Philippine Realty & Holdings Corporation

TRANSFORMING LANDSCAPES

FOR THE FUTURE

2017
ANNUAL
REPORT

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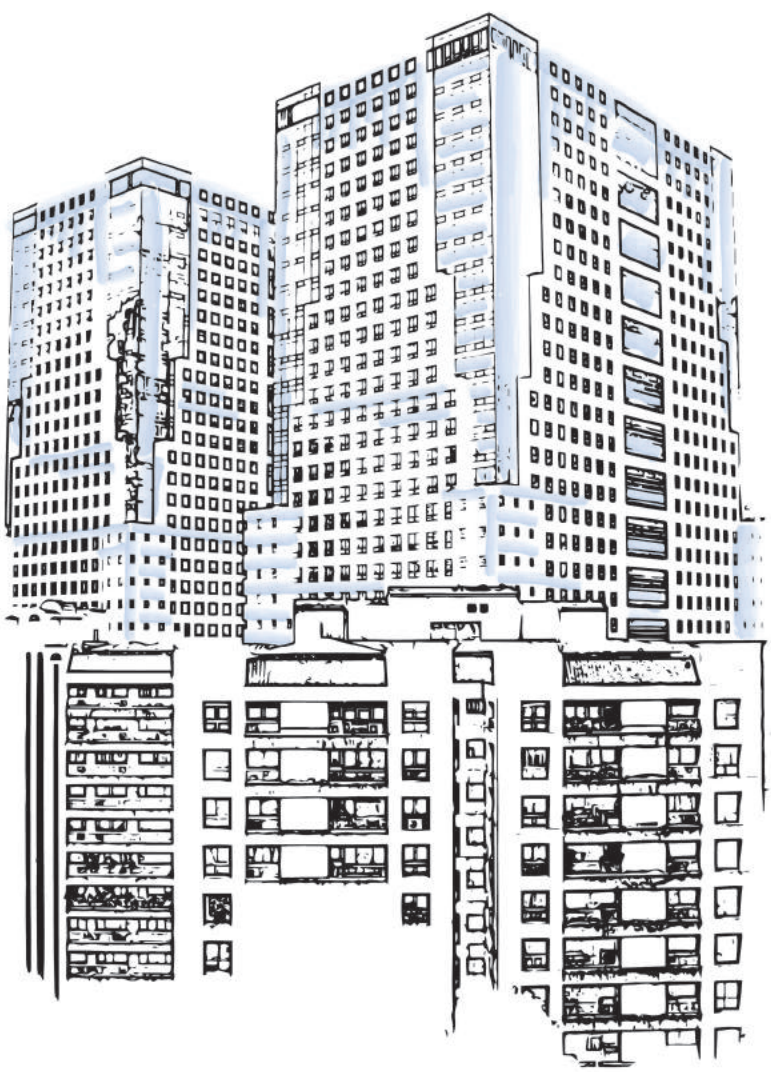
ABOUT THE COVER

The Philippine Realty & Holdings Corporation (PhilRealty) Annual Report for 2017 features a cover image inspired by the real estate industry's ever-changing landscape and expanding market. PhilRealty took on 2017 with a positive mindset and steadfast leadership that helped steer the company towards further growth. As it pushes forward towards the future, it aims for an expansion that welcomes fresh ideas and embraces new frontiers.

Presently, One Balete's SkyLine and SkyVillas Towers continue PhilRealty's legacy, as the premier property developer of the more affluent market. Their location in New Manila, Quezon City highlights the company's vision and competence in developing properties in prime locations for its niche market.

This year, PhilRealty gears up for exciting times ahead, with projects that go beyond spacious business and commercial spaces and residential developments. The company forges ahead towards the future with the goal of exploring developments in flourishing cities in other parts of the country. PhilRealty continues to focus on establishing upscale properties in Bonifacio Global City, while venturing into the leisure and resort lifestyle concept outside of Metro Manila.

The PhilRealty Annual Report 2017 cover envisions promising prospects for the Philippine Realty & Holdings Corporation, staying true to its promise to focus its investments on real estate developments for the discerning, upscale market that combine aesthetics with functionality while valuing the preservation of the environment.



VISION

A premium property development and holdings company in the Philippines delivering superior shareholder value.

MISSION

We are committed to providing individuals, families and businesses premium and high-end residential condominiums, offices, commercial spaces, master-planned townships and leisure developments in the Philippines using best-of-class, grade A materials, top-of-the-line fixtures, latest and state-of-the-art equipment and facilities.

We aim at all times to give a continuing, equitable and fair return to our shareholders and excellent customer value, at the same time giving just and equitable compensation to our officers and employees.

We do not believe in gains made by taking unfair advantage of others nor do we sacrifice long-term objectives for short-term profits. We value enduring relationship with our stakeholders.

We create spacious living in intimate communities, combining aesthetics with functionality while preserving the environment. We affirm our duties as a good corporate citizen. We commit to assist underprivileged sectors of society in improving the quality of their lives.

MESSAGE TO **THE STOCKHOLDERS**

Alfredo S. Del Rosario, Jr.
President & CEO

Gerardo O. Lanuza, Jr.
Chairman

DEAR STOCKHOLDERS,

It is with great pride that we report to you and all our stakeholders the significant tangible gains that your Company achieved in 2017 and the exciting developments that are taking shape in 2018.

FINANCIAL PERFORMANCE—SOLID GAINS ACHIEVED IN 2017

Net Income after Tax

From a consolidated net loss of PhP8.4 Million in 2016, your Company reported a consolidated net income of PhP262.5 Million in 2017—a very significant turnaround of PhP270.9 Million over 2016. The return to profitability in 2017 after years of losses was primarily accounted for by the following:

- a 120% increase in sales of SkyVillas and SkyLine Towers units to reach PhP785.9 Million;
- a 142% increase in rental income to reach PhP47.0 Million;
- a PhP354.1 Million gain on fair value adjustment of investment properties; and
- lightening up of available-for-sale financial assets and taking advantage of prevailing favorable market conditions to generate profits of PhP19.2 Million.

In 2017, your Company had no extraordinary gain on sale of investment property, neither did it book any similar gain on land invested in a joint venture nor income from investment in a joint arrangement, unlike in past years.

Total Assets

Our total assets increased by 29% to reach a level of PhP4.5 Billion in 2017 from PhP3.5 Billion the year before. This was largely due to increases in the level of:

- cash;
- trade receivables arising from increased sales;
- real estate held for development due to new property acquisitions; and
- investment properties due to the change in the method of accounting for investment properties from cost method to fair value method.

The growth in total assets was matched by additional loans and deferred taxes as well as by an increase in the Company's equity account.

Equity

By the end of 2017, your Company's equity accounts rose to PhP3.082 Billion from PhP2.711 Billion or a 14% increase.

At the end of 2017, our retained earnings was recorded at a positive PhP153.0 Million, a dramatic turnaround by PhP264.3 Million from a deficit of PhP111.3 Million reported in 2016.

Liquidity and Leverage Ratios

As of end-2017, your Company's liquidity ratio stood at 9.7:1 which was an improvement from the 5.6:1 ratio recorded the year before.

Consolidated debt-to-equity ratio stood at a still comfortable 0.18:1 in 2017 compared to 0.11:1 in 2016, as your Company took in more long-term debt to finance new asset acquisitions.

CHANGES AT THE BOARD AND SENIOR EXECUTIVE LEVELS

In 2017, your Company implemented changes at the board level and in the senior executive level positions.

The new members of the board bring with them progressive ideas as well as insights on best practices and corporate governance.

A revitalized management team, joined by new but very experienced senior executives, is now overseeing critical operations in your Company, and this has led to the increased sales and leasing performance, improved property management activities, and enhanced financial management.

NEW PROPERTY ACQUISITIONS

Property Acquisitions in 2017

In 2017, your Company took full advantage of opportunities to acquire 4,492.22 square meters of office space in the Tektite Towers (formerly known as Philippine Stock Exchange Centre) and twenty-one parking slots that will contribute to the Company's recurring income moving forward.

Similarly, your Company acquired in 2017 a 1.6 hectare prime property in Baguio City for high-end development.

The transfer of ownership to your Company of commercial, residential, and storage units at The Icon Plaza totaling 808.05 square meters and forty parking slots, is currently being undertaken. These properties form part of the share of your Company in the joint development of Lot 1 Block 14 and Lot 2A Block 14, both lots located at the Bonifacio Global City (BGC).

In addition, your Company has recently acquired usufructuary rights in thirty-one residential units in The Icon Plaza that can generate for your Company cash receipts of up to PhP87.5 Million.

Prospective Acquisition of Prime Properties in Exchange for Shares

Your Company entered into an agreement to issue 4,177,777,778 new common shares in favor of Greenhills Properties Inc. (GPI) and 150,396,296 new common shares in favor of Meridian Assurance Corporation (MAC) in exchange for properties that the two entities will infuse into your Company.

The shares were valued at PhP0.54 per share based on the historical 120-day arithmetic average of the volume weighted average price of the Company's shares obtained on a daily basis.

GPI will be contributing into PhilRealty two vacant lots located in BGC more particularly described as follows: 1) Lot 1 Block 8 containing 1,600 square meters, located at the corner of 6th Avenue and 24th Street; and 2) Lot 4 Block 8 also containing 1,600 square meters, located at 6th Avenue corner 25th Street. Lot 1 Block 8 is registered under the name of GPI, and GPI also acquired Lot 4 Block 8 from its wholly owned subsidiary, Lochinver Assets Inc. (LAI), by way of merger approved by the Securities and Exchange Commission (SEC) in 2012, with GPI as the Surviving Corporation and LAI as the Absorbed Corporation.

