673
Deposits (under "Other noncurrent assets")	19,338	200	99	19,637
<i>AFS Financial Assets:</i>				
Listed equity securities	713,908	–	535,288	1,249,196
Quoted debt securities	258,206	–	–	258,206
Unquoted debt securities	16,405	–	–	16,405
Nonlisted equity securities	518,889	–	–	518,889
<i>Financial Assets at FVPL</i>	27,992	–	–	27,992
	₱2,140,771	₱37,467	₱841,698	₱3,019,936

The tables below show the aging analyses of financial assets per class that the Group held as at June 30, 2016 and 2015. A financial asset is past due when a counterparty has failed to make payment when contractually due.

2016

	Neither past due nor impaired	Past due but not impaired					Total
		Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Individually impaired	
(In Thousands)							
<i>Loans and Receivables:</i>							
Cash and cash equivalents	₱1,306,884	₱-	₱-	₱-	₱-	₱-	₱1,306,884
Receivables:							
Trade debtors	24,480	2,651	3,254	1,909	14,083	66,511	112,888
Insurance receivables	231,993	9,448	367	8,864	97,122	49,283	397,077
Loans receivable	1,467,859	–	–	–	–	–	1,467,859
Others	57,698	204	–	–	–	198,652	256,554
Deposits (under "Other noncurrent assets")	18,992	–	–	–	–	408	19,400
<i>AFS Financial Assets</i>							
Listed equity securities	979,685	–	–	–	–	538,403	1,518,088
Quoted debt securities	300,489	–	–	–	–	–	300,489
Unquoted debt securities	10,820	–	–	–	–	–	10,820
Nonlisted equity securities	106,420	–	–	–	–	–	106,420
<i>Financial asset at FVPL</i>	12,703	–	–	–	–	–	12,703
	₱4,518,123	₱12,303	₱3,621	₱10,773	₱111,205	₱853, 257	₱5,509,282



2015

	Neither past due nor impaired	Past due but not impaired					Individually impaired	Total
		Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days			
(In Thousands)								
<i>Loans and Receivables:</i>								
Cash and cash equivalents	₱151,035	₱-	₱-	₱-	₱-	₱-	₱-	₱151,035
Receivables:								
Trade debtors	41,547	4,206	604	169	1,321	88,766	136,613	
Insurance receivables	400,122	—	—	—	—	16,168	416,290	
Others	30,596	—	—	—	2,541	192,536	225,673	
Deposits (under "Other noncurrent assets")	19,538	—	—	—	76	23	19,637	
<i>AFS Financial Assets</i>								
Listed equity securities	713,908	—	—	—	—	535,288	1,249,196	
Quoted debt securities	258,206	—	—	—	—	—	—	258,206
Unquoted debt securities	16,405	—	—	—	—	—	—	16,405
Nonlisted equity securities	518,889	—	—	—	—	—	—	518,889
Financial asset at FVPL	27,992	—	—	—	—	—	—	27,992
	₱2,178,238	₱4,206	₱604	₱169	₱3,938	₱832,781	₱3,019,936	

*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 assets and liabilities as at June 30, 2016 and 2015 based on contractual undiscounted payments:

2016

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
(In Thousands)						
<i>Loans and Receivables:</i>	₱1,306,884	—	—	—	—	₱1,306,884
Cash and cash equivalents						
Trade debtors	112,888	—	—	—	—	112,888
Insurance receivables	397,077	—	—	—	—	397,077
Loans receivable	1,467,859	—	—	—	—	1,467,859
Others	254,824	—	—	—	—	254,824
Amounts owed by related parties	1,729	—	—	—	—	1,729
Deposits (under "Other noncurrent assets")	19,400	—	—	—	—	19,400
<i>AFS Financial Assets</i>						
Listed equity securities	1,518,088	—	—	—	—	1,518,088
Quoted debt securities	300,489	—	—	—	—	300,489
Unquoted debt securities	10,820	—	—	—	—	10,820
Nonlisted equity securities	106,420	—	—	—	—	106,420
Financial asset at FVPL	12,703	—	—	—	—	12,703
	₱5,509,281	₱—	₱—	₱—	₱—	₱5,509,281
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	90,070	231,432
	₱1,015,993	₱67,139	₱35,725	₱148,169	₱148,012	₱1,357,096



2015

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 Year	Total
(In Thousands)						
<i>Loans and Receivables:</i>						
Cash and cash equivalents	₱151,035	—	—	—	—	₱151,035
Trade debtors						
Insurance receivables	136,613	—	—	—	—	136,613
Others	416,290	—	—	—	—	416,290
Amounts owed by related parties	224,039	—	—	—	—	224,039
Deposits (under "Other noncurrent assets")	—	—	—	—	—	—
1,634						1,634
<i>AFS Financial Assets</i>	19,637	—	—	—	—	19,637
Listed equity securities	—	—	—	—	—	—
Quoted debt securities	1,249,196	—	—	—	—	1,249,196
Unquoted debt securities	258,206	—	—	—	—	258,206
Nonlisted equity securities	16,405	—	—	—	—	16,405
Financial asset at FVPL	518,889	—	—	—	—	518,889
<i>Loans and Receivables:</i>	27,992	—	—	—	—	27,992
	₱3,019,936	₱—	₱—	₱—	₱—	₱3,019,936
Accounts payable and accrued expenses	₱525,926	₱54,949	₱68,798	₱—	₱128	₱649,801
Subscription payable	481,675	—	—	—	—	481,675
Rental and other deposits	50,241	15,555	77,554	4,880	86,606	234,836
	₱1,057,842	₱70,504	₱146,352	₱4,880	₱86,734	₱1,366,312

*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.

table below summarizes the Group's exposure to foreign currency risk as at June 30, 2016 and 2015. Included in the table are the Group's assets and liabilities at carrying amounts:

	2016		2015	
	Foreign Currency	Peso Equivalent	Foreign Currency	Peso Equivalent
(In Thousands)				
<b>Financial Asset:</b>				
Cash in banks				
USD	\$2	₱94	\$22	₱1,009
Short-term investments				
USD	—	—	35	1,578
<b>Financial Liability:</b>				
Accounts payable				
USD	2	94	2	80
EUR	1	51	1	50
GBP	1	37	1	42
Net financial asset	\$—	₱—	\$53	₱2,415



As at June 30 2016 and 2015, the exchange rates of other currencies to Philippine Peso are as follows:

	2016	2015
USD	<b>₱47.06</b>	₱45.09
EUR	<b>52.25</b>	50.80
GBP	<b>63.06</b>	71.13

The following table presents the impact on the Group's income before income tax due to changes in the fair value of its financial assets and liabilities, brought about by a reasonably possible change in the foreign currencies/₱ exchange rate (holding all other variables constant) as at June 30, 2016 and 2015.

	Increase/ decrease in currency rate	Effect on income (loss) before income tax
	(In Thousands)	
<b>2016</b>		
USD	<b>+0.55%</b> <b>-0.78%</b>	₱— —
EUR	<b>+1.40%</b> <b>-0.96%</b>	(1.00) 0.95
(forward)		
GBP	<b>+1.04%</b> <b>-3.07%</b>	(.61) 1.80
<b>2015</b>		
USD	+0.41% -0.65%	22.79 (36.13)
EUR	+2.34% -1.30%	(2.30) 1.28
GBP	+1.98% -1.41%	(1.16) 0.83

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 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 (In Thousands)	Effect on Equity
<b>2016</b>		
Upper Limit	+18.42%	₱28,435
Lower Limit	(18.42%)	(28,435)
<b>2015</b>		
Upper Limit	+11.59%	₱34,677
Lower Limit	(11.59%)	(34,677)
<b>2014</b>		
Upper Limit	+17.62%	232,049
Lower Limit	(17.62%)	(232,049)

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 June 30, 2016 and 2015.

As at June 30, 2016 and 2015, the Group considers the following accounts as capital:

	2016	2015
	(In Thousands)	
Capital stock	₱2,130,576	₱2,069,912
Additional paid-in capital	829,904	829,904
	<b>₱2,960,480</b>	<b>₱2,899,816</b>

The Group is not subject to externally imposed capital requirements.



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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 June 30, 2016 and 2015 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 June 30, 2016 and 2015. AFS debt financial assets that are quoted are based on market prices. Unquoted debt and nonlisted AFS financial assets are based on latest available transaction price at the end of the reporting period.

*Financial Assets at FVPL*

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

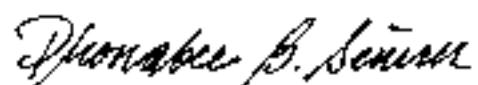


## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors  
Prime Orion Philippines, Inc.  
20/F LKG Tower  
6801 Ayala Ave., 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 June 30, 2016 and 2015 and for each of the three years in the period ended June 30, 2016 included in this Form 17-A and have issued our report thereon dated October 6, 2016. 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-I (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. S321694, January 4, 2016, Makati City

October 6, 2016



**SCHEDULE I**  
**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE OF EFFECTIVE STANDARDS AND**  
**INTERPRETATIONS UNDER THE PFRS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**JUNE 30, 2016**

**List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as at June 30, 2016:**

		Adopted	Adapted	Non-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	✓		
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued			✓

Title, Description, or Subject Matter of Standard or Interpretation		Effective Date	Adopted	Applicable
	Operations			
	Amendments to PFRS 5: Changes in Methods of Disposal		Not early adopted	
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: 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			✓
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: Classification and Measurement (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: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		Not early adopted	

Philippine Financial Reporting Standards (PFRS) and International Financial Reporting Standards (IFRS)		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		Not early adopted	
IPRS 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: Prunable 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 Standard or Interpretation		Adopted	Proposed	Not yet issued
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 (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	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			Not early adopted
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	✓		

PAS NUMBER		DATE OF APPROVAL	DATE OF ADOPTION	DATE OF IMPLEMENTATION
PAS NUMBER	TOPIC	APPROVED	ADOPTED	IMPLEMENTED
PAS 33	Earnings per Share	✓		
PAS 34	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'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	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			✓
PAS 39	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			✓
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
PAS 41	Amendment to PAS 41: Bearer Plants			✓

Philippine Interpretations		Approved	Published	Supplementary
<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>	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration, and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
<b>IFRIC 7</b>	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
<b>IFRIC 8</b>	<i>Scope of PFRS 2</i>			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39, Embedded Derivatives			✓
<b>IFRIC 10</b>	<i>Interim Financial Reporting and Impairment</i>			✓
<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 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>	Extinquishing 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 - Special Purpose Entities			✓
<b>SIC-12</b>	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions			✓

PFRSs, PASs and Philippine Interpretations adopted by the Group		As at 31 December 2015	As at 31 December 2016	As at 31 December 2017
	by Venturers			
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

The Group has not early adopted any PFRSs, PASs and Philippine Interpretations effective July 1, 2016 onwards.