MAC, on the other hand, will be contributing three office condominium units and six parking units in the Philippine Stock Exchange Centre in Ortigas Center with a total floor area of 699 square meters. In addition, MAC will also contribute two commercial condominium units and two parking units in The Icon Plaza located in BGC containing a total floor area of 223 square meters.

The average fair market values of the properties to be contributed by GPI and MAC into the Company were determined by getting the average of the market values for the said properties as appraised by two property appraisal companies accredited by both the SEC and the Philippine Stock Exchange Inc.

DOUBLING OF YOUR COMPANY'S AUTHORIZED CAPITAL STOCK

To accommodate the issuance of new, primary shares in favor of GPI and MAC in exchange for prime real properties that the two entities will contribute into PhilRealty as capital, an amendment to your Company's Articles of Incorporation increasing its authorized capital stock is necessary.

A proposal will therefore be presented by management to the stockholders, which proposal has been approved by the board of directors, to amend the Company's Articles of Incorporation increasing its authorized capital stock from PhP4.0 Billion divided into 8.0 Billion shares at a par value of PhP0.50 per share, to PhP8.0 Billion divided into 16.0 Billion shares at a par value of PhP0.50 per share.

Beneficial Effects of the Above Transactions

The transactions shall provide your Company with an excellent opportunity to acquire quality, premium real estate in the fastest growing central business districts in the country, which shall be a source of future income from development projects and as a source of recurring income.

The transactions will also significantly increase your Company's capital base, which it can prudently leverage on in financing its pipeline of development projects.

LOOKING AHEAD AND MOVING FORWARD

In spite of recent changes in senior management and in the composition of the board of directors, the underlying character of your Company's property development projects and what defines it will not change—high-end, luxurious and iconic developments.

Higher standards of luxury in the design and in the development of the Company's forthcoming projects will be observed to sustain the Company's strict quality standards in its projects.

Your Company remains bullish about this segment of the property market that seeks out quality, exclusivity and luxury in their homes.

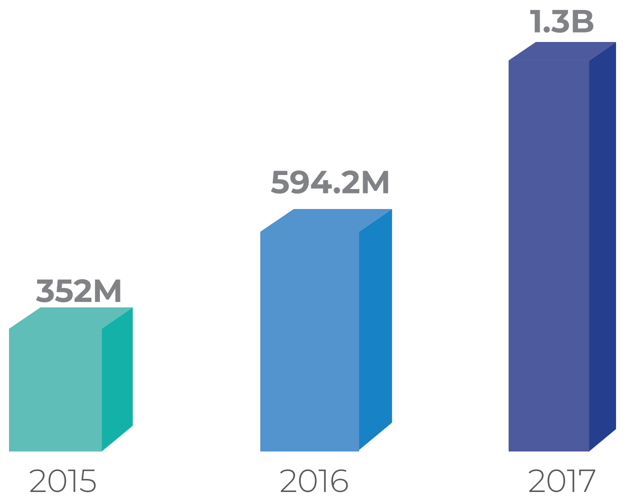
And it shares the almost unanimous view of industry experts that demand in this segment of the market is almost inelastic and may even be more enticed to increase their exposures in direct property investments as a hedge against inflation.

In terms of your Company's revenue stream, it will be slowly geared towards increasing the share of recurring income relative to sales of real estate in order for your Company to build a solid revenue base, thereby creating more sustainable value for its stakeholders.

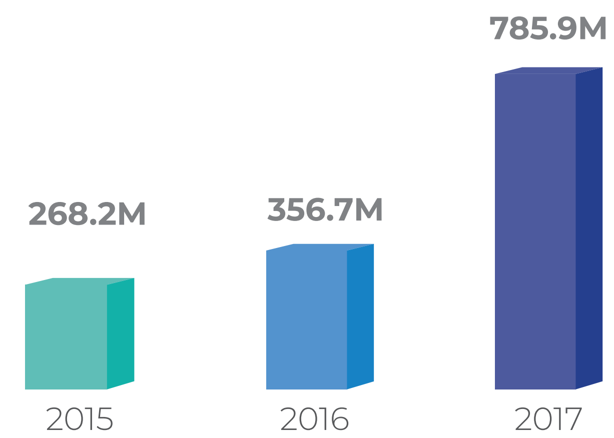
FINANCIAL **HIGHLIGHTS**

TOTAL REVENUE

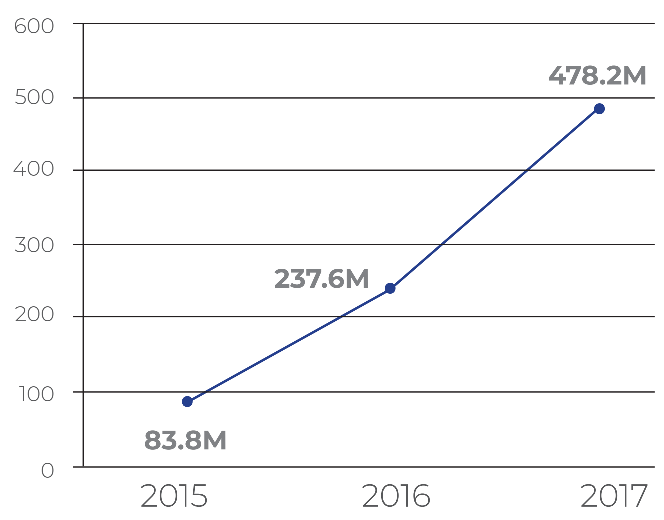
Increase in sale of real estate properties
and revaluation of investments



SALE OF REAL ESTATE

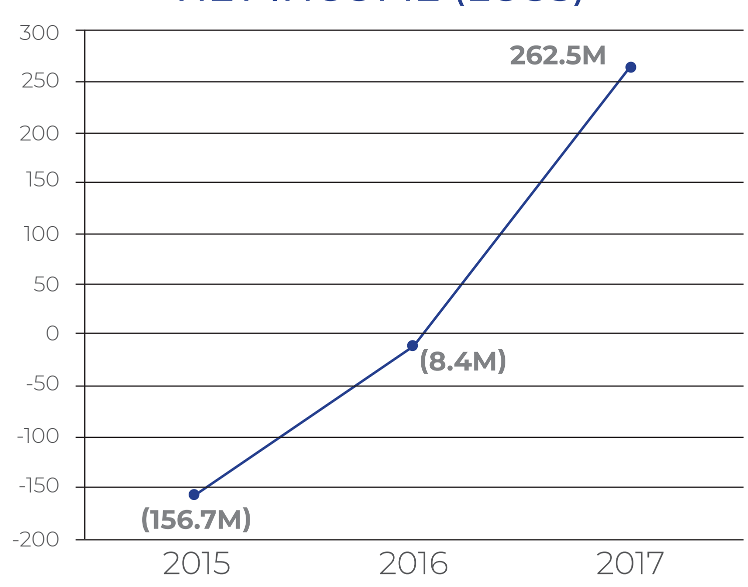


OTHER INCOME

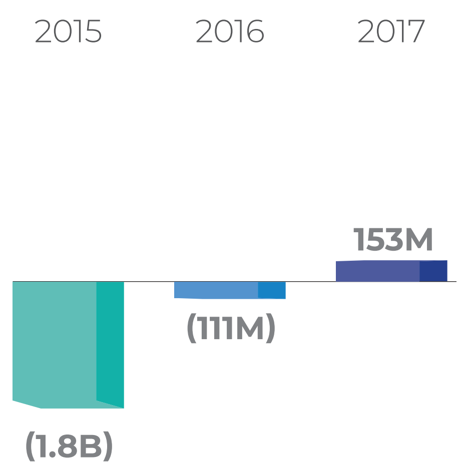


- Rental of more than 15,000 sqm of Tektite office, storage, and parking spaces—more than 100% increase in revenue compared to the previous year
- Partnership with PRO Parking Management that helped improve our efficiency on our Parking Business
- Professional fees from PRHC's Property Management subsidiary
- 19M realized gain on sale of investments
- 354M gain from revaluation of investment properties

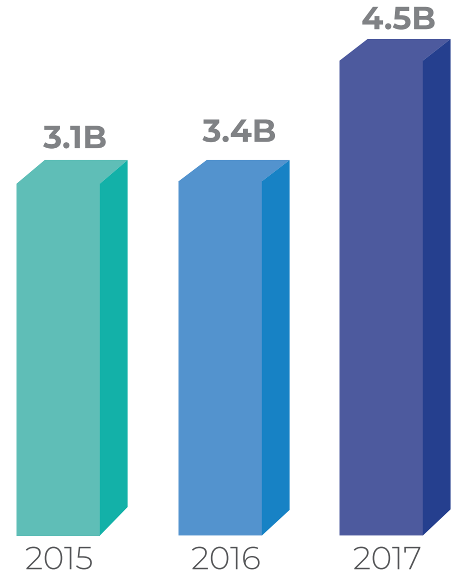
NET INCOME (LOSS)



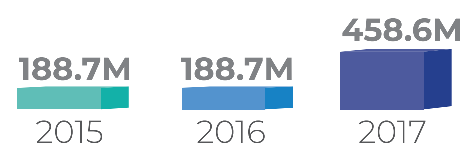
UNAPPROPRIATED RETAINED EARNINGS (DEFICIT)