**Prime Origin Philippines, Inc. and Subsidiaries**  
 20th Floor LGC Tower, 6801 Ayala Avenue, Makati City

**SCHEDULE II**  
**RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**AS OF JUNE 30, 2016**

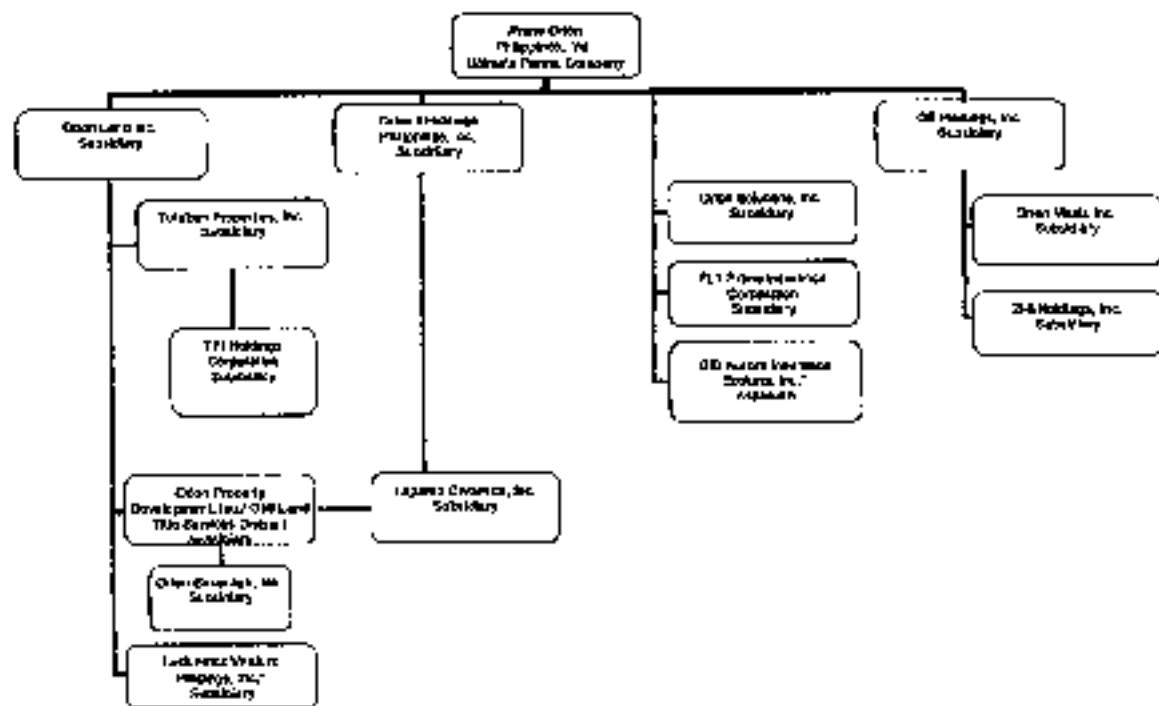
*(Figures based on functional currency  
 audited financial statements)*

	Amounts (In Thousands)
Unappropriated Retained Earnings, as of 30 June 2015	(378,204)
Prior period adjustments	(50,675)
Unappropriated Retained Earnings, as adjusted to available, as of 30 June 2015	<u>(428,883)</u>
Add: Net income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	12,956
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/ joint venture	(19)
Recognizes deferred tax asset that increased the net income	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	236,083
Sub-total	<u>236,064</u>
Add: Non-Actual Losses	
Depreciation on revaluation increment (after tax)	7,611
Unrealized actuarial loss	(1,747)
Movement in deferred tax during the year	(16,963)
Sub-total	<u>(15,194)</u>
Net Income actually earned during the period	<u>[234,302]</u>
Add (Less):	
Treasury shares	21,916
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND	<u>(685,269)</u>

**SCHEDULE I**  
**FINANCIAL RATIOS**  
**PURSUANT TO SEC RULE 68, AS AMENDED**

	Formula	2016	2015
Return on assets	$\frac{\text{Net Income} \text{ (Loss)}}{\text{Average Assets}}$	0.00	(0.06)
Return on equity	$\frac{\text{Net Income} \text{ (Loss)}}{\text{Average Equity}}$	0.00	(0.05)
Gross profit margin	$\frac{\text{Gross Profit}}{\text{Total Revenues}}$	0.22	0.42
Net profit margin	$\frac{\text{Net Income}}{\text{Sales Revenue}}$	0.01	(0.40)
Cost to income ratio	$\frac{\text{Cost and expenses}}{\text{Revenues}}$	1.32	1.09
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.11	3.52
Quick ratio	$\frac{\text{Current Assets less Inventory}}{\text{Current Liabilities}}$	1.11	3.50
Solvency ratio	$\frac{\text{After tax net profit}(loss) + \text{Depreciation}}{\text{Long Term Liabilities} + \text{Short Term Liabilities}}$	0.03	(0.11)
Asset to equity ratio	$\frac{\text{Total Assets}}{\text{Equity}}$	2.10	1.67
Debt to equity ratio	$\frac{\text{Total Liability}}{\text{Equity}}$	1.08	0.64
Interest rate coverage ratio	$\frac{\text{EBITDA}}{\text{Interest expense}}$		not applicable
Gross Profit Margin	$\frac{\text{Sales} - \text{COGS or COGS}}{\text{Sales}}$	0.31	(0.44)
Price/Earnings Ratio	$\frac{\text{Price Per Share}}{\text{Earnings Per Common Share}}$	\$32.31	[18.49]

**SCHEDULE IV**  
**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**  
**AS AT JUNE 30, 2016**



\* Associate

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE A - FINANCIAL ASSETS**  
**AS AT JUNE 30, 2016**  
**AMOUNTS IN THOUSANDS (Except for Number of Shares)**

Name of issuing entity and description of each issue	Number of shares or principal amounts of bonds and notes	Amount shown in the balance sheet	Income received and accrued
<b>A. CASH AND CASH EQUIVALENTS</b>			
<b>SAVINGS/CURRENT ACCOUNT (PESO)</b>			
Asia United Bank		25	
Banco de Oro Universal Bank		41,726	17
Bank of Commerce		1,322	
Bank of the Philippine Islands		401,393	23
Development Bank of the Philippines		52	
FirstBank of the Philippines		1,577	1
Maybank Philippines, Inc.		325	2
Metropolitan Bank and Trust Company		2,081	10
Philippine Business Bank		2,431	1
Philippine National Bank		119	
Rizal Commercial Banking Corp		1,103	1
Security Bank		127	0
Union Bank of the Philippines		14,720	2
United Coconut Planters Bank		4,161	10
<b>Sub-total</b>		<b>670,371</b>	<b>97</b>
<b>SAVINGS/CURRENT ACCOUNT (FCDO)</b>			
Banco de Oro Universal Bank		80	1
Metropolitan Bank and Trust Company		3,822	1
		<b>3,902</b>	<b>2</b>
<b>SHORT TERM INVESTMENTS</b>			
Banco de Oro Universal Bank		290,151	4
Bank of the Philippine Islands		110,000	49
Metropolitan Bank and Trust Company		1,200	2
Philippine Business Bank		111	4
Philippine Commercial Capital, Inc.		12,435	100
Rizal Commercial Banking Corp.		415,376	369
Sterling Bank		513	9
Union Bank of the Philippines		505	-
		<b>439,329</b>	<b>472</b>
		<b>904,701</b>	<b>577</b>

## PRIME IRON PHILIPPINES, INC. AND SUBSIDIARIES

## SCHEDULE 4 - FINANCIAL ASSETS

AS AT MARCH 31, 2016

AMOUNTS IN THOUSANDS (Except for Number of Shares)

Name of issuing entity and description of each issue	Number of shares or principal amounts of bonds and notes	Amount shown in the balance sheet	Income received and accrued
<b>B. INVESTMENT IN BONDS AND OTHER SECURITIES</b>			
Available for sale investments:			
Listed equity securities			
Aduance Global	124,200	1,842	
Asia United Bank	6,500	462	
Atles Consolidated Mining and Development Corporation	98,000	419	
Ayala Corporation (Preferred)	31,000	5,726	
Cresco Capital, Inc.	125,200	969	
Cyber Bay Corporation	1,322,231,434	288,385	
Delt Monte Pacific Limited	35,900	411	
DMCI Holdings, Inc.	62,000	781	
Energy Development Corporation	250,000	0,143	
Filinvest Land, Inc.	612,400	1,296	
First Gen (Preferred - Series G)	10,000	1,180	
First Gen Corporation	20,000	438	
Global Estate Reside, Inc.	1,000,000	990	
Globe - Preferred	23,000	12,425	
International Container Terminal Services	8,200	504	
Lepanto Consolidated Mining Company	1,000,000	750	
LT Group, Inc.	51,000	842	
Mamin Mining Corporation	24,000,000	312	
Metro Pacific Investments Corporation	1,637,000	11,196	
National Reinsurance Corporation of the Philippines	700	1	
Pepsi Cola Product Philippines, Inc.	46	0	
Petron Corporation	228,700	2,515	
Philex Mining Corporation	548,100	4,610	
Philippine Business Sumit	62,500	1,172	
Philippine Long Distance Telephone Company	500	90	
Premium Leisure	550,000	600	
Puregold Price Club Inc.	63,200	2,662	
Real Commercial Banking Corporation	53,840	1,720	
San Miguel Corporation	196,700	15,357	
SM Investment Corp	2,401	2,317	
Solid Group Inc.	1,300,000	1,170	
Super Store Inc. Group	70,000	227	
Top Frontier Holdings, Inc.	96,70	1,866	
Trans-Asia Oil and Energy Dev't. Corp.	3,000,000	7,250	
Trans-Asia Petroleum	58,995	535	
TravelTours International Hotel Group, Inc.	556,400	1,879	
Zeps Holdings, Inc.	1,122,452	9,368	
	1,435,435,000	379,585	
Quoted debt securities			
Ayala Corporation	7,000,000	7,281	
Ayala Corporation	10,000,000	10,460	
Ayala Land, Inc.	1,500,000	1,573	
Ayala Land, Inc.	3,000,000	2,991	
Ayala Land, Inc.	5,000,000	2,991	
Ayala Land, Inc.	31,000,000	32,716	
Filinvest Land Inc.	5,000,000	4,990	
GT Capital Holdings	10,000,000	9,962	
GT Capital Holdings	10,000,000	10,073	
GT Capital Holdings, Inc. - Bonds	6,000,000	5,909	