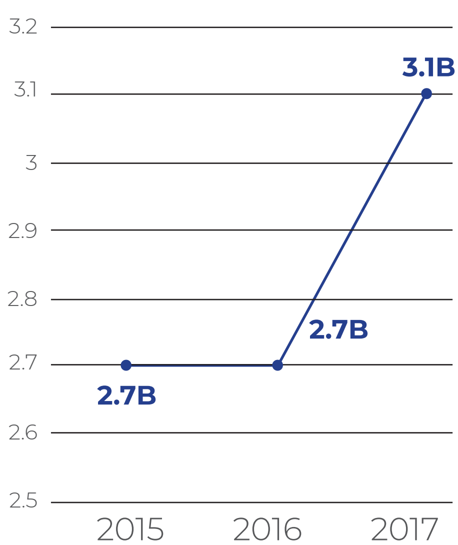
TOTAL ASSETS



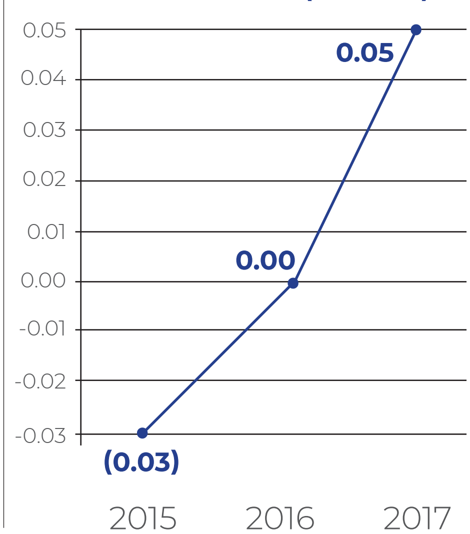
REAL ESTATE HELD FOR SALE AND DEVELOPMENT



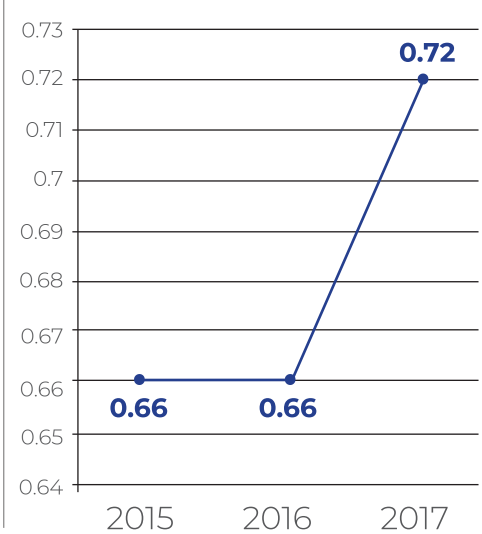
NET WORTH



PER SHARE EARNINGS (LOSS)

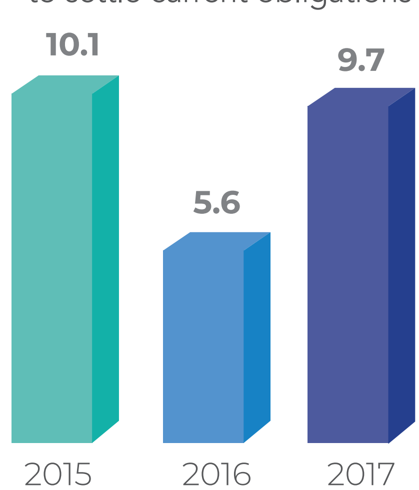


BOOK VALUE PER SHARE



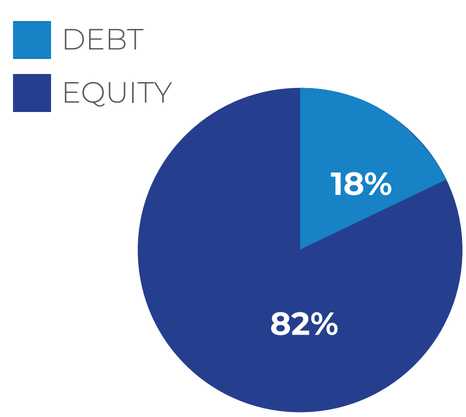
CURRENT RATIO

The company's capability to settle current obligations



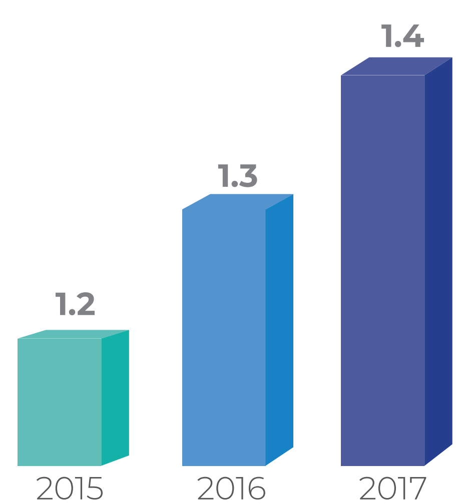
DEBT EQUITY

PRHC secured from PBCOM a 500M loan to support its investment and operating activities



ASSET TO EQUITY

Increased by 14% in 2017



BOARD OF DIRECTORS

GERARDO O. LANUZA, JR.

CHAIRMAN

Chairman of the Board of the Philippine Realty & Holdings Corp., Meridian Assurance Corp., and Universal Travel Corp. He also sits as Chairman and President of Greenhills Properties Inc., and Director of Gerzon Management Corp., Broadford Property Holdings Inc., Merdom Corp., Al Husn Manila, Inc., Domera Trading Corp., Chiamil Trading Corp., Nicora Trading Corp., Xcell Property Ventures Inc., Julnad Asset Holdings Inc., Mernic Asset Holdings Inc., La Bodequita del Medio Inc., Merlan Holdings Inc., Peridot Asset Holdings Inc., Penzance Properties Holding Corp., Ju-Lan Asset Holdings Co. Inc., and Stonehaven Realty Services Inc. He also serves as Treasurer of Lanuza Asset Holding Co., Inc. He was formerly Vice President and Director of the Makati Stock Exchange, Inc., and Director of Vulcan Industrial & Mining Corp., Golden Arrow Mining Co., Inc., Apex Mining Co., Inc., Concrete Aggregates Corp., Philippine Overseas Drilling & Oil Development Corp., Surigao Consolidated Mining Co., Inc., and A Brown Company, Inc. He's a proud member of the Pasay-Makati Realtors Board, Inc. and Chamber of Real Estate and Builders Association, Inc. He graduated BS Mechanical Engineering at De La Salle University.

ANTONIO O. OLBES

VICE-CHAIRMAN

Vice-Chairman of Philippine Realty & Holdings Corp. since 1968. He had previously served as Chairman and President of Meridian Assurance Corp. from 1994-2008, and President of Raco Trading Phils., Inc. He formerly headed the Management Services Division of Sycip, Gorres, Velayo & Co., and was an Executive Vice President, in charge of trading, at Francisco de Asia and Co. He held a number of directorships, which include seats in the following groups: PRHC Property Managers, Inc., Greenhills Properties, Inc. (Treasurer), Universal Travel Corporation (Vice-Chairman), ICON Tower Residences, Green Vista Development Corporation, SEBLO Business Holdings Corporation, and Excell Properties. He has also been named Honorary Consul General (in the Philippines) for the Republic of Nicaragua. He earned his Bachelor of Arts degree in Economics at the Holy Cross College, Massachusetts, USA, and his master's degree in Business Administration from Babson College, Massachusetts, USA. He completed his Advanced Management Programme at Oxford University, United Kingdom, in July 1995.

ALFREDO S. DEL ROSARIO, JR.

DIRECTOR

President and Chief Executive Officer of Philippine Realty and Holdings Corp. since August 1, 2016. Prior to joining PhilRealty, he worked for Rizal Commercial Banking Corporation (RCBC) as Executive Vice President, heading several groups of the bank, including Commercial Banking, Overseas Filipino Banking, and Asset Management and Remedial. Before joining RCBC, he also headed the Trust and Investment Division and Information Technology Division of AB Capital and Investment Corporation as a Senior Vice President. He also held various positions in AsianBank, Bank of America NT & SA Manila, Philippine Airlines, and Ayala Investment & Development Corporation. He graduated from the Ateneo de Manila University with a Bachelor of Science degree in Management. He has taken up units towards an MBA degree at the Ateneo Graduate School and subjects leading to a Juris Doctor degree at the Ateneo Law School.

GERARDO DOMENICO ANTONIO V. LANUZA

DIRECTOR

Executive Vice President and Chief Operating Officer of Philippine Realty and Holdings Corp. since 2014 and became Vice President for Special Projects in 2010. He is a director at various companies such as Greenhills Properties, Inc., British United Automotive Corp., A Brown Co. Inc., Klassik Motors Corp., and Campos, Lanuza & Co. Inc., where he also serves as the Vice President for Sales. He earned his Bachelor of Science degree in Legal Management at the De La Salle University, Manila in 2006.

GREGORY G. YANG

DIRECTOR

Senior Vice President and General Manager of the operating company, McGeorge Food Industries (local licensee of McDonald's), since 1995. He opened the first McDonald's in 1981, having trained in Hong Kong and USA for one year and earning a degree in hamburgerology from McDonald's Hamburger University. His previous work experience includes serving as Assistant Manager of the International Bank Corporation, from 1978 to 1980, and Account Officer at the Makati Leasing and Financing Corporation from 1976 to 1978. He graduated from the University of the Philippines in 1976 with a BS Business Administration degree.

ANDREW C. NG

DIRECTOR

Vice President of Alpha Alleanza Manufacturing Inc., Philippines since September 2009. He was formerly the Assistant Operations Manager Trainee of Pinnacle Foods Inc., Philippines, serving from 2005 to 2009, and was a Management Trainee at Procter & Gamble Philippines in 2004. He earned his Bachelor of Science degree in Industrial Engineering at De La Salle University, Manila, in 2005.