## PRIME DION PHILIPPINES, INC. AND SUBSIDIARIES

## SCHEDULE A - FINANCIAL ASSETS

AS AT JUNE 30, 2015

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
JS Summit Holdings	23,000,000	24,327	
Metroku	10,000,000	10,156	
PDT	10,500,000	11,161	
Retail Treasury Bond	5,000,000	4,606	
Retail Treasury Bond	10,000,000	9,213	
Retail Treasury Bond	10,000,000	9,213	
Retail Treasury Bond	11,300,000	10,134	
Retail Treasury Bond	5,000,000	5,892	
Saint Miguel Brewery Bond	3,000,000	3,159	
SM Investments Corp.	5,000,000	5,254	
SM Investments Corp.	2,500,000	2,514	
SM Investments Corp.	4,000,000	4,334	
SM Investments Corp.	10,000,000	10,230	
SM Prime Holdings	8,000,000	7,973	
Various Fixed Rate Treasury Notes	33,803,189	30,181	
	294,003,189	300,456	-
<b>Unquoted debt securities</b>			
Sunlife Prosperity Bond Fund			
Land Bank of the Philippines	507,656	558	7
Security Bank Tier 2	10,000,000	9,762	493
United Coconut Planters Bank	500,000	500	
	11,007,656	10,820	493
<b>Nonlisted equity securities - net</b>			
Centurion Golf & Country Club	1	900	-
Global Business Holdings	378	25	-
Makati Sports Club, Inc.	1	250	-
Metrobank Max-S Bond Fund	6,230,402	6,570	-
Metrobank Money Market Fund	32,563,806	30,557	-
Philcom Bond Fund	287,872	4,900	-
Philippine Central Depository, Inc.	5,000	500	-
Philippine Machinery Management Services	20	20	-
RCBC Rizal Peso Bond Fund	1,258	4,395	-
RCBC Savings Money Market Fund	718,510	3,018	-
SACI Mena Golf Club	1	2,900	-
Sunlife Asset Manager Balanced Fund	3,405,712	5,433	-
Sunlife Asset Manager Money Market Fund	5,063,384	12,267	-
TAT International	1	55¢	-
United Coconut Planters Bank	5,600,301	10,186	-
Valley Golf Club	2	346	-
Zeus Holdings, Inc. - unlisted shares	1,125,600	1,176	-
	52,996,112	105,430	-
<b>TOTAL INVESTMENTS IN BONDS &amp; OTHER SECURITIES</b>		<b>1,397,416</b>	<b>405</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 June 30, 2016

AMOUNTS IN THOUSANDS

Account Type	Beginning period	Additions	Deductions	Amounts Collected / Settlements			Not Current	Balance at end of period
				Amounts Written off	Current	Amounts Written off		
Advances to employees for company expenses	4,523	4,728	2,632	3,414	3,071	-	-	3,071
Salary Due	844	1,178	911	414	694	-	-	694
Car Loan	1,011	-	444	-	567	-	-	567
Others	2,020	13,566	10,440	65	4,927	-	-	5,089
	8,399	19,543	14,630	3,897	9,259	-	-	9,414

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE**  
**ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**As of June 30, 2016**  
**AMOUNTS IN THOUSANDS**

Name and Designation of Debtor	Balance at Beginning period	Additions	Amounts Collected/ Settlements	Accounts Written off	Current	Net Current	Balance at end Period
Orion Holdings Philippines, Inc./Subsidiary	199,154	-	(1)	-	-	199,153	199,153
Lepronto Ceramics, Inc./Subsidiary	5	-	(2)	-	1	-	1
DE Holdings, Inc./Subsidiary	24,089	-	(1)	-	24,088	-	24,088
Orion Maxus Inc./Subsidiary	19,840	2,079	-	-	-	-	21,919
HLT Prime Insurance Corp./Subsidiary	72,968	-	(1)	-	21,914	-	21,914
Turbohan Properties, Inc./Subsidiary	5,7	-	(1)	-	947	-	947
Orion Property Development, Inc./Subsidiary	-	11	-	-	-	-	-
Orion Land Inc./Subsidiary	1	-	(1)	-	11	-	11
Lucky Rock Venture Holdings, Inc./Subsidiary	3	-	(2)	-	0	-	0
TPI Holdings Corporation/Subsidiary	2	-	(2)	-	0	-	0
Orion Silver Age, Inc./Subsidiary	2	-	(1)	-	0	-	0
ZIII Holdings, Inc./Subsidiary	-	0	-	-	1	-	1
	326,521	2,085	472,090	-	56,053	199,153	255,116

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**  
As of June 30, 2016  
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	22,141	-	-	-	5,414	27,555
Deferred acquisition cost	22,395	-	-	-	[1,051)	21,344
Deferred input tax	9,111	-	-	-	(1,539)	7,572
	53,648	-	-	-	2,824	\$6,472

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE E - LONG-TERM DEBT**  
**As of June 30, 2016**

<b>Title of issue and type of obligation</b>	<b>Amount authorised by Indenture</b>	<b>Amount shown under the caption "Current Portion of long-term debt" In related balance sheet</b>	<b>Amount shown under the caption "Long- Term Debt" In related balance sheet</b>
		<b>NOT APPLICABLE</b>	

PRIME OILON PHILIPPINES, INC. AND SUBSIDIARIES  
SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED COMPANIES)  
As of June 30, 2016  
AMOUNTS IN THOUSANDS

Name of Related Party	Balance at beginning of period		Balance at end of period
NOT APPLICABLE			

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES  
SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS  
As of June 30, 2016  
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 persons for which statement is filed	Nature of guarantee
<b>NOT APPLICABLE</b>				

PRIME OIL CORPORATION, INC. AND SUBSIDIARIES  
 SCHEDULE H - CAPITAL STOCK  
 As of June 30, 2016

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 by Directors, officers and employees	Number of shares held by Others
COMMON SHARES						
ISSUED	2,400,000,000	1,981,231,792 <small>(516,401,441)</small>		741,571,219		46,375,435
SUBSCRIBED				2,378,538,123		



111152016000024



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 726-6293 Email: mls@sec.gov.ph

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### Company Representative

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### Company Information

SEC Registration No. 0000163671

Company Name PRIME ORION PHILS. INC.

Industry Classification

Company Type Stock Corporation

### Document Information

Document ID 111152016000024

Document Type 17-Q (FORM 17-Q: QUARTERLY REPORT/FS)

Document Code 17-Q

Period Covered September 30, 2016

No. of Days Late 0

Department CFD

Remarks



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended 30 September 2016
2. Commission Identification Number 163671
3. BIR Tax Identification No. 320-000-804-342
4. Exact name of issuer as specified in its charter PRIME ORION PHILIPPINES, INC.
5. Province, country or other jurisdiction of incorporation or organization Makati City, Philippines
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of issuer's principal office and postal code  
... 20/F LKG Tower, 6801 Ayala Avenue, Makati City 1226
8. Issuer's telephone number, including area code (632) 884-1106
9. Former name, former address and former fiscal year, if changed since last report: Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA  
**As of 30 September 2016**

<u>Title of each Class</u>	<u>Number of shares of common stock outstanding</u>
Common shares	4,896,465,383
<u>Amount of Debt Outstanding</u>	
Outstanding Loans (consolidated)	.0-

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

Yes  No

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

Philippine Stock Exchange                      Common

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

Please see attached.

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

#### Review of 1Q 2017 operations vs 1Q 2016

For the first quarter of fiscal year 2017, Prime Orion Philippines, Inc. ("POPI" or "the Group") reported a consolidated net income of P11.0 million compared to P494.9 million net income last year. Income last year was mainly attributable to the gain on sale of investment properties in Mandaue, Cebu City and Sto. Tomas, Batangas.

Consolidated Revenues amounted to P173.9 million from P346.7 million last year. The decrease in revenues was due to the sale of real estate last year. Rental revenue improved by 4% due to increase in occupancy. Revenue from insurance business decreased by 6% as net premiums earned on motor car business and property insurance dropped by 9% and 11%, respectively.

Total Cost and Expenses was lower by 50% as last year included the Cost of Real Estate Sold. Operating expenses decreased by 33% due to lower professional fees, personnel expenses and taxes and licenses. Likewise, Underwriting Costs was down by 16% due to lower claims and losses. Cost of goods sold and services increased by 9%.

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

TPI registered a net income of P8.4 million during the quarter compared to a net loss of P3.4 million for the same period last year. Revenues from mall operations was flat at P98.0 million. Rental revenue from retail spaces improved by 6% but was negated by lower income generated from exhibits and promotional activities.

Cost and operating expenses decreased by 8%, from P103.3 million to P95.2 million due to lower professional fees and personnel expenses.

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

LCI posted a net loss of P2.5 million, lower compared to same period last year's net loss of P9.5 million due to the increase in rental income from leasing warehouse spaces.

#### FLT Prime Insurance Corporation (FPIC)

During the quarter, FPIC recorded a net income of P2.5 million compared to last year's net loss of P2.7 million. The positive bottom line was on account of lower Insurance Claims and Losses and general and administrative expenses which decreased by 15% and 16%, respectively.

#### Financial Condition

Total Assets of the Group remained at P6.4 billion as of 30 September and 30 June 2016. Decrease in Receivables was due to transfer of loan receivables to Advances to related parties. Increase in Investment Properties was on account of improvements in Tutuban Center.

The decrease in Total Liabilities was mainly due to reclassification of Deposit for future stock subscriptions into Equity. Unrealized valuation loss on Available-For-Sale (AFS) investments represents decline in its market value as of the reporting period.

### Financing Through Loans

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

The top 5 Key Performance Indicators of the Group are as follows:

Ratios	Formulas	30-Sep-16	30-Sep-15	30-Jun-16
Current Ratio	<u>Current Assets</u> <u>Current Liabilities</u>	4.77:1 6,023,638 / 1,053,568	4.37:1 3,413,311 / 780,511	2.11:1 5,151,148 / 2,442,756
Debt to Equity Ratio	<u>Total Liabilities</u> <u>Equity</u>	0.434:1 1,921,695 / 4,425,014	0.528:1 1,853,408 / 3,132,909	1.06:1 3,310,070 / 3,072,465
Capital Adequacy Ratio	<u>Equity</u> <u>Total Assets</u>	0.691:1 4,425,014 / 6,402,222	0.645:1 3,132,909 / 4,857,897	0.477:1 3,072,465 / 6,437,404
Book Value per Share	<u>Equity</u> <u>Total # of shares</u>	0.907 4,425,014 / 4,878,638	1.329 3,132,909 / 2,367,149	1.292 3,072,465 / 2,376,638
Income per Share	<u>Net Income</u> <u>Total # of Shares</u>	0.002 11,792 / 4,878,638	0.209 494,174 / 2,367,149	0.005 12,956 / 2,376,638

**Current ratio** shows the Group's ability to meet its short term financial obligation. As of 30 September 2016, the Group has P4.77 worth of current assets for every peso of current liabilities as compared to P2.11 as of 30 June 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 30 June 2016, debt to equity ratio improved to 0.43 as a result of the conversion of Deposit for future stock subscription to Equity.

**Capital Adequacy Ratio** is computed by dividing the Total Stockholders' Equity over Total Assets. It measures the financial strength of the Company. As of 30 September 2016, the Group's Capital Adequacy Ratio is 0.691 compared to last year's 0.477. Increase was attributable to the subscription of Ayala Land, Inc. during 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 September 2016, the Group has book value per share of P0.907, 44% higher compared to 30 June 2016.

**Income per share** is calculated by dividing net income by the weighted average number of shares issued and outstanding. As of 30 September 2016, the Group reported a P0.002 income per share as compared to P0.209 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 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.

**Breakdown on the contribution of POPI's subsidiaries (on a per type of business basis) to POPI's net income as provided below:**

Parent Company (Holding Co.)	107.48%
Real estate and property development	75.59%
Financial services	21.04%
Manufacturing	-20.67%
Others	-83.44%
	<b><u>100.00%</u></b>

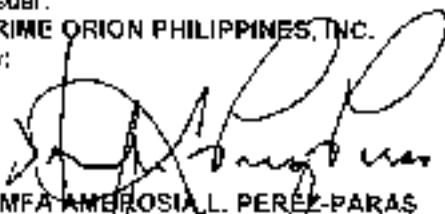
## SIGNATURES

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

Issuer:

PRIME ORION PHILIPPINES, INC.

By:



NIMFA AMELOSIA L. PEREZ-PARAS  
Assistant Corporate Secretary  
Date: 14 November 2016



RHODORA ESTRELLA B. REVILLA  
Chief Finance Officer  
Date: 14 November 2016

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

**Unaudited Interim Consolidated Financial Statements  
September 30, 2016 and June 30, 2016**

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

	UNAUDITED September 30, 2016	AUDITED June 30, 2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	₱1,338,422	₱1,304,884
Receivables (Note 5)	448,874	1,919,880
Inventories (Note 6)	8,780	8,836
Real estate held for sale and development (Note 7)	264,464	264,464
Amounts owed by related parties (Note 13)	1,292,052	52
Available-for-sale (AFS) financial assets (Note 8)	1,412,599	1,397,534
Financial assets at fair value through profit or loss (FVPL) (Note 9)	12,695	12,703
Other current assets (Note 10)	245,950	240,815
<b>Total Current Assets</b>	<b>5,023,836</b>	<b>5,131,148</b>
<b>Noncurrent Assets</b>		
Investment in associate (Note 11)	1,941	1,941
Investment properties (Note 12)	1,214,688	1,163,169
Property, plant and equipment (Note 13)	79,582	79,307
Software costs (Note 14)	7,117	6,216
Other noncurrent assets (Note 15)	84,057	93,423
<b>Total Noncurrent Assets</b>	<b>1,378,386</b>	<b>1,286,250</b>
<b>TOTAL ASSETS</b>	<b>₱6,402,222</b>	<b>₱6,417,404</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 16)	₱914,694	₱895,143
Current portion of rental and other deposits (Note 17)	139,271	141,362
Deposit for future stock subscriptions		1,436,250
<b>Total Current Liabilities</b>	<b>1,053,968</b>	<b>2,442,755</b>
<b>Noncurrent Liabilities</b>		
Rental and other deposits - net of current portion (Note 17)	87,521	88,425
Retirement benefit liability (Note 21)	79,508	73,704
Deferred rent income	792	536
Deferred income tax liabilities - net	218,131	220,974
Subscriptions payable (Note 19)	481,675	481,675
<b>Total Noncurrent Liabilities</b>	<b>867,627</b>	<b>867,314</b>
<b>Total Liabilities</b>	<b>1,921,595</b>	<b>2,310,070</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		
<b>Capital stock - ₱1 par value</b>		
Authorized - 7,000,000,000 shares		
Issued and subscribed - 4,878,638,123 shares (net of subscriptions receivable of ₱2,122,814 and ₱248,062 as at September 30, 2016 and June 30, 2016)	2,755,824	2,130,576
Additional paid-in capital	1,598,654	829,904
Equity reserves	27,469	27,469
Treasury shares	(21,916)	(21,916)
Revaluation increment on property, plant and equipment (Note 12)	237,011	237,011
Unrealized valuation gain (losses) on AFS financial assets	223,729	276,226
Loss on remeasurement of retirement benefit liability	(66,639)	(66,639)
Retained earnings (Deficit)	(329,118)	(340,166)
	4,429,014	3,072,465
<b>Non-Controlling Interests</b>	<b>55,613</b>	<b>34,869</b>
<b>Total Equity</b>	<b>4,480,627</b>	<b>3,107,334</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱6,402,222</b>	<b>₱6,417,404</b>

*See accompanying Notes to Consolidated Financial Statements*

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**  
(Amounts in Thousands, Except Earnings Per Share)

	Three Months Ended September 30	
	2016	2015
<b>REVENUE</b>		
Rental and other charges (Note 12)	₱109,668	₱105,115
Insurance premiums and commissions - net	57,019	60,521
Service fees	3,828	1,726
Interest income on AFS financial assets (Note 8)	2,308	3,217
Dividend income (Notes 8)	646	777
Gain on sale of AFS financial assets (Note 8)	250	166
Merchandise sales	173	1,257
Real estate sales	—	173,887
	173,892	346,669
<b>COSTS AND EXPENSES</b>		
Cost of goods sold and services	74,285	68,161
Operating expenses (Note 20)	60,056	89,757
Commission and other underwriting expenses	41,316	49,021
Cost of real estate sold	—	143,204
	175,657	350,645
<b>OTHER INCOME (CHARGES)</b>		
Interest income and bank charges - net	11,006	608
Gain (loss) on sale of property, plant and equipment (Note 13)	1,816	(1,729)
Reversal of provision for inventory losses	133	—
Foreign exchange gain	3	70
Gain on sale of investment property (Note 12)	—	498,782
Loss on disposal of financial assets at FVTPL (Note 9)	—	(348)
Unrealized loss on financial assets at FVTPL (Note 9)	(8)	(173)
Others - net	4,436	1,343
	17,386	498,553
<b>INCOME BEFORE INCOME TAX</b>	<b>15,621</b>	<b>194,577</b>
<b>PROVISION FOR INCOME TAX</b>	<b>3,829</b>	<b>403</b>
<b>NET INCOME</b>	<b>₱11,792</b>	<b>₱194,174</b>
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the Parent	₱11,048	₱194,934
Non-controlling interests	744	(760)
	₱11,792	₱194,934
<b>EARNINGS PER SHARE (Note 22)</b>		
Basic and diluted, for income for the year attributable to ordinary equity holders of the Parent	₱0.005	₱0.209

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

	<b>Three Months Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
<b>NET INCOME</b>	<b>₱11,792</b>	<b>₱494,174</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Unrealized valuation gains on AFS financial assets (Note 8)	(₱2,725)	(₱3,764)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(₱40,933)</b>	<b>₱445,410</b>
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the Parent	(₱56,129)	₱151,553
Non-controlling interests	15,197	(6,143)
	<b>(₱40,933)</b>	<b>₱445,410</b>

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**  
**(Amounts in Thousands)**

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Equity Reserves	Revaluation of Investment in AFS Financial Assets (Note 8)	Unrealized Valuation Gains (Losses)	Gains (Losses) on Re-measurement of Available-for-Sale Investments	Retained Earnings	Non-Crossholding Interests	Total
Balances at June 30, 2015	P2,069,912	P429,504	(P21,516)	P-	P34,602	P-	P(77,481)	P87,300	P2,46,343	
Settled for the period	-	-	-	-	-	-	-	(P65,533)	(P65,533)	
Other non-recurring items (Note)	-	-	-	-	-	-	-	-	-	
Unrealized valuation gain (loss) on AFS financial assets	-	-	-	-	-	(P6,769)	-	-	-	(P6,769)
Total comprehensive income	-	-	-	-	-	(P6,769)	-	(P60)	-	(P6,829)
Collection of sub-subsidiary revaluation losses	11,000	-	-	-	-	-	-	-	-	11,000
Unrealized gain transferred from equity to consolidated statement of income	-	-	-	-	-	(P66)	-	-	-	(P66)
Balances as September 30, 2015	P2,082,912	P625,204	(P21,916)	P-	P244,622	(P45,369)	(P77,481)	P116,731	P7,581	P2,08,489
Balances at June 30, 2016	P2,170,516	P629,904	(P21,916)	P27,469	P237,011	P274,226	(P66,632)	(P30,669)	P54,869	P2,17,334
Net income	-	-	-	-	-	-	-	734	734	11,792
Other comprehensive income (loss)	-	-	-	-	-	(P2,726)	-	-	-	(P2,726)
Unrealized valuation gain (loss) on AFS financial assets	-	-	-	-	-	(P2,726)	-	-	-	(P2,726)
Total comprehensive income	-	-	-	-	-	(P2,726)	-	11,043	11,043	(P10,934)
Collection of sub-subsidiary revaluation losses	625,248	P68,750	-	-	-	-	-	-	-	625,248
Unrealized gain transferred from equity to consolidated statement of income	-	-	-	-	-	-	-	-	-	-
Balances as September 30, 2016	P2,755,824	P1,398,654	(P21,916)	P27,041	P225,719	(P86,639)	(P274,116)	(P55,613)	P60,627	P2,75,993

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

	Three Months Ended September 30	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	₱15,621	₱494,577
Adjustments for:		
Depreciation and amortization (Notes 12, 13 and 14)	19,236	20,209
Accounts written off	9	—
Provision for impairment losses on:		
Receivables (Note 5)	485	333
Other current assets	4	—
Reversal of provision for inventory losses	(133)	
Retirement benefits expense	3,804	4,634
Interest income	(14,626)	(4,484)
Loss (Gain) on sale off:		
Property, plant and equipment (Note 13)	(1,816)	1,129
Investment property (Note 12)	—	(498,782)
AFS financial assets (Note 8)	(250)	(166)
Dividend income (Note 6)	(646)	(777)
Loss on disposal of FVPL investments	—	348
Interest expense and bank charges	1,311	639
Unrealized foreign exchange losses (gains) - net	(3)	(70)
Operating income (loss) before working capital changes	22,996	18,219
Decrease (increase) in:		
Receivables	1,470,513	34,567
Inventories	189	1,412
Real estate held for sale and development		110,335
Other current assets	(8,967)	(14,541)
Increase (decrease) in:		
Accounts payable and accrued expenses	16,967	(35,732)
Rental and other deposits	(2,993)	(257)
Net cash flows generated from (used in) operations	1,498,705	113,994
Interest received	14,626	4,484
Income tax paid	—	(403)
Interest paid	(1,311)	(639)
Net cash flows from (used in) operating activities	₱1,513,020	₱117,415

(Forward)

	Three Months Ended September 30	
	2016	2015
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Contributions paid	\$-	(929,997)
Proceeds from sale of:		
Investment property (Note 12)	—	623,968
FVPL investments	—	9,645
AFS financial assets (Note 8)	250	5,062
Property, plant and equipment	2,815	9,051
Acquisitions of:		
AFS financial assets (Note 8)	(67,582)	(628,534)
Investment properties (Note 12)	(67,528)	(2,882)
Property, plant and equipment (Note 11)	(54,515)	(3,699)
Software cost (Note 14)	(1,687)	(681)
Decrease (increase) in:		
Other noncurrent assets	11,365	2,518
Amounts owed by related parties	(1,292,000)	(48)
FVPL investments	8	(236)
Dividends received (Note 8)	646	777
Net cash flows from (used in) investing activities	... (1,468,228)	(15,047)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Collection of subscription receivables	249	13,000
Movement of additional paid-in capital	(12,500)	—
Net cash flows from financing activities	(12,252)	13,000
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
<b>EQUITY</b>	<b>31,539</b>	<b>115,369</b>
<b>CASH AND CASH EQUIVALENTS</b>		
<b>AT BEGINNING OF YEAR</b>	<b>1,306,884</b>	<b>151,763</b>
<b>CASH AND CASH EQUIVALENTS</b>		
<b>AT END OF YEAR (Note 4)</b>	<b>\$1,338,422</b>	<b>\$267,132</b>

## **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 registered office address is at 20th Floor LKG Tower, 6801 Ayala Avenue, Makati City. 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.