RENATO G. NUÑEZ

INDEPENDENT DIRECTOR

Independent Director of Philippine Realty and Holdings Corp. since 2015. He currently sits as President of CATS Motors, Inc., Techglobal Data Center, Inc., Techzone Philippines, Inc., LIA Philfoods, Inc., and Everland Estate Development Corp. Moreover, he is also a current Director of All British Cars, Inc., Cambie Property, Inc., Coventry Motors Corp., and Total Consolidated Asset Management, Inc. Previously, he served as Vice President of Leisure & Resorts World Corp., as well as Midas Hotel & Casino. He was once the Managing Director of Blue Chip Gaming & Leisure Corp., Vice President and Director of AB Leisure Global, Inc., President of Arwen Gaming & Leisure Specialist, Inc., Vice President for Finance of Binondo Leisure Resources Inc., Vice President of First Cagayan Leisure and Resort Corp., and Vice President of AB Leisure Exponent., Inc. He graduated in BS Industrial Management Engineering, Minor in Mechanical Engineering, at De La Salle University in 1991.

LORENZO V. TAN

INDEPENDENT DIRECTOR

Independent Director of Philippine Realty and Holdings Corp. since 2016. Currently, he plays a significant role in various companies such as serving as Vice-Chairman of The Outstanding Young Men (TOYM) Foundation, Managing Partner of Primeiro Partners Inc., and Independent Director of EEI Corporation, as well as Sunlife Grepa Financial Inc., House of Investment, Malayan Insurance and IPeople. Previously, he served as President and CEO of the Rizal Commercial Banking Corporation, Sunlife of Canada (Phils.), Inc., the Philippine National Bank, and United Coconut Planters Bank. He was also once the Group Managing Director of Guoco Holdings (Philippines), Inc., Director of Citibank NA Singapore, Vice President of Citicorp Real Estate, Inc. in Los Angeles, California, USA, Associate of the Division Credit Office of Citicorp Real Estate, Inc. in New York, and Management Associate of the Asia Pacific Group in Citibank, NA, New York. In addition, he was the former President of the Bankers Association of the Philippines (BAP), and the Chairman of the Asian Bankers Association. Other associations include being President of the Asia Pacific Bankers Club, and Chairman of Megalink Inc. He graduated from J.L. Kellogg Graduate School of Management, Northwestern University, with a master's degree in Management in 1987. He earned his Bachelor of Science degree in Commerce, Major in Accounting at De La Salle University Manila. He is a Certified Public Accountant in Pennsylvania, USA, and in the Philippines. In 1999, he was a recipient of The Outstanding Young Men (TOYM) Award in the field of Banking.

JOMARK O. AROLLADO

INDEPENDENT DIRECTOR

Served as Plant Manager and Strategic Business Unit (SBU) Head of Rapid Forming Corporation since 2013. Previously, he was also a Plant Manager of Silangan Philtrade Corporation, serving from 2011 to 2012. His first professional stint at Rapid Forming Corporation was in 2006 as the SBU head. Prior, he has worked as the ISO Document Controller at SGV & Co. in 2004. He graduated with a Bachelor of Science degree in Industrial Engineering at De La Salle University Manila in 2005.

ALFONSO MARTIN E. EIZMENDI

INDEPENDENT DIRECTOR

President and CEO of Royal Link Industries Inc., Yields Financial Corporation, Park Cent Towers Realty Corp., and WGP Villa6 Realty Corp. Aside from Philippine Realty and Holdings Corp., he is also a Director of Meridian Assurance Corp., Secret 6 Inc., CleanPro, The Icon Plaza Condominium Corp., Frimar Realty and Frimar USA. He was formerly the Vice-Chairman of Vi@je Corp. from 2000 to 2001, and Chairman of Blue Star Insurance Brokerage from 1998 to 2001. He graduated from De La Salle University in 1986 with a bachelor's degree in Political Science.

AMADOR C. BACANI

DIRECTOR

Formerly the President of Philippine Realty & Holdings Corp. from 2002 to 2014. He also worked in the same company as Executive Vice President from 1995 to 2002. He is currently the President of Xcell Property Ventures, Inc. (a joint venture company of PhilRealty). Previously, he was First Vice President and Head of Consumer Banking Group of Rizal Commercial Banking Corporation, and served as First Vice President & Head of Branches Operations Support Division as well. He held several other high-level positions in Campos, Lanuza & Co. Inc., Decision Systems Corporation, Security Bank and Trust Company, Allied Banking Corporation, Asian Merchant Finance Inc., Bank of the Philippine Islands, Citibank, N.A. (Manila), and Procter & Gamble Phils., Inc. He graduated with a Bachelor of Science degree in Mechanical Engineering, Summa Cum Laude, from the De La Salle University, Manila, in 1969, and earned his Master of Science in Industrial Administration degree at the Carnegie-Mellon, USA, in 1972.

Note: Mr. Amador Bacani was re-appointed as director effective January 2018.

MARIANO C. ERESO, ESQ.

DIRECTOR

Partner at Ongkiko Kalaw Manhit & Acorda Law Offices. He was formerly the Head of Tax Consulting at Laya Managhaya & Co., CPAs/ KPMG, a partner at Flores & Ereso Law Offices, the Head of Tax Consulting of Carlos J. Valdes & Co, CPAs/ Coopers & Lybrand, and was Tax Partner of Valdes, Ereso, Valdes & Associates. He also served as Vice President and Head of the Trust/ Investment Department of the Pacific Banking Corporation. He once headed the Tax Department of Carlos J. Valdes & Co. CPAs/ Touche Ross Bailey & Smart and led as Tax Senior Associate and Tax Researcher at Stewart, Cunanan & Co., CPAs/ Price Waterhouse. He has served as Team Leader of the Presidential Fact-Finding Committee for the Improvement of the Operations of the Bureau of Internal Revenue; Chairman of the Committee for Review and Codification of Income Tax Regulations, and was a Private Sector Representative for the Drafting of the Value-Added Tax Regulations and a member of the BAP/SEC Consultative Council. He is part of various professional and civic organizations such as the Integrated Bar of the Philippines, UP College of Law Alumni Association, Money Market Association of the Philippines, Philippine Chamber of Commerce and Industry, among many others. He was also former President of the Trust Officers Association of the Philippines and former Director of the Philippine Trust Institute. He graduated from the University of the Philippines, Diliman with degrees in Associate in Arts (Pre-Law) from the College of Liberal Arts (1952) and Bachelor of Laws (1956). He passed the Bar Examinations in 1956.

**Note: Mr.Mariano Ereso filed for resignation effective December 2017. He was replaced by Mr. Amador Bacani.*

MANAGEMENT **COMMITTEE**

EDILYNDA G. ENRIQUEZ *Human Resources Head*	ADELINE SUSAN S. CARAG *VP / GM - PRHC Property Managers, Inc.*	ERWIN V. CIAR *VP - Project & Construction Management Group*	EDMUNDO C. MEDRANO *SVP / Chief Subsidiary Management Officer*	GERARDO DOMENICO ANTONIO V. LANUZA *Chief Operating Officer*

ALFREDO S. DEL ROSARIO, JR.
President & CEO

CARLOS MIGUEL T. PACA
VP - BUSINESS DEVELOPMENT

VINCENT FISCHER
Chief Financial Officer

MARISSA S. BONTOGON
Controller

RICHARD NICOLAS K. GO
VP - Sales

The management of **PHILIPPINE REALTY AND HOLDINGS CORPORATION and SUBSIDIARIES (the Group)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, 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 and error.

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

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

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

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

GERARDO LANUZA, JR.
Chairman of the Board

ALFREDO S. DEL ROSARIO, JR.
Chief Executive Officer/President

VINCENT FISCHER
Chief Financial Officer/Treasurer

Signed this 12th day of April 2018

NAME/NO.	Tax Identification No.
Gerardo O. Lanuza, Jr.	121-199-566
Alfredo S. Del Rosario, Jr.	108-160-980
Vincent Fischer	456-620-519

ATTY. FLORIMOND C. ROUS
Notary Public for Quezon City
Until December 31,2018
PTR No. 5521227 / 1-3-18 Q.C.
IBP LIFETIME NO. 00315
ROLL NO. [illegible] / TIN. 142-154-935
MCLE 5 Comp-00001549, 1-22-2014
Adm Matter No. 156 / RTC-QC / 201[illegible]

APR 2 3 2018

SUBSCRIBED AND SWORN to before me this _______ day of ______, 2018, affiants exhibiting to me their Tax Identification No., as follows:

Doc. No. 280
Page No. 57
Book No. 1
Series of 2018 IX

MVCo
Maceda Valencia & Co
Certified Public Accountants and Management Consultants

The Shareholders and Board of Directors
Philippine Realty and Holdings Corporation and Subsidiaries
One Balete, 1 Balete Drive corner N. Domingo Street
Brgy. Kaunlaran District 4
Quezon City

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Philippine Realty and Holdings Corporation and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of total comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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

Key Audit Matters

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

Valuation of Real Estate Inventories

The Risk

Real estate inventories constitute a material component in the Group's consolidated statement of financial position. Real estate inventories amounted to P1.45 billion representing 32% of the total assets as at December 31, 2017. Real estate inventories include properties under construction and newly built properties that are held for sale in the ordinary course of business. Real estate inventories are valued at the lower of cost or market and net realizable value.

The valuation of real estate inventories are influenced by assumptions and estimates regarding construction costs to be incurred, and future selling prices. Weak demand and the consequential over supply of residential units might exert downward pressure on transaction volumes and selling prices of residential properties.

Our Response

Based on a sample selected according to qualitative and quantitative factors, our audit procedures included the following:

- Evaluation of recognized costs for selected projects in terms of eligibility for capitalization and allocation on the basis of the respective financial forecast;

- Identification of deviations between financial forecasts and the respective project accounts together with a critical assessment of these deviations through discussions with project managers, and reconciliation of actual costs with construction cost statements; and

- Analysis of realizable values by inspecting the most recent sales contracts and comparing expected future costs, costs already capitalized and expected sales proceeds from remaining properties.

Allowance for Impairment Losses on Trade and Other Receivables

The Risk

The allowance for impairment losses on trade and other receivables is considered to be a matter of significance as it requires the application of judgment and use of subjective assumptions by management. As of December 31, 2017, trade and other receivables has a total carrying amount of P1.06 billion contributing 24% of the Group's total assets. Out of the total trade and other receivables, P596.25 million are already past due for more than a year but considered not impaired.