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 distribution (see Note 21).

##### **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 15, 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.

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) and stockholders of LCI approved the amendment of LCI's Articles of Incorporation (AOI), specifically, the change in its corporate name to Lepanto Development Corporation and change in its primary purpose to state that it can 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.

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 non-life 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.

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. In 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 Parent Company 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 51.36% 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 BOD approved the amendment of POPI's AOA, 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 between ALI and POPI was executed. 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 2016 statement of financial position. The increase in POPI's authorized capital stock was approved by the SEC on July 4, 2016.

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 cafe operations.

The consolidated financial statements of the Group as at September 30, 2016 and June 30, 2016 and for the quarter ended September 30, 2016 and 2015 were approved and authorized for issuance by the BOD on November 14, 2016.

**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 APS investments, land, land improvements, building and building improvements under "property, plant and equipment" which are carried at fair values. The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. All values are rounded off to the nearest thousand (P000) except when otherwise indicated.

**Statement of Compliance**

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

**Basis of Consolidation**

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries as at September 30, 2016 and June 30, 2016:

Subsidiaries	Nature of Business	Effective Percentage of Ownership		
		September 30, 2016	June 30, 2016	
<b>Real Estate, Property Development and Others:</b>				
Orion Land Inc. (OL) and Subsidiaries:				
OLI	Real Estate and Investment Holding Company	100%	100%	
TPI and Subsidiaries:				
TPI (Note 1)	Real Estate, Mall Operations	100%	100%	
TPI Holdings Corporation (TPIHC)	Investment Holding Company	100%	100%	
OPDI and Subsidiaries:				
OPDI (Note 1)	Real Estate Development	100%	100%	
Orion Beverage, Inc. (OBI)*	Manufacturing	100%	100%	
LCI (Note 1)	Manufacturing and Distribution	100%	100%	
Luck Heck Venture Holdings, Inc.*	Other Business Activities	60%	60%	
<b>Financial Services and Others:</b>				
OF Holdings, Inc. (OEH) and Subsidiaries:				
OEHII	Wholesale and Trading	100%	100%	
OMI (Note 1)	Marketing and Administrative Services	100%	100%	
ZHI Holdings, Inc. (ZHI)	Financial Holding Company	100%	100%	
OIHP1	Financial Holding Company	100%	100%	
FPIC (Note 1)	Non-Life Insurance Company	78.77%	78.77%	
OSI (Note 1)	Management Information Technology Consultancy Services	100%	100%	

\* Inactive

All of the companies are incorporated and based 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, have been 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

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, 2015.

- PAS 1, *Presentation of Financial Statements - Disclosure Initiative (Amendments)*  
The amendments are intended to assist entities in applying judgment when meeting the presentation disclosure requirements in PFRS. The amendments include various clarifications in the presentation and disclosure of the amounts in the face of and in the notes to the financial statements.
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*  
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are not expected to have any effect to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants (Amendments)*  
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. These amendments are not expected to apply to the Group as the Group does not have any bearer plants.
- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*  
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. These amendments will not have any effect on the Group's consolidated financial statements.

- **PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendments)**  
 These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments will not have any effect on the Group's consolidated financial statements.
- **PFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)**  
 The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3) must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.  
 The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any effect to the Group.
- **PFRS 14, Regulatory Deferral Accounts**  
 PFRS 14 is an optional standard that allows an entity, whose activities are subject to re-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. This standard is not expected to apply to the Group.

#### *Annual Improvements to PFRSs (2012-2014 cycle)*

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after July 1, 2015 and are not expected to have a material effect to the Group. They include:

- **PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal**  
 The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- **PFRS 7, Financial Instruments: Disclosures – Servicing Contracts**  
 PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether

the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- **PFRS 7 – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements**

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- **PAS 19, Employee Benefits - Regional Market Issue Regarding Discount Rate**

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- **PAS 34, Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'**

The amendment is applied retrospectively and clarifies that the required certain disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

#### 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 July 1, 2018:*

#### *PFRS 9, Financial Instruments*

- In July 2014, the IASB issued the final version of International Financial Reporting Standard (IFRS) 9, Financial Instruments. The new standard (renamed as 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, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.<sup>1</sup>

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will have no effect on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group is currently assessing the effect of adopting this standard.

- **IFRS 15, Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the effect of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

*Effective in July 1, 2019*

▪ **PFRS 16, Leases**

PFRS 16, *Leases*, replaces PAS 17, the current standard for leases, and its related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases in their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.”

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt PFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

*Effectivity Deferred*

▪ **PFRS 10, Consolidated Financial Statements and PAS 28, Investment in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The FRSC decided to postpone the original effective date of January 1, 2016 until the IASB 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.

The revised, amended and additional disclosures or accounting changes provided by the standards and interpretations will be included in the financial statements in the year of adoption, if applicable.

Summary of Significant Accounting and Financial Reporting Policies

**Presentation of Financial Statements**

The Group has elected to present two statements, a consolidated statement of income and a consolidated statement of comprehensive income, rather than a single consolidated statement of comprehensive income containing the two elements.

**Financial Instruments - Initial Recognition**

Financial instruments within the scope of IAS 39 are classified as financial assets and liabilities at FVPL, loans and receivables, AFS financial assets, financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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 September 30, 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. The Group has no financial assets classified as HTM investments as at September 30, 2016 and June 30, 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 IAS 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.

All financial liabilities are recognized initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

As at September 30, 2016 and June 30, 2016, the Group's financial liabilities are in the nature of other financial liabilities. As at September 30, 2016 and June 30, 2016, the Group has no financial liabilities classified as at FVPL and derivatives designated as hedging instruments in an effective hedge.

**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 OCI in the “Unrealized valuation gains (losses) 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 finance costs. 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. 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 redeemable preference shares are classified under this category (see Note 9).

*Other Financial Liabilities*

After initial recognition, interest-bearing 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 and rental and other deposits (see Notes 16 and 17).

#### Fair Value Measurement

The Group measures financial instruments, such as financial assets at FVPL, at fair value at each end of the reporting period.

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:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by 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 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 on 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.

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 in 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 Carried at Fair Values*

For AFS financial assets, the Group assesses at each end of the reporting period whether there is objective evidence that an investment is impaired. 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 (losses) on AFS financial assets" in the consolidated statement of changes in equity until the financial asset is derecognized, at which time the cumulative gain or loss is recognized in 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 in finance costs.

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 EFR. 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 financial assets are recognized in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. The interest income is recorded in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increased 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.

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.

#### 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). Costs incurred in bringing each product to its present location are accounted for as follows:

- Finished goods - direct materials, labor, and proportion of manufacturing overhead based on normal operating capacity but excluding borrowing costs;
- Factory supplies and spare parts - purchase cost on a moving-average method;

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.

#### *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 consists creditable withholding taxes (CWTs), input value added tax (VAT), unclaimed claims for reserve fund 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 tax payable is carried over in the succeeding period for the same purpose.

*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. Input VAT is presented as current 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 "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.

In the Parent Company's separate financial statements, investment in an associate is accounted for at cost less impairment losses.

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 and certain land which are held for rentals while the rest of the land and plant facilities 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. Condominium unit and commercial building are stated at cost less accumulated depreciation and amortization 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.

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, plant 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.

The lease contract on a land where investment property is located is for twenty five (25) years, which is also the amortization period of the investment property. In December 2009, the lease contract on a land where the Group's primary investment property is located was renewed. As a result of the lease renewal, and the review of the estimated useful life and amortization period of the said investment property, management came to a conclusion that there has been a significant change in the expected pattern of economic benefits from the said property of the Group. As a result, the Group prospectively revised the remaining amortization period of this property from an average of twenty five (25) years (which is the shorter of the lease term and the estimated useful life) to thirty five (35) years effective September 5, 2014. The change has been accounted for as a change in accounting estimates.

#### Property, Plant and Equipment

##### *Land and Improvements and Buildings and Improvements or Revalued Amount*

Land and buildings together with their improvements stated at appraised values 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 in property, plant and equipment" 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 on property, plant and equipment" to "Deficit" account in the consolidated statement of financial position.

*Leasehold Improvements, Machinery and Equipment, Transportation Equipment, Furniture, Fixtures and Equipment, Condominium Units and Improvements, and Hotel Equipment at Cost*

Property, plant and equipment are carried at cost, less accumulated depreciation, amortization and any impairment in value. The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Expenditures incurred after the property, plant 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, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

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

	Useful life in years
Land and improvements	30
Buildings and improvements	30
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, plant 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 methods 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 eliminated from the accounts 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 item 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 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>b</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*

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.

*Real Estate Held for Sale and Development, Investment Properties, Property, Plant and Equipment and Software Costs*

The Group assesses at each end of the reporting period whether there is an indication that real estate held for sale and development, investment properties, property, plant 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 provides allowance for impairment losses on nonfinancial other current and noncurrent assets when 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 impairment losses would increase recorded expenses and decrease other current and noncurrent assets.

#### 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 Assets section of the consolidated statement of financial positions. 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.

*Provision 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 21<sup>st</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 payment from tenants on leased properties which are refundable at the end of the lease contract.

#### 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 exchange of which, the shares of stock will be issued.

#### 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".

#### Other Comprehensive Income (Loss)

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

#### Revenue 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 and included in revenue due to its operating nature. 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 "Insurance contract liabilities" 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 "Reinsurance assets" in the Assets section of the consolidated statement of financial positions. 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 "Deferred reinsurance commissions" in the Liabilities section of the consolidated statement of financial position.

#### 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.

***Merchandise Sales and Sale of Assets***

Revenue from sale of merchandise and 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.

***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 completion 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.

***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.

***Cost of Goods Sold and Services***

Cost of sales and services are incurred in the normal course of the business and are recognized when incurred. These comprise cost of goods sold, services, merchandise and handling services.

***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 the 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 balance sheet 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, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of 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 deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

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 costs 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, return on plan assets 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 the consolidated statement of comprehensive income in subsequent periods. Remeasurements recognized in OCI after the initial adoption of the Revised PAS 19 are retained in OCI which is included in "Loss on remeasurement of retirement benefits plan" under equity.

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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

#### 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. 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 IFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and contingent liabilities, 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 Functional Currency***

Based on the economic substance of underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates and it is the currency that mainly influences the underlying transactions, events and conditions relevant to the Group.

#### ***Determining Classification of Financial Instruments***

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

#### ***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.

*Assessing Operating Lease Commitments - Group as Lessor*

The Group has entered into a lease agreement for the corporate office space and a subsidiary's mall operations. The Group has determined that it does not obtain all the significant risks and rewards of ownership of the assets 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 and Amounts Owed by Related Parties*

The Group reviews its receivables 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 ₦0.48 million and ₦0.33 million as at September 30, 2016 and 2015, respectively. The carrying values of the receivables amounted to ₦148.87 million and ₦1,919.88 million as at September 30, 2016 and June 30, 2016, respectively, net of allowance for impairment losses amounting to ₦313.25 million and ₦312.77 million as at September 30, 2016 and June 30, 2016, respectively (see Note 5).