Our Response

Our audit procedures included the following:

- Testing the Group's controls over the receivables collection processes

- Testing the adequacy of the Group's provisions against trade receivables by assessing management's assumptions, taking account of externally available data on trade credit exposures and our own knowledge of recent bad debt experience in this industry.

- We also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jose T. Valencia.

MACEDA VALENCIA & CO.

JOSE T. VALENCIA
Partner
CPA License No. 32659
PTR No. 6643970
Issued on January 24, 2018 at Makati City
SEC Accreditation No. (individual) as general auditor 1535-A Category A,
Effective until February 11, 2019
SEC Accreditation No. (firm) as general auditors 0196-FR-2;
Effective until March 29, 2020
TIN 119-894-676
BIR Accreditation No. 08-005063-1-2015
Issued on April 6, 2018; effective until April 5, 2021
BOA/PRC Reg. No. 4748, effective until December 31, 2018

April 12, 2018
Makati City

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	Note	2017	2016
ASSETS			
Current Assets			
Cash and cash equivalents	9	P140,866,864	P55,843,067
Financial assets at fair value through profit or loss	10	26,006,562	23,439,020
Available-for-sale (AFS) financial assets	11	38,000,567	130,555,203
Trade and other receivables – current portion	13	981,209,865	307,809,090
Real estate inventories	14	1,446,663,139	1,670,321,175
Prepayments and other assets – net	15	204,163,452	159,434,610
Total Current Assets		2,836,910,449	2,347,402,165
Non-current Assets			
Held-to-maturity (HTM) financial assets	12	1,000,000	1,000,000
Trade and other receivables – net of current portion	13	88,313,370	500,769,478
Real estate held for development	16	458,546,179	188,653,713
Investments in and advances to associates - net	18	84,878,451	81,750,944
Investment properties - net	20	865,348,710	196,982,999
Property and equipment - net	19	129,293,232	90,750,569
Deferred tax assets - net	39	-	42,495,050
Total Non-current Assets		1,627,379,942	1,102,402,753
		P4,464,290,391	P3,449,804,918
LIABILITIES AND EQUITY			
Liabilities			
Current Liabilities			
Trade and other payables - current portion	21	P195,320,065	P262,280,120
Unearned income	22	4,797,416	18,018,915
Loans payable	23	92,462,966	137,131,075
Total Current Liabilities		292,580,447	417,430,110
Non-current Liabilities			
Trade and other payables - net of current portion	21	219,490,864	26,822,814
Loans payable - net of current portion	23	764,358,197	150,584,964
Retirement benefit obligation	24	30,911,040	143,908,920
Deferred tax liability – net	39	75,250,972	-
Total Non-current Liabilities		1,090,011,073	321,316,698
		1,382,591,520	738,746,808
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	27,28	2,344,198,495	2,257,878,523
Additional paid-in capital	27,28	557,014,317	557,014,317
Reserves	29	195,307,585	177,517,992
Retained earnings (deficit)		153,038,847	(111,274,009)
Treasury stock	27	(160,904,214)	(163,383,895)
		3,088,655,030	2,717,752,928
Equity Attributable to Non-Controlling Interest	30	(6,956,159)	(6,694,818)
		3,081,698,871	2,711,058,110
		P4,464,290,391	P3,449,804,918

See Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF TOTAL COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 & 2015

	Note	2017	2016	2015
INCOME				
Sales of real estate		**P785,934,606**	P356,678,738	P268,214,803
Rent	33	**47,053,723**	19,481,398	21,241,714
Management fees	31	**30,159,048**	31,581,353	27,772,828
Gain on sale of AFS financial assets		**19,205,993**	41,947	18,742
Interest	34	**11,515,074**	11,105,288	14,813,697
Commission	32	**7,561,923**	7,721,013	9,376,674
Equity in net income of an associate		**3,127,507**	-	-
Gain on sale of property and equipment		**238,988**	-	-
Gain on sale of land invested in a joint arrangement	17	-	156,916,474	-
Other income	35	**359,288,714**	10,738,406	10,538,324
		1,264,085,576	594,264,617	351,976,782
COSTS AND EXPENSES				
Cost of real estate sold	14	**471,047,441**	223,046,461	203,958,701
Cost of services	36	**70,322,494**	51,444,181	49,236,760
General and administrative expenses	37	**318,574,003**	305,415,883	226,044,048
Finance cost	23	**9,547,530**	7,435,094	1,839,401
Equity in net loss of an associate	18	-	2,082,666	3,507,118
Other expenses	38	**2,293,579**	3,469,949	21,412,695
		871,785,047	592,894,234	505,998,723
INCOME (LOSS) BEFORE INCOME TAX		**392,300,529**	1,370,383	(154,021,941)
INCOME TAX EXPENSE	39	**129,790,383**	9,758,491	2,637,714
NET INCOME (LOSS)		**P262,510,146**	(P8,388,108)	(P156,649,655)
Attributable to:				
Equity holders of the parent		**P264,361,753**	(P3,902,319)	(P156,415,644)
Non-controlling interest	30	**(1,851,607)**	(4,485,789)	(314,011)
		P262,510,146	(P8,388,108)	(P156,729,655)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be subsequently reclassified to profit or loss				
Unrealized holding gain (loss) on available-for-sale financial assets	11	**26,929,544**	P36,350,074	(P39,179,114)
Transfer of loss on sale of available-for-sale investments to profit or loss		**(48,897)**	(41,947)	(10,663)
Item that will not be reclassified to profit or loss				
Remeasurement of defined benefit obligation, net of tax		**(7,549,685)**	(541,767)	(2,940,892)
		19,330,962	35,766,360	(42,130,669)
Total Comprehensive Income (Loss)		**P281,841,108**	P27,378,252	(P198,860,324)
BASIC EARNINGS (LOSS) PER SHARE	40	**P0.05**	(P0.00)	(P0.03)

See Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 & 2015

	Equity Attributable to Equity Holders of the Parent Company							
	Capital Stock (Notes 27 and 28)	Additional Paid-in Capital (Notes 27 and 28)	Reserves (Note 29)	Retained earnings (Deficit)	Treasury Stock (Note 27)	Total	Non-controlling Interest (Note 30)	Total Equity
Balance at January 1, 2015	P4,515,696,244	P114,751	P185,793,618	(P1,653,279,819)	(P163,383,895)	P2,884,940,899	(P2,681,118)	P2,882,259,781
Comprehensive income (loss)								
Net loss for the year	-	-	-	(156,415,644)	-	(156,415,644)	(314,011)	(156,729,655)
Other comprehensive income (loss) for the year	-	-	(43,137,080)	703,251	-	(42,433,829)	303,160	(42,130,669)
Total comprehensive loss for the year	-	-	(43,137,080)	(155,712,393)	-	(198,849,473)	(10,851)	(198,860,324)
Transactions with owners								
Collections of subscriptions receivable	30,401	-	-	-	-	30,401	-	30,401
Balance at December 31, 2015	4,515,726,645	114,751	142,656,538	(1,808,992,212)	(163,383,895)	2,686,121,827	(2,691,969)	2,683,429,858
Comprehensive income (loss)								
Net loss for the year	-	-	-	(3,902,319)	-	(3,902,319)	(4,485,789)	(8,388,108)
Other comprehensive income for the year	-	-	34,861,454	671,966	-	35,533,420	232,940	35,766,360
Total comprehensive income (loss) for the year	-	-	34,861,454	(3,230,353)	-	31,631,101	(4,252,849)	27,378,252
Transactions with owners								
Reduction of par value of capital stock	(2,257,848,122)	556,899,566	-	1,700,948,556	-	-	-	-
Share in capital stock of minority interest	-	-	-	-	-	-	250,000	250,000
Total transactions with owners	(2,257,848,122)	556,899,566	-	1,700,948,556	-	-	250,000	250,000
Balance at December 31, 2016	2,257,878,523	557,014,317	177,517,992	(111,274,009)	(163,383,895)	2,717,752,928	(6,694,818)	2,711,058,110
Comprehensive income (loss)								
Net income (loss) for the year	-	-	-	264,361,753	-	264,361,753	(1,851,607)	262,510,146
Other comprehensive income for the year	-	-	17,789,593	(48,897)	-	17,740,696	1,590,266	19,330,962
Total comprehensive income (loss) for the year	-	-	17,789,593	264,312,856	-	282,102,449	(261,341)	281,841,108
Transactions with owners								
Collections of subscriptions receivable	86,319,972	-	-	-	-	86,319,972	-	86,319,972
Reissuance of shares	-	-	-	-	2,479,681	2,479,681	-	2,479,681
Total transactions with owners	86,319,972	-	-	-	2,479,681	88,799,653	-	88,799,653
Balance at December 31, 2017	**P2,344,198,495**	**P557,014,317**	**P195,307,585**	**P153,038,847**	**(P160,904,214)**	**P3,088,655,030**	**(P6,956,159)**	**P3,081,698,871**

See Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 & 2015

	Note	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		**P392,300,529**	P1,370,383	(P154,091,941)
Adjustments for:				
Provision for retirement benefits	*24*	**9,885,206**	82,398,786	10,239,543
Depreciation and amortization	*36,37*	**26,316,175**	24,995,539	24,733,040
Finance costs	*23*	**9,547,530**	7,435,094	1,778,781
Equity in net loss (income) of an associate	*18*	**(3,127,507)**	2,082,666	3,507,118
Impairment loss on trade and other receivables		**1,576,440**	1,257,943	17,244,728
Gain on sale of land invested in a joint arrangement	*17*	**-**	(156,916,474)	-
Interest income	*34*	**(11,515,074)**	(11,105,288)	(14,813,697)
Holding loss (gain) on trading investments	*35*	**(2,567,542)**	(7,559,984)	21,253,539
Reversal of various liabilities	*35*	**(1,058,516)**	(1,354,928)	(7,340,207)
Dividend income	*35*	**(400,915)**	(306,679)	(313,904)
Unrealized foreign exchange loss (gain) – net	*35,38*	**161,501**	(109,258)	(539,016)
Gain on sale of available for sale investments (AFS)		**(19,205,993)**	(41,947)	(18,742)
Impairment loss on other assets		**-**	-	7,770,831
Impairment on investment in and advances to associates	*18*	**-**	-	11,250
Gain on fair value adjustment of investment properties		**(354,123,354)**	-	-
Gain on sale of property and equipment		**(238,988)**	-	-
Operating income (loss) before working capital changes		**47,549,491**	(57,854,147)	(90,578,677)
Decrease (increase) in:				
Trade and other receivables		**(249,104,407)**	(74,709,538)	77,793,565
Prepayments and other assets		**(43,299,511)**	28,252,613	(10,227,803
Real estate held for development		**(269,892,466)**	-	-
Real estate inventories		**223,658,036**	(452,955,447)	(97,120,471)
Increase (decrease) in:				
Trade and other payables		**125,727,619**	42,212,283	65,529,647
Unearned income		**(13,221,499)**	(25,447,424)	(18,653,838)
Cash used in operations		**(178,582,736)**	(540,501,660)	(73,257,577)
Contributions to retirement fund	*24*	**(800,000)**	(665,579)	(6,000,000)
Retirement benefit paid		**(132,868,347)**	-	-
Interest received		**11,515,074**	11,105,288	14,813,697
Dividends received		**400,915**	306,679	313,904
Income taxes paid		**-**	-	(2,648,377)
Net cash used in operating activities		**(300,335,094)**	(529,755,272)	(66,778,353)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additional investments in a joint arrangement		**-**	-	(282,705)
Decrease (increase) in AFS		**-**	1,077,871	714,721
Additions to property and equipment	*19*	**(52,432,611)**	(8,060,924)	(4,176,415)
Additions to investment properties		**(329,274,552)**	-	(127,232)
Proceeds from sale of land invested in a joint arrangement		**-**	218,299,727	-
Proceeds from disposal of property and equipment		**1,493,191**	915,550	-
Proceeds from sale of AFS	*11*	**118,817,906**	-	-
Net cash provided by (used in) investing activities		**(261,396,066)**	212,232,224	(3,871,631)

	Note	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans	*23*	**827,554,118**	246,098,000	75,510,132
Finance cost paid		**(8,670,139)**	(7,549,824)	(1,558,876)
Payments of loans payable	*23*	**(258,448,994)**	(17,641,958)	(16,250,135)
Collection of subscriptions receivable	*27*	**86,319,972**	-	30,401
Net cash provided by financing activities		**646,754,957**	220,906,218	57,731,522
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**85,023,797**	(96,616,830)	(12,918,462)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**55,843,067**	152,459,897	165,378,359
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P140,866,864**	P55,843,067	P152,459,897

See Notes to the Consolidated Financial Statements.

1. Reporting Entity

Philippine Realty and Holdings Corporation (the "Parent Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 13, 1981. The principal activities of the Parent Company include the acquisition, development, sale and lease of all kinds of real estate and personal properties, and as an investment and holding company.

The Parent Company was listed with the Philippine Stock Exchange (PSE) on September 7, 1987.

The Parent Company is 35.67% owned by Greenhills Properties, Inc. (GPI), a corporation incorporated under the laws of the Philippines. The remaining shares are owned by various individuals and institutional stockholders.

The financial position and results of operations of the Parent Company and its subsidiaries (collectively referred to as the "Group") are consolidated in these financial statements (see Note 8).

The Parent Company's registered office is at One Balete, 1 Balete Drive Corner N. Domingo St. Brgy. Kaunlaran, District 4, Quezon City 1111, Philippines.

<u>Status of the Parent Company's Operations</u>
On March 18, 2014, as recommended by the Rehabilitation Receiver for the successful implementation of the court-approved Rehabilitation Plan, the Parent Company's Motion to Terminate Rehabilitation Proceeding on Account of the Successful Implementation of the Rehabilitation Plan was granted. Accordingly, the Stay Order issued in this case was lifted. As a result, the Parent Company was able to resume normal business operations without the supervision of a court approved receiver. On February 9, 2016, the SEC approved the Parent Company's quasi-reorganization reducing the par value of its shares from P1.00 to P0.50 and the additional paid in capital arising from the reduction of the par value was applied to the Parent Company's accumulated deficit (see Note 35). On January 4, 2017, the Regional Trial Court Branch 93 of Quezon City has issued a Certificate of Finality to certify that the order issued dated March 18, 2014 has become final and executory.

The Parent Company earned total comprehensive income of P265.5 million in 2017 and P65.7 million in 2016 and incurred a total comprehensive loss of P183.4 million in 2015. The Parent Company plans to leverage its key understanding of the property market through its Medium-Term Business and Financial plan. The objective of the plan is to serve as a roadmap which will drive the Parent Company's profitability primarily by generating operating income from recurring revenue sources and the proposed projects to be undertaken. First, major properties owned by the Parent Company and GPI, who has undertaken to provide operational and financial support to the Parent Company, will be developed for sale and lease. The Parent Company plans to also maximize the utilization of all its existing developments and investment properties. The Parent Company is likewise looking to grow its business through acquisition of revenue generating assets or developments in key cities within and outside Metro Manila. Lastly, aside from internally-generated funds, the Parent Company will continue to consider securing necessary and sufficient funding from various financial sources.

2. Basis of Preparation

<u>Statement of Compliance</u>
The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC), as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The accompanying consolidated financial statements as at and for the year ended December 31, 2017 were approved and authorized for issuance by the Board of Directors (BOD) on April 12, 2018.

<u>Basis of Measurement</u>
The consolidated financial statements have been prepared under the historical cost convention, except for the following which are measured using alternative basis at each reporting date:

Financial assets at fair value through profit or loss	Fair value
Available-for-sale financial assets	Fair value
Retirement benefit obligation	Present value of the defined benefit obligation less fair value of plan assets

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the presentation and functional currency of the Group. All financial information presented have been rounded to the nearest peso, unless otherwise stated.

Use of Estimates and Judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in Note 4.

3. Significant Accounting Policies

Adoption of New and Revised Standards, Amendments to Standards and Interpretations

The Group has adopted the following amendments to standards starting January 1, 2017. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Group's financial statements.

- *PAS 7, 'Statement of Cash Flows'* - The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes – e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12).* The amendments clarify that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

Standards Issued But Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

Effective January 1, 2018:

- PFRS 9, Financial Instruments issued in November 2009. PFRS 9 replaces the multiple classification models in PAS 39 Financial Instruments: Recognition and Measurement with a single model that has initially only two classification categories: amortized cost and fair value.

  Classification of financial assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: (a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, (b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognized at fair value.

All fair value movements on financial assets are taken through the statement of income, except for equity investments that are not held for trading, which may be recorded in the statement of income or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option, entities will need to recognize the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than in profit or loss.

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

In July 2014, the final phase of PFRS 9 was issued. Further changes to the classification and measurement rules and introduction of a new impairment model were made. The changes introduce:

- a third measurement category, fair value through other comprehensive income (FVOCI) for certain financial assets that are debt instruments;

- a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

Effective January 1, 2019:

- PFRS 15, *Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

- PFRS 16, *Leases* issued in January 2016. This new standard replaces PAS 17, 'Leases' and other related interpretations. For lessees, an entity obtains the right to use an asset at the start of the lease, and if lease payments are paid over time, it also obtains financing. Accordingly, PFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by PAS 17 and, instead, introduces a single lessee accounting model. In applying that model, a lessee is required to recognize (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. For lessors, this new standard carries forward the lessor accounting requirements in PAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases and to account for those types of leases differently.

Deferral of the local implementation of Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28).* The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, 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.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments 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 Group is currently assessing the impact of the above new standards and amendments to standards effective subsequent to December 31, 2017 in its consolidated financial statements in the period of initial application. Additional disclosures as required will be included in the consolidated financial statements accordingly.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

<u>Basis of Consolidation</u>

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Parent Company, the subsidiaries, up to December 31 each year. Details of the subsidiaries are shown in Note 8.

The consolidated financial statements were prepared using uniform accounting policies for like transactions and other events in similar circumstances. Inter-company balances and transactions, including inter-company profits and unrealized profits and losses, are eliminated.

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Parent Company controls an entity when the Parent Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are deconsolidated from the date that control ceases.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired i.e. discount on acquisition is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the Parent Company.

Acquisition-related costs are expensed as incurred.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Associates and joint ventures

An associate is an entity over which the Parent Company is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a joint venture is a joint arrangement that involves the establishment of a separate entity in which each venturer has an interest.

An investment is accounted for using the equity method from the day it becomes an associate or joint venture. The investment is initially recognized at cost. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, the investments in the investee companies are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Parent Company's share in the net assets of the investee companies, less any impairment losses. The consolidated statements of total comprehensive income reflect the share of the results of the operations of the investee companies. The Parent Company's share of post-acquisition movements in the investee's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Parent Company and the investee companies are eliminated to the extent of the interest in the investee companies and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when their investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee companies. When the investee companies subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the investee companies and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances. 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 retaining investment and proceeds from disposal is recognized in profit or loss.

Business Combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree at fair value of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Segment Information

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 8 to the financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

For management purposes, the Group is currently organized into five business segments. These divisions are the basis on which the Group reports its primary segment formation.

The Group's principal business segments are as follows:

a. Sale of Real Estate and Leasing
b. Property Management
c. Insurance Brokerage
d. Travel Services
e. Holding Company

The Group's resources producing revenues are all located in the Philippines. Therefore, geographical segment information is not presented.