There was no provision for impairment loss on amounts owed by related parties as at September 30, 2016 and 2015. The carrying values of amounts owed by related parties amounted to ₦1,292.05 million and ₦52 thousand as at September 30, 2016 and June 30, 2016, respectively, net of allowance for impairment losses amounting to ₦1.63 million as at September 30, 2016 and June 30, 2016 (see Note 18).

*Estimating Allowance for Inventory Losses*

The Group maintains an allowance for inventory losses. The level of this allowance 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.

There was no provision for inventory losses as at September 30, 2016 and 2015. The carrying values of inventories amounted to ₦8.78 million and ₦8.84 million as at September 30, 2016 and June 30, 2016, respectively, net of allowance for inventory losses amounting to ₦67.26 million and ₦67.39 million as at September 30, 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.

There was no impairment losses on real estate held for sale and development recognized in September 30, 2016 and 2015. The carrying values of real estate held for sale and development amounted to ₦264.46 million as at September 30, 2016 and June 30, 2016 (see Note 7).

*Estimating Allowance for Impairment Losses of AFS Financial Assets and Financial Assets at FVPL*

The Group recognizes impairment losses on AFS financial assets and financial assets at FVPL when there has been a significant or prolonged decline in the fair value of such investments below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. 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.

There was no provision for impairment losses on AFS financial assets recognized as at September 30, 2016 and 2015. The fair values of AFS financial assets amounted to ₦1,412.60 million and ₦1,397.51 million as at September 30, 2016 and June 30, 2016, respectively, net of allowance for impairment losses amounting to ₦538.40 million as at September 30, 2016 and June 30, 2016 (see Note 8).

There was no provision for impairment losses on financial assets at FVPL recognized as at September 30, 2016 and 2015. The fair values of the financial assets at FVPL amounted to ₦12.70 million as at September 30, 2016 and June 30, 2016 (see Note 9).

*Estimating Allowance for Impairment Losses on Investment in an Associate and Investment Properties*

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of investment in an associate and investment properties which

requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that this asset may not be recoverable. Any resulting impairment loss could have a material adverse impact on financial condition and results of operations of the Group.

There was no provision for impairment losses on investment in an associate recognized as at September 30, 2016 and 2015. The carrying values of the investment in an associate amounted to ₦1,94 million as at September 30, 2016 and June 30, 2016 (see Note 11).

There was no provision for impairment losses on investment properties recognized as at September 30, 2016 and 2015. The carrying value of investment properties amounted to ₦1,214.69 million and ₦1,163.17 million as at September 30, 2016 and June 30, 2016, respectively (see Note 12).

*Estimating Useful Lives of Investment Properties, Property, Plant and Equipment and Software Costs*

The estimated useful lives used as bases for depreciating and amortizing the Group's investment properties, property, plant and equipment and software costs 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, plant and equipment and software costs based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant and equipment and software 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 amortization and decrease in the corresponding investment properties, property, plant and equipment and software costs.

There were no changes in the estimated useful lives of investment properties. The carrying values of investment properties amounted to ₦ 1,214.67 million and ₦ 1,163.17 million as at September 30, 2016 and June 30, 2016, respectively (see Note 12).

There were no changes in the estimated useful lives of property and equipment. The carrying values of property, plant and equipment amounted to ₦ 70.58 million and ₦ 19.51 million as at September 30, 2016 and June 30, 2016, respectively, net of accumulated depreciation and amortization amounting to ₦ 2.11 billion and ₦ 2.11 billion as at September 30, 2016 and June 30, 2016, respectively (see Note 12).

There were no changes in the estimated useful lives of software costs. The carrying values of software costs amounted to ₦ 7.12 million and ₦ 6.22 million as at September 30, 2016 and June 30, 2016, respectively, net of accumulated amortization amounting to ₦ 32.08 million and ₦ 31.30 million as at September 30, 2016 and June 30, 2016, respectively (see Note 14).

*Estimating Allowance for Impairment Losses of Property, Plant and Equipment, and Software Costs*

The Group assesses impairment of property, plant and equipment, and software costs whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the risk-free rate of interest for a term consistent with the period of expected cash flows.

The carrying values of property, plant and equipment amounted to P 70.58 million and P19.51 million as at September 30, 2016 and June 30, 2016, respectively, net of accumulated depreciation and amortization amounting to P 2.11 billion and P 2.11 billion as at September 30, 2016 and June 30, 2016, respectively (see Note 13).

The carrying values of software costs amounted to P7.12 million and P6.22 million as at September 30, 2016 and June 30, 2016, respectively, net of accumulated amortization amounting to P32.09 million and P31.30 million as at September 30, 2016 and June 30, 2016, respectively (see Note 14).

*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.

There was no provision for impairment losses on nonfinancial other noncurrent assets recognized as at September 30, 2016 and 2015. As at September 30, 2016 and June 30, 2016, the carrying values of nonfinancial other noncurrent assets amounted to P64.44 million and P76.02 million, respectively (amounts exclude refundable deposit, see Note 10).

#### *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 P213.48 million and P226.39 million as at September 30, 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. All assumptions are reviewed at each end of the reporting period.

Retirement benefit costs amounted to P3.69 million and P4.72 million in September 30, 2016 and 2015, respectively. As at September 30, 2016 and June 30, 2016, the retirement benefits liability of the Group amounted to P79.51 million and P75.71 million, respectively.

*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.

*Estimating Contingencies*

The Group is currently involved in various legal proceedings. 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.

*Estimating Fair Values of Financial Instruments*

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Any change in the fair value of these financial instruments would directly affect the consolidated statement of income and consolidated statement of changes in equity.

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**4. Cash and Cash Equivalents**

	<b>September 30,</b>	
	<b>2016</b>	<b>June 30, 2016</b>
	(In Thousands)	
Cash on hand and in banks	P190,763	P175,593
Short-term investments	1,147,659	831,291
	<b>P1,338,422</b>	<b>P1,306,884</b>

Cash in banks earn interest at the respective bank deposit rates. Short-term investments 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.

### 5. Receivables

	September 30, 2016	June 30, 2016
	(In Thousands)	
Trade debtors	₱123,470	₱112,888
Loans receivables	-	1,425,750
Insurance receivables	361,625	397,077
Others	277,032	296,933
	762,127	2,232,648
Less allowance for impairment losses	313,253	312,768
	<u>₱448,874</u>	<u>₱1,919,880</u>

Trade debtors pertains to receivables from merchants for the lease of retail spaces including common area and utility recoveries, interest, penalties and other charges.

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

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 Cosen Land Corporation (CLC) which are due and demandable amounting to ₱160.45 million as at September 30, 2016 and June 30, 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 pertains to specific and collective assessment. The movements of allowances for impairment losses on receivables are as follows:

	Trade debtors	Insurance receivables	Others	Total
	(In Thousands)			
At June 30, 2016	₱66,511	₱41,874	₱204,113	₱312,768
Provisions during the period (Note 20)	-	485	485	
<u>At September 30, 2016</u>	<u>₱66,511</u>	<u>₱42,359</u>	<u>₱204,113</u>	<u>₱313,253</u>

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## 6. Inventories

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	September 30, 2016	June 30, 2016
	(In Thousands)	
At NRV:		
Finished goods	₱8,099	₱3,149
Factory supplies and spare parts	681	687
	<u>₱8,780</u>	<u>₱3,836</u>

Movements in the allowance for inventory losses are as follows:

	September 30, 2016	June 30, 2016
	(In Thousands)	
Beginning balances	₱67,391	₱71,614
Reversal	(133)	(4,223)
	<u>₱67,258</u>	<u>₱67,391</u>

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## 7. Real Estate Held for Sale and Development

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	September 30, 2016	June 30, 2016
	(In Thousands)	
Land for development	₱237,973	₱237,973
Held for sale	42,533	42,533
	<u>280,506</u>	<u>280,506</u>
Allowance for impairment losses (Note 20)	16,042	16,042
	<u>₱264,464</u>	<u>₱264,464</u>

Land for development pertains to parcels of land located in Calauit, Laguna, Sto. Tomas, Batangas and San Vicente, Palawan. The composition of cost as at September 30, 2016 and June 30, 2016 are as follows:

	September 30, 2016	June 30, 2016
	(In Thousands)	
Land cost	₱212,558	₱212,558
Construction overhead and other related costs	22,898	22,898
Taxes	2,517	2,517
	<u>₱237,973</u>	<u>₱237,973</u>

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

	September 30, 2016	June 30, 2016
(In Thousands)		
Balances at beginning of year	₱264,464	₱430,103
Additions	-	4,449
Sale/disposal (Note 20)	-	(154,066)
Impairment loss (Note 20)	-	(16,042)
Balances at end of period	<b>₱264,464</b>	<b>₱264,464</b>

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#### 8. AFS Financial Assets

	September 30, 2016	June 30, 2016
(In Thousands)		
Listed equity securities	₱1,449,685	₱1,518,188
Nonlisted equity securities	175,074	106,420
Quoted debt securities	315,186	300,489
Unquoted debt securities	11,057	10,820
<b>Allowance for impairment losses</b>	<b>1,951,002</b>	<b>1,935,917</b>
	538,403	538,403
	<b>₱1,412,599</b>	<b>₱1,397,514</b>

AFS financial assets in quoted shares of stock are carried at fair value with cumulative changes in fair values presented as a separate account in Equity. Meanwhile, unquoted debt and nonlisted equity AFS financial assets are based on latest available transaction price at the end of the reporting period.

On September 30, 2016 and 2015, the Group sold certain listed equity securities and recognized a gain on sale of ₱0.25 million and ₱0.17 million, respectively.

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.

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#### 9. Financial Assets at FVPL

The Group has 15,000 redeemable preferred shares with a cost of ₱2,92 million recorded as financial assets at FVPL upon initial recognition. Fair value of financial assets at FVPL as at September 30, 2016 and June 30, 2016 amounted to ₱12.70 million.

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#### 10. Other Current Assets

	September 30, 2016	June 30, 2016
	(In Thousands)	
CWTs	₱195,263	₱185,608
Input VAT	39,571	30,485
Prepayments	13,846	24,574
	<hr/>	<hr/>
Total	248,680	243,667
Less allowance for impairment losses	2,730	2,852
	<hr/>	<hr/>
<b>Total</b>	<b>₱245,950</b>	<b>₱240,815</b>

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:

	September 30, 2016	June 30, 2016
	(In Thousands)	
Balances at beginning of the period	₱2,852	₱2,895
Provisions	4	23
Write-off	(126)	(66)
<b>Balances at end of the period</b>	<b>₱2,730</b>	<b>₱2,852</b>

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#### 11. Investments in Associate

	September 30, 2016	June 30, 2016
	(In Thousands)	
Acquisition costs		
Balances at end of year	₱5,959	₱5,959
Accumulated equity in net losses		
Balances at beginning of year	(3,407)	(3,388)
Equity in net income (loss)	—	(19)
Balances at end of year	(3,407)	(3,407)
	2,552	2,552
Allowance for impairment loss	(610)	(610)
	<hr/>	<hr/>
<b>Total</b>	<b>₱1,942</b>	<b>₱1,942</b>

**12. Investment Properties**

**As at September 30, 2016**

	<b>Buildings and Improvements</b>	<b>Land and Improvements</b>	<b>Total</b>
	(In Thousands)		
<b>Cost</b>			
At beginning of year	\$2,929,927	\$345,627	\$3,275,554
Additions	67,528	—	67,528
<b>At end of period</b>	<b>2,997,455</b>	<b>345,627</b>	<b>3,343,082</b>
<b>Accumulated Depreciation and Amortization</b>			
At beginning of year	32,078,800	120,751	\$2,099,551
Depreciation and amortization (Note 18)	15,797	212	16,009
<b>At end of period</b>	<b>2,094,597</b>	<b>20,963</b>	<b>2,115,560</b>
	902,858	324,664	1,227,522
<b>Less: Allowance for impairment losses</b>			
<b>Net Book Value</b>	<b>\$890,024</b>	<b>\$324,664</b>	<b>\$1,214,688</b>

**As at June 30, 2016**

	<b>Buildings and Improvements</b>	<b>Land and Improvements</b>	<b>2016</b>
	(In Thousands)		
<b>Cost</b>			
At beginning of year	\$2,907,380	\$170,331	\$3,077,711
Additions	22,301	134	22,435
Reclassification	246	—	246
Disposals	—	(124,838)	(124,838)
<b>At end of year</b>	<b>2,929,927</b>	<b>345,627</b>	<b>3,275,554</b>
<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
<b>At end of year</b>	<b>2,078,800</b>	<b>20,751</b>	<b>2,099,551</b>
Balance before impairment	851,127	324,876	1,176,003
<b>Less: Allowance for impairment losses</b>			
<b>Net book values</b>	<b>\$838,293</b>	<b>\$324,876</b>	<b>\$1,163,169</b>

Based on the latest appraisal reports, as determined by an independent firm of appraisers, the appraised values of the TPI's and LCI's investment properties amounted to \$4.82 billion as at June 30, 2016.

**TPI**

Investment properties of TPI substantially represent other land improvements, and building, machinery and equipment on the land leased from PNR which are utilized for TPI's office space, mall operations and held for rentals. These were valued by independent professionally qualified appraisers.

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.

- a. Based on the lease contract, TPI leases a land consisting of sixty nine (69) lots, containing an aggregate area of 227,773 square meters.

The value of the land was estimated using the Sales Comparison Approach. This is a comparative approach 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.

- b. The method used to determine the value of other land improvements and building, machinery and equipment is the Sales Comparison 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 a 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 (accrued) depreciation.

**LCI**

LCI has historically classified land and improvements and buildings and improvements at revalued amounts as property and equipment. On July 1, 2014, LCI transferred its land and improvements and buildings and improvements under property and equipment. The carrying fair value of these assets was the deemed cost of the investment property upon transfer. The transfer was made in accordance with PAS 40, *Investment Property*, since the properties were held by the Company to earn rentals or for capital appreciation or both, 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.

### 13. Property, Plant and Equipment

As at September 30, 2016

	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	Total
	(In Thousands)						
<b>Cost</b>							
At beginning of year	₱7,227	₱2,026,413	₱26,358	₱65,160	₱8,692	₱8,581	₱3,142,446
Additions	-	43,328	-	11,187	-	-	54,515
Disposals	-	-	(5,792)	-	-	-	(5,792)
At end of year	7,227	2,069,749	20,566	76,347	8,692	8,581	3,191,169
<b>Accumulated Depreciation and Amortisation</b>							
At beginning of year	6,966	3,609,582	21,944	60,203	4,840	7,321	2,110,656
Depreciation and amortisation (Note 10)	28	1,322	329	591	54	235	2,446
Disposals	-	-	(4,792)	-	-	-	(4,792)
At end of year	6,994	2,410,694	17,481	60,295	4,894	7,526	2,108,304
Less Allowance for impairment loss (Note 20)							
	-	12,283	-	-	-	-	12,283
<b>Net Book Values</b>	<b>₱233</b>	<b>₱46,852</b>	<b>₱3,085</b>	<b>₱15,352</b>	<b>₱3,793</b>	<b>₱1,052</b>	<b>₱30,582</b>

As at June 30, 2016

	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	2016 Total
	(In Thousands)						
<b>All cost</b>							
At beginning of year	₱7,223	₱2,096,590	₱40,917	₱91,644	₱6,692	₱8,533	₱3,153,623
Additions	-	747	1,558	311	-	55	4,071
Disposals/Retirement	-	(70,910)	(14,117)	(28,495)	-	-	(115,524)
At end of year	7,227	2,026,421	26,558	65,160	8,692	8,368	3,142,446
<b>Accumulated Depreciation and Amortisation</b>							
At beginning of year	6,725	2,069,817	34,598	85,354	4,622	5,779	2,107,295
Depreciation and amortisation (Note 20)	241	1,082	2,258	2,644	135	1,542	11,885
Disposals/Retirement	-	(65,471)	(14,912)	(28,495)	-	-	(108,854)
At end of year	6,966	2,009,382	21,944	60,295	4,894	7,526	2,110,656
Less Allowance for impairment loss (Note 20)							
	-	12,283	-	-	-	-	12,283
<b>Net Book Values</b>	<b>₱233</b>	<b>₱46,756</b>	<b>₱3,414</b>	<b>₱15,055</b>	<b>₱3,793</b>	<b>₱1,207</b>	<b>₱30,307</b>

Certain items of property, plant and equipment identified as idle and included under machinery and equipment were written down to their estimated recoverable amounts.

As at September 30, 2016, the Group recognized a gain on disposal of property, plant and equipment amounting to ₱1.82 million.

**14. Software Costs**

	September 30, 2016	June 30, 2016
	(In Thousands)	
<b>At cost:</b>		
Beginning balances	P37,508	P35,940
Additions	1,687	1,368
<b>Ending balances</b>	<b>P39,195</b>	<b>P37,508</b>
 <b>Accumulated amortization:</b>		
Beginning balances	31,292	27,140
Amortization (Note 18)	786	4,152
<b>Ending balances</b>	<b>32,078</b>	<b>31,292</b>
<b>Net book values at cost</b>	<b>P7,117</b>	<b>P6,216</b>

**15. Other Noncurrent Assets**

	September 30, 2016	June 30, 2016
	(In Thousands)	
Deferred reinsurance premiums	P24,026	P27,555
Deferred acquisition cost	21,280	21,344
Refundable deposits (Note 30)	19,614	19,400
Deferred input VAT	7,643	7,572
Spare parts and supplies	5,502	9,180
Prepaid rent and other expenses	2,870	3,707
<b>Others</b>	<b>3,122</b>	<b>6,664</b>
	<b>P84,057</b>	<b>P95,422</b>

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.

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.

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

	September 30, 2016	June 30, 2016
	(In Thousands)	
Accrued expenses	₱383,034	₱378,920
Claims payables	213,478	226,187
Trade payables	117,978	61,298
Reserves for unearned premiums	112,149	118,074
Nontrade payables	39,428	58,652
Due to reinsurers and ceding companies	21,108	32,993
Others	27,518	18,819
	<b>₱914,693</b>	<b>₱895,143</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, utilities and other accrued expenses.

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

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

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

## 17. Rental and Other Deposits

	September 30, 2016			June 30, 2016		
	Due within One Year	Beyond One Year	Total	Due within One Year	Beyond One Year	Total
(In Thousands)						
Security deposits	₱55,779	₱54,576	₱110,355	₱55,779	₱54,576	₱110,355
Deferred rent	30,883	20,359	51,242	32,971	21,262	54,234
Rental deposits	37,405	1,275	38,680	27,405	1,275	28,680
Customer deposits	8,420	1,621	10,041	8,420	1,621	10,041
Construction bond	5,286	2,904	8,190	5,286	2,904	8,190
Other deposits	1,501	6,786	8,287	1,501	6,786	8,287
	<b>₱139,274</b>	<b>₱77,521</b>	<b>₱216,795</b>	<b>₱141,362</b>	<b>₱88,425</b>	<b>₱229,781</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.

### 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 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 are eliminated in consolidation, are as follows.

Category		Account Volume	Outstanding Balance (In Thousands)	Terms	Conditions
<i>Amounts owed by related parties:</i>					
<i>Under common control</i>					
Ayala Land, Inc.					
North Triangle	Sept. 30, 2016	403,200	403,200	30 days Unsecured, interest bearing	
Airswift	Sept. 30, 2016	237,500	237,500	30 days Unsecured, interest bearing	
Oceanus Philippines, Inc.	Sept. 30, 2016	651,300	651,300	30 days Unsecured, interest bearing	
	Sept. 30, 2016	-	1,677	Demandable and with impairment of collectible on P1,610, and demand unguaranteed	
Total	September 30, 2016	P1,292,000	P1,293,677		
Total	June 30, 2016	PS0	#1,677		

	September 30, 2016	June 30, 2016
(In Thousands)		
Amounts owed by related parties	P1,293,677	P1,677
Less allowance for impairment losses	1,625	(1,625)
	<u>P1,292,052</u>	<u>PS2</u>

Allowance for impairment losses on amounts owed by related parties amounted to P1.6 million as at September 30, 2016 and June 30, 2016.

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## **19. Subscription Payable**

### **Cyber Bay and Central Bay**

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 September 30, 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. Cyber Bay under "AFS financial assets" amounted to ₱576.06 million and ₱610.76 million as at September 30, 2016 and June 30, 2016, respectively, net of allowance for impairment losses amounted to ₱527.48 million as at September 30, 2016 and June 30, 2016 (see Note 8).

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## 20. Operating Expenses

	September 30, 2016	September 30, 2015
	(In Thousands)	
Personnel expenses	P35,078	P43,192
Depreciation and amortization (Notes 12, 13 and 14)	7,494	8,577
Rental	4,525	5,062
Communication and transportation	2,619	2,048
Taxes and licenses	2,019	6,198
Professional and legal fees	1,977	16,962
Janitorial and security services	1,611	1,929
Marketing expenses	1,284	405
Supplies and repairs	894	1,457
Provision for impairment losses (Note 5)	485	333
Insurance	529	1,050
Representations	236	558
Others	<u>1,305</u>	<u>1,987</u>
	<u>P60,056</u>	<u>P89,757</u>

Others consist mainly of various charges that are individually immaterial.

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## 21. Retirement Plan

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 nominal 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 August 18, 2016 was determined using the projected unit credit method in accordance with PAS 19.