Cash and Cash Equivalents

Cash includes cash on hand and in banks and is stated at its face value. Cash in banks earns interest at the prevailing interest rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities of three (3) months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

Financial Assets

Financial assets are recognized in the Group's consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Group's financial assets, except for investments classified as at fair value through profit or loss. Subsequently, financial assets are recognized either at fair value or at amortized cost.

Current financial assets include financial assets that are consumed or realized as part of the normal operating cycle even when they are not expected to be realized within twelve months after the reporting period, otherwise, they are classified as non-current assets.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. As of the reporting date, the Group has the following categories of financial assets:

Financial assets at fair value through profit or loss

Financial assets are classified as investments at fair value through profit or loss when these are acquired for trading or are designated upon initial recognition. Financial assets under this category are initially recorded and are subsequently measured at fair value with gains and losses arising from changes in fair value being included in profit or loss for the year. Transaction costs on purchases and sale of financial assets under this category are recognized as expense in profit or loss.

A financial asset is classified as at FVPL if:

a. it has been acquired principally for the purpose of selling in the near future; or
b. it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
c. it is a derivative that is not designated and effective as a hedging instrument.

The Group's investment in equity securities of various listed companies presented as "financial asset at FVPL" in the consolidated statements of financial position are classified under this category.

Loans and receivables

Cash and cash equivalents, trade and other receivables and advances to associates that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Available-for-sale financial assets are initially measured at fair value plus incremental direct transaction costs and subsequently are carried at fair value. Unrealized gains and losses arising from changes in fair value are recognized directly in other comprehensive income, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. When the available-for-sale financial asset is disposed of or is determined to be impaired, the cumulative unrealized gain or loss previously recognized in equity is included in profit or loss as a reclassification adjustment even if the financial asset (AFS) has not been derecognized.

The Group's investment in listed shares of stocks and golf and country club shares presented as available-for-sale financial assets in the consolidated statements of financial position are classified under this category.

Held-to-maturity investment

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that the Group has the positive intention and the ability to hold to maturity other than those that do not meet the definition of loans and receivables and those that were not designated on initial recognition as assets at fair value through profit or loss or as AFS. HTM investments are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. Generally, the Group treats 'significant' as 20% or more and 'prolonged' as greater than twelve months. If any such evidence exists for available-for-sale financial assets, 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 profit or loss - is removed from equity and recognized in profit or loss. Impairment losses for an investment in an equity instrument classified as available-for-sale financial assets shall not be reversed through profit or loss but in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit and loss for the year, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss for the year.

Loans and receivables

For loans and receivables category, the Group first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant of not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables 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 on loans and receivables carried at amortized cost 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 credit losses that have not been incurred, discounted at the financial asset's original effective interest rate, i.e., the effective interest rate computed at initial recognition. The carrying amount of the financial assets carried at amortized cost is reduced directly by the impairment loss, with the exception of trade receivables wherein the carrying amount is reduced through the use of an allowance account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss for the year.

Other financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred 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, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on financial assets carried at cost are not reversed.

Derecognition of Financial Asset

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 right to receive cash flows from the asset has expired;

- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- The Group has transferred its right to receive cash flows from the asset and either has: (a) 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.

Financial Liabilities

Financial liabilities are recognized in the Group's consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Group's financial liabilities, which do not include any debt instruments classified as at fair value through profit or loss.

The Group classifies its financial liabilities in the following categories; financial liabilities at fair value through profit or loss and other financial liabilities.

A financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

Financial liabilities that are not classified as at fair value through profit or loss are measured at amortized cost. Financial liabilities measured at amortized cost are subsequently measured using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period.

The Group has no financial liability at fair value through profit or loss. Other financial liabilities include trade and other payables (except for payables to government), other non-current liabilities and loans payable.

Derecognition of Financial Liabilities

Financial liabilities are derecognized only when they are extinguished, when the obligation specified in the contract is discharged, cancelled or has expired. Any difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, are recognized in profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to income as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the consolidated statements of financial position as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one (1) year or the Group's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as non-current assets.

Real Estate Inventories

Property acquired or being developed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value.

Cost includes amounts paid to contractors for construction, borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

Net realizable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less costs to complete and the estimated costs to sell.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

The provision account, if any, is reviewed on a monthly basis to reflect the reasonable valuation of the Group's inventories. Inventory items identified to be no longer recoverable is written-off and charged as expense for the period.

Real Estate Held for Development

Land held for development is measured at cost less any impairment losses. Expenditures for development and improvements of land are capitalized as part of the cost of the land. Directly identifiable borrowing costs are capitalized while the development and construction is in progress.

Property and Equipment

Property and equipment are initially measured at cost which consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use and are subsequently measured at cost less any accumulated depreciation, amortization and impairment losses, if any.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

	Number of years
Building	25
Building improvements	5 to 10
Office furniture, fixtures and equipment	3 to 10
Transportation and other equipment	5

The assets' residual values, estimated useful lives and depreciation and amortization methods are reviewed periodically to ensure that the amounts, periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

Derecognition

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time, the cost and their related accumulated depreciation are removed from the accounts. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Investment Properties

Investment properties comprised completed property and property under development or re-development that are held to earn rentals or capital appreciation or both and that are not occupied by the Group. Investment property is initially measured at cost incurred in acquiring the asset and subsequently stated at fair value. Revaluations are made with sufficient regularity by external independent appraisers to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the period. The external independent appraiser uses sales comparison approach in arriving at the value of the properties. In this approach, the value of the properties is based on sales and listings of comparable properties. This is done by adjusting, the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity or at different floor levels of the same building. Comparison would be premised on factors such as location, size and physical attributes, selling terms, facilities offered and time element.

A gain or loss arising from a change in the fair value of investment property is recognized in profit or loss for the period in which it arises.

Prior to the change in accounting policy, depreciation of investment properties (condominium units) is computed using the straight-line method over the estimated useful lives of forty (40) years.

A transfer is made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. A transfer is made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. A transfer between investment property, owner-occupied property and inventory does not change the carrying amount of the property transferred nor does it change the cost of that property for measurement or disclosure purposes.

Derecognition
Investment properties are derecognized when either 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. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statements of total comprehensive income in the year of retirement or disposal.

<u>Impairment of Non-financial Assets</u>
At each reporting date, the Group assesses whether there is any indication that any of its non-financial assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount of the non-financial asset is the higher of fair value less costs of disposal and value-in-use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense.

When an impairment loss reverses subsequently, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized in profit or loss.

<u>Fair Value Measurement</u>
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between participants at measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs for the asset or liability that are not based on observable market data.

<u>Equity</u>
An equity instrument is any contract that evidences a residual interest in the assets of the Parent Company after deducting all of its liabilities. Distribution to the Parent Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Parent Company's Board of Directors.

Capital stock
Capital stock is classified as equity when there is no obligation to the transfer of cash or other assets. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Additional paid-in capital
Additional paid-in capital pertains to premium paid over the par value of shares.

Retained Earnings (Deficit)
Retained earnings (deficit) include all the accumulated income (losses) of the Group, dividends declared and share issuance costs. Retained earnings (deficit) is net of amount offset from additional paid-in capital arising from the quasi-reorganization.

Treasury stock
The Parent Company's equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statements of total comprehensive income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Employee Benefits

Short-term benefits
The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Group to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

Post-employment benefits
The Group (except UTC and SPI) has a funded, non-contributory defined benefit retirement plan. The post-employment expense is determined using the Projected Unit Credit Method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Typically defined benefit plans define an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statements of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity through other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, net of discounts, rebates and value added tax (VAT) and represents amounts receivable for goods and services in the normal course of business.

Sales of real estate
A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee (PIC) Q&A No. 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Parent Company has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage, and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Trade and other payables" account in the consolidated statements of financial position.

Management fee
Management fee is recognized when the related services have been performed in accordance with the terms and conditions of the management agreement and applicable policies.

Rent
Rent income from operating leases is recognized as income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.
Commission income
Revenue from commissions is recognized at the time it is earned, generally as of the effective date of the applicable policies. Revenue recognized is the amount of commission earned as an agent and excludes amounts collected on behalf of the principal.

Gain on sale of non-financial assets
Gain on sale of non-financial asset is recognized at the time of disposal of the non-financial asset. The difference between the net disposal proceeds and carrying amount of the non-financial asset is recognized in profit or loss.

Realized and unrealized gains on sale of financial assets at FVPL
Realized gains are recognized at the time of disposal of the securities on a trade date basis. Unrealized gains on changes in fair value of trading securities are recognized in profit or loss upon revaluation at each reporting date.

Interest income
Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income
Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Other income
Other income is recognized when earned.

Unearned Income
Unearned income represents collections from customers which are as of the reporting period not yet earned. Unearned income are initially recorded as liability and recognized at the amount actually received. Subsequently, these are earned through profit or loss based on the percentage of completion of the property sold.

Cost and Expense Recognition
Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in profit or loss on the basis of: (i) a direct association between the costs incurred and the earning of specific items of income; (ii) systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or (iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify for recognition in the consolidated statements of financial position as an asset.

Contract costs include all direct materials and labor cost and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Cost of the real estate sold before the completion of the contemplated development is determined based on actual development cost and project estimates as determined by the contractors and the Parent Company's technical staff.

Cost and expenses in the consolidated statements of total comprehensive income are presented using the function of expense method. General and administrative expenses are costs attributable to general, administrative and other business activities of the Group.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they were incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs are capitalized from the commencement of the development work until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Leases

Group as Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as an expense in the consolidated statements of total comprehensive income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Group as Lessor

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the consolidated statements of total comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency Transactions and Translation

Transactions in currencies other than Philippine peso are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are restated at the rates prevailing on the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the year.