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## 22. Earnings Per Share

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

	September 30, September 30, 2016	2015
a. Net income attributable to equity holders of the Parent	P11,048	P494,934
b. Weighted average number of shares	4,878,638	2,367,149
Basic earnings per share (a/b)	P0.002	P0.209

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### **23. 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
- Financial services - insurance and related brokerage
- Real estate and property development
- Manufacturing and distribution - manufacture and distribution of beverage and ceramic tiles

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

	Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution (In Thousands)	Others	Total	Elimination	Total
<b>September 30, 2016</b>								
Revenue	\$403	\$102,898	\$58,779	\$11,689	P213	P113,982	(P90)	\$173,892
Cost and expenses	(3,051)	(93,270)	(56,114)	(15,697)	(1,902)	(172,745)	90	(175,653)
Other income (charges)	13,695	8,476	70	1,664	(8,150)	15,755	1,676	17,381
Income (Loss) before income tax	11,048	12,196	2,919	(2,345)	(9,859)	13,994	-	15,620
Provision for income tax			3,282	453	93	-	3,819	
Net income (loss)	11,048	8,914	2,181	(2,438)	(9,859)	10,166	1,626	11,192
<b>September 30, 2016</b>								
Segment assets	4,468,918	2,157,606	678,669	752,831	47,003	8,305,047	(1,392,825)	6,402,222
Segment liabilities	131,533	33,004	48,444	304,514	202,512	2,516,097	(534,413)	1,921,594
<b>September 30, 2015</b>								
	Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution (In Thousands)	Others	Total	Elimination	Total
Revenue	\$845	P274,976	P62,551	P7,690	P61	P246,669	P-	P246,669
Cost and expenses	(4,325)	(26,345)	(65,781)	(15,510)	(2,674)	(35,036)	391	(35,445)
Other income (charges)	357,706	111,441	1,094	(1,327)	21	498,914	(391)	498,553
Income (Loss) before income tax	182,323	123,572	(2,144)	(9,137)	(3,042)	494,577	-	494,577
Provision for income tax			13	190	-	4013	-	434
Net income (loss)	182,328	123,560	(2,334)	(9,137)	(3,042)	494,174	-	494,174
<b>June 30, 2016</b>								
Segment assets	P4,516,835	P2,289,280	P689,220	P154,882	P47,135	P8,317,372	(P1,879,968)	P6,437,434
Segment liabilities	2,137,353	776,421	465,928	103,725	206,865	3,801,902	(393,922)	3,510,070

#### Geographical Segments

The Group does not have geographical segments.

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#### **24. 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 plus a certain percentage of gross sales. The lease covers a period of twenty five (25) years until 2015 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.

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

	<b>September 30,</b>	<b>2016</b>	<b>June 30, 2016</b>
	(In Thousands)		
Less than one (1) year	₱153,936	₱108,907	
More than (one) 1 year but not more than (five) 5 years	760,678	447,675	
More than (five) 5 years	2,527,109	2,941,639	
	<b>₱3,450,722</b>	<b>₱3,508,241</b>	

#### **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.

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#### **25 Contingencies**

The Group is contingently liable for lawsuits or claims, and assessments, which 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.

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#### **26 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, ITTM investments and subscriptions payable. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group. The Group has other financial liabilities such as accounts payable and accrued expenses and rental and other deposits, which arise directly from its operations.

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

#### *Credit Risk*

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

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

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

#### *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:

September 30, 2016

	Neither past due nor impaired		Past due or individually impaired  (In Thousands)	Total
	High grade	Standard grade		
<i><b>Loans and Receivables:</b></i>				
Cash and cash equivalents	P1,337,701	—	P—	P1,337,701
<i><b>Receivables:</b></i>				
Trade debtors	32,519	—	90,950	123,470
Insurance receivables	184,382	9,387	167,856	361,625
Others	80,475	—	196,556	277,032
Amounts owed by related parties	1,292,052	—	1,625	1,293,677
Deposits (under "Other noncurrent assets")	19,206		408	19,614
<i><b>AFS Financial Assets:</b></i>				
Listed equity securities	911,282	—	538,403	1,449,685
Quoted debt securities	315,186	—	—	315,186
Unquoted debt securities	11,058	—	—	11,058
Nonlisted equity securities	175,074	—	—	175,074
Financial assets at FVPI	12,695	—	—	12,695
	P4,371,670	P9,387	P922,798	P5,276,815

June 30, 2016

	Neither past due nor impaired		Past due or individually impaired (In Thousands)	Total
	High grade	Standard grade		
<b>Loans and Receivables:</b>				
Cash and cash equivalents	₱1,306,894	—	—	₱1,306,894
Receivables:				
Trade debtors	24,480	—	83,408	112,888
Insurance receivables	231,093	7,876	157,208	391,377
Loans receivable	1,467,859	—	—	1,467,859
Others	57,698	—	193,856	256,554
Deposits (under "Other noncurrent assets")	18,992	—	408	19,400
<b>AFS Financial Assets:</b>				
Listed equity securities	994,600	—	538,403	1,533,003
Quoted debt securities	305,404	—	—	305,404
Unquoted debt securities	7,006	—	—	7,006
Nonlisted equity securities	90,504	—	—	90,504
<b>Financial Assets at FVPL</b>	12,703	—	—	12,703
	<b>₱2,518,123</b>	<b>₱7,876</b>	<b>₱983,283</b>	<b>₱3,509,282</b>

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

September 30, 2016

	Neither past due nor impaired						Individually impaired	Total
	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Individually impaired			
<b>Loans and Receivables:</b>								
Cash and cash equivalents	₱1,337,701	—	—	—	—	—	—	₱1,337,701
Receivables:								
Trade debtors	32,519	3,944	3,784	2,217	14,873	67,134	123,400	
Insurance receivables	193,769	4,094	7,610	503	105,851	49,767	161,629	
Others	80,415	205	—	—	—	196,352	277,012	
Amounts owed by related parties	1,292,652	—	—	—	—	1,615	1,293,677	
Deposits (under "Other noncurrent assets")	19,206	—	—	—	—	408	19,614	
<b>AFS Financial Assets:</b>								
Listed equity securities	911,282	—	—	—	—	538,403	1,449,685	
Quoted debt securities	315,186	—	—	—	—	—	315,186	
Unquoted debt securities	11,058	—	—	—	—	—	11,058	
Nonlisted equity securities	175,004	—	—	—	—	—	175,004	
<b>Financial Assets at FVPL</b>	12,095	—	—	—	—	—	12,095	
	<b>₱4,381,017</b>	<b>₱7,243</b>	<b>₱11,424</b>	<b>₱2,720</b>	<b>₱120,722</b>	<b>₱653,686</b>	<b>₱5,376,815</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						
(In Thousands)											
<i><b>Loans and Receivables:</b></i>											
Cash and cash equivalents	₱1,306,884	₱-	₱-	₱-	₱-	₱-	₱-	₱1,306,884			
<i><b>Receivables:</b></i>											
Trade debtors	24,480	2,651	3,254	1,989	14,083	66,511	112,588				
Insurance receivable	231,993	9,448	367	8,864	97,122	49,183	397,017				
Loans receivable	1,467,359	-	-	-	-	-	1,467,359				
Others	57,698	284	-	-	-	108,652	256,554				
Deposits (under "Other noncurrent assets")	18,992	-	-	-	-	406	19,400				
<i><b>Other Financial Assets</b></i>											
Listed equity securities	994,690	-	-	-	-	538,403	1,533,003				
Quoted debt securities	305,404	-	-	-	-	-	305,404				
Unquoted debt securities	7,006	-	-	-	-	-	7,006				
Nonlisted equity securities	90,594	-	-	-	-	-	90,594				
Financial asset at FVPL	11,703	-	-	-	-	-	11,703				
	₱1,518,123	₱12,203	₱0,621	₱10,773	₱111,205	₱853,257	₱5,509,282				

#### 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 September 30, 2016 and June 30, 2016 based on contractual undiscounted payments:

September 30, 2016

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
(In Thousands)						
Accounts payable and accrued expenses	₱632,515	₱52,011	₱21,565	₱134,671	₱57,942	₱888,704
Subscription payable	481,675	-	-	-	-	481,675
Rental and other deposits	95,737	10,531	9,499	8,296	101,223	326,756
	₱1,109,927	₱63,542	₱31,064	₱134,461	₱159,165	₱1,597,174

June 30, 2016

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
(In Thousands)						
Accounts payable and accrued expenses	₱16,761	₱50,947	₱21,566	₱134,713	₱-	₱643,089
Subscription payable	48,675	-	-	-	-	48,675
Rental and other deposits	97,554	16,193	14,160	13,456	90,070	231,432
	₱1,003,093	₱67,132	₱35,725	₱148,169	₱90,070	₱1,357,096

#### Foreign Currency Risk

The Group's foreign currency risk results from the foreign exchange rate movements of the Philippine peso against the United States dollar (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.

The table below summarizes the Group's exposure to foreign currency risk as at September 30, 2016 and June 30, 2016. Included in the table are the Group's assets and liabilities at carrying amounts:

	September 30, 2016		June 30, 2016	
	Foreign Currency Equivalent	Peso Currency Equivalent	Foreign Currency Equivalent	Peso Currency Equivalent
(In Thousands)				
<b>Financial Asset:</b>				
Cash in banks				
USD	\$3	₱97	\$2	₱94
Short-term investments				
USD	-	-	-	-
<b>Financial Liability:</b>				
Accounts payable				
USD	2	97	2	94
EUR	1	54	1	51
GBP	1	63	1	37
<b>Net financial asset</b>	<b>\$-</b>	<b>₱-</b>	<b>\$-</b>	<b>₱-</b>

As at September 30, 2016 and June 30 2015, the exchange rates of other currencies to Philippine Peso are as follows:

	September 30, 2016	June 30, 2016
USD	₱48.33	₱47.06
EUR	₱41.7	₱42.25
GBP	₱32.60	₱33.06

*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 investments.

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.

*Interest Rate Risk*

The Group's exposure to the risk for changes in market interest rate relates to quoted debt instruments.

The Group regularly monitors the market interest rate movements to assess exposure impact.

*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 of September 30, 2016 and June 30, 2016.

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

	September 30, 2016	June 30, 2016
Capital stock	₱2,755,824	₱2,130,576
Additional paid-in capital	1,598,654	829,904
	<hr/> <b>₱4,354,478</b>	<hr/> <b>₱2,960,480</b>

The Group is not subject to externally imposed capital requirements.

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## **27. Financial Instruments**

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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 September 30, 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 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' approximate its amortized cost which was based on the present value of the future cash flows.

*AFS Financial Assets*

AFS equity financial assets that are listed are based on their bid prices as at September 30, 2016 and June 30, 2016. AFS debt financial assets that are quoted are based on market prices. Unquoted debt and nonlisted AFS financial assets are based on latest available transaction price at the end of the reporting period.

*Financial Assets at FVPL*

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

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**  
**AGING OF ACCOUNTS RECEIVABLE**  
**As at September 30, 2016**

	<u>AMOUNT</u>
CURRENT	35,059
1 to 30 days	2,650
31 to 60 days	3,254
61 to 90 days	1,999
Over 90 days	80,597
 <u>Total receivable-trade</u>	<u>123,470</u>
Advances to Employees	7,928
Insurance receivable	361,625
Others	269,104
 <u>Total non-trade receivable</u>	<u>638,657</u>
 Total receivable	762,127
 <u>Allotment for doubtful accounts</u>	<u>(313,253)</u>
 	 <u>448,874</u>