Income Tax

Income tax expense for the period comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax expense is calculated on the basis of the tax laws enacted at the reporting date. Management periodically evaluates positions in income tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary difference arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. The Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority and the same taxable entity.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation, either legal or constructive, as a result of a past event; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and; when the amount of the obligation can be estimated reliably. When the Group expects reimbursement of some or all of the expenditure required to settle a provision, the entity recognizes a consolidated asset for the reimbursement only when it is virtually certain that reimbursement will be received when the obligation is settled.

The amount of the provision recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the cash flows estimated to settle the present obligation; its carrying amount is the present value of those cash flows.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities 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 when an inflow of economic benefits is probable.

Related Party Relationships and 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 enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Earnings (Loss) per Share

Basic earnings (loss) per share

The Group computes its basic earnings (loss) per share by dividing net profit or loss attributable to common equity holders of the Parent Company by the weighted average number of common shares issued and outstanding during the period.

Diluted earnings (loss) per share

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

Events After the Reporting Date

The Group identifies events after the reporting date as events that occurred after the reporting date but before the date the consolidated financial statements were authorized for issue. Any subsequent event that provides additional information about the Group's financial position at the reporting date is reflected in the consolidated financial statements. Non-adjusting subsequent events are disclosed in the notes to the consolidated financial statements when material.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical Accounting Estimates and Assumptions

Estimating Useful Lives of Assets

The useful lives of assets are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives of assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the Group's assets. In addition, the estimation of the useful lives is based on the Group's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of assets would increase the recognized operating expenses and decrease non-current assets.

Estimating Allowances for Impairment Loss on Receivables and Advances to Associates

The Group estimates the allowance for impairment loss on receivables and advances to associates based on assessment of specific accounts when the Group has information that certain customer/related party are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including, but not limited to, the length of relationship with the customer/related party and the customer/related party's current credit status based on third party credit reports and known market factors. The Group used judgment to record specific reserves for customer/related party against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated.

Impairment loss as at December 31, 2017 and 2016 amounted to P170,226,605 and P170,165,322, respectively.

Evaluation of Net Realizable Value of Real Estate Inventories

The Parent Company adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the assets. In determining the recoverability of the assets, management considers whether those assets are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Results of management's assessment disclosed that there is no need for provision for impairment of inventories as at December 31, 2017 and 2016.

Revenue Recognition

When a contract for the sale of a property upon completion of construction is judged to be a construction contract, revenue is recognized using the percentage-of-completion method as construction progresses. The Group considers the terms and conditions of the contract, including how the contract was negotiated and the structural elements that the customer specifies when identifying individual projects as construction contracts. The percentage of completion is estimated by reference to the stage of the projects and contracts determined based on the proportion of contract costs incurred to date and the estimated costs to complete.

The Group assesses its revenue arrangements to determine if it is a principal or an agent. The Group is acting as a principal when it has exposure to the significant risks and rewards with the sales transactions or rendering of services. The Group is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sales transactions or rendering of services.

Post-employment and Other Employee Benefits

The present value of the retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement obligation.

Other key assumptions for retirement obligations are based in part on current market conditions. Additional information is disclosed in Note 24.

Retirement obligation as at December 31, 2017 and 2016 amounted to P30,911,040 and P143,908,920, respectively.

Contingencies

The Group is currently involved in various legal proceedings and tax assessments. Estimates of probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the Group's strategies relating to these proceedings.

Realizability of Deferred Tax Assets
The Group reviews the carrying amounts at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized. The Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the utilization of deferred tax assets.

Total unrecognized deferred tax assets amounted to P128,561,073 and P115,758,015 as at 2017 and 2016, respectively (See Note 39).

Impairment Losses on Non-financial Assets
The Group performs an impairment review when certain impairment indicators are present. Determining the fair value of non-financial assets, which require 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 the consolidated financial statements. Future events could cause the Group to conclude that non-financial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial position and results of operations.

Critical Accounting Judgments

Operating Lease
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating lease.

Distinction between Investment Properties and Owner-occupied Properties and Real Estate Inventories
The Group determines whether a property qualifies as investment property. In making this judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately at the reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

The Group determines whether a property will be classified as real estate inventories or real estate held for development. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (real estate inventories) or whether it will be treated as part of the Group's strategic land activities for development in the medium or long-term (real estate held for development).

Joint Arrangements
The Group's agreements are considered joint operations since the Group and the parties to the agreements only have rights/obligations to the assets/liabilities relating to the arrangement.

5. Fair Value Measurement

The fair values of the Group's financial instruments are equal to the carrying amounts in the consolidated financial position as at December 31, 2017 and 2016.

Fair values have been determined for measurement and disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values are disclosed in the notes to the financial statements specific to that asset or liability.

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are as follows:

Cash and cash equivalents, trade and other receivables and advances to associates – carrying amounts approximate fair values due to the relatively short-term maturities of these items.

Financial assets and FVPL and AFS financial assets – these are investments in equity securities, fair value for quoted equity securities is based on quoted prices published in markets as of reporting dates, unquoted equity securities are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value.

Trade and other payables – the carrying value of trade and other payables and loans payable - current approximate its fair value either because of the short-term nature of these financial liabilities or effect of discounting is immaterial.

Loans payable – carrying amounts approximate their fair values as they are either priced using prevailing market rates or that the effect of discounting is not significant.

The table below analyzes financial and non-financial assets measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorized:

December 31, 2017

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Equity investments	**P26,006,562**	**P -**	**P -**	**P26,006,562**
AFS financial assets				
Equity investments	**37,495,762**	**-**	**-**	**37,495,762**
Trust funds	**504,805**	**-**	**-**	**504,805**

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Equity investments	P23,439,020	P -	P -	P23,439,020
AFS financial assets				
Equity investments	129,237,354	-	-	129,237,354
Trust funds	1,317,849	-	-	1,317,849

6. Financial Risk Management Objectives and Policies

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Group. The policies for managing specific risks are summarized below.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. It monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Risk management policies and systems are reviewed regularly to reflect changes in market conditions.
The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Market Risk

Foreign exchange risk
The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise with respect to transactions denominated in US dollar. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. Significant fluctuation in the exchange rates could significantly affect the Group's financial position.

Foreign exchange risk exposure of the Group is limited to its cash and cash equivalents. Currently, the Group has a policy not to incur liabilities in foreign currency. Construction and supply contracts, which may have import components, are normally denominated in Philippine peso.

The amounts of the Group's foreign currency denominated monetary assets at the reporting date are as follows:

	2017		2016	
	US dollar Deposit	**Peso Equivalent**	US dollar Deposit	Peso Equivalent
Cash and cash equivalents	**$283,502**	**P14,153,248**	$131,196	P6,536,169

The closing rates applicable as at December 31, 2017 and 2016 are P49.923 and P49.820 to US$1, respectively.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their peso translation at the period end for a 5% change in foreign currency rates. A 5% weakening of Philippine peso against the US dollar will have an increase in net income or decrease in net loss amounting to P707,685 and P326,808 in 2017 and 2016, respectively. For a 5% strengthening of the Philippine peso against the US dollar, there would be an equal and opposite impact on the net income/loss.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The primary source of the Group's interest rate risk relates to its cash and cash equivalents and loans payable. The interest rates on cash and cash equivalents and loans payable are disclosed in Notes 9 and 23, respectively.

Cash and cash equivalents are short-term in nature and with the current interest rate level, any variation in the interest will not have a material impact on the profit or loss of the Group.

Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

Based on the sensitivity performed the impact on profit or loss of a 10% increase/decrease on interest rates on cash and cash equivalents and loans payable would be a maximum increase/decrease for 2017 and 2016 as follows:

	2017	2016
Cash and cash equivalents	**P48,550**	P11,732
Loans payable	**2,214,177**	743,509

Price risk

Price risk is the risk that the fair value of the financial instrument particularly equity instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. The Parent Company's Board of Directors reviews and approves all equity investment decisions.

At December 31, 2017, the impact of 10% increase/decrease in the price of listed equity securities, with all other variables held constant, would have been an increase/decrease of P3.7 million and P12.92 million for 2017 and 2016, respectively in the Group's total comprehensive income and equity for the year. The Group' sensitivity analysis takes into account the historical performance of the stock market.

<u>Credit risk</u>

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group's credit risk is primarily attributable to its cash and cash equivalents, trade and other receivables, and held-to-maturity investments as disclosed in Notes 9, 12 and 13, respectively. The Group has adopted stringent procedure in evaluating and accepting risk by setting counterparty and transaction limits. In addition, the Group has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at December 31 are as follows:

	2017	2016
Cash and cash equivalents excluding cash on hand	**P140,763,288**	P55,772,027
Trade and other receivables	**1,069,562,007**	808,578,568
Held-to-maturity financial assets	**1,000,000**	1,000,000
	P1,211,325,295	P865,350,595

The credit quality of financial assets which are neither past due nor impaired is discussed below:

(a) Cash in banks and cash equivalents

The Company deposits its cash balance in reputable banks to minimize credit risk exposure amounting to P140,763,288 and P55,772,027 as at December 31, 2017 and 2016, respectively. Cash deposits are considered to be of high grade.

(b) Trade and other receivables

The credit quality of trade and other receivables that are neither past due nor impaired can be assessed by reference to internal credit ratings or to historical information about counterparty default rates:

	Group A	**Group B**	**Group C**	**Total**
2017				
Trade and other receivables	**P325,566,628**	**P5,582,239**	**P14,728,921**	**P345,877,788**
2016				
Trade and other receivables	P56,970,958	P31,735,500	P30,206,078	P118,912,536

- Group A - new customers
- Group B - existing customers with no defaults in the past.
- Group C - existing customers with some defaults in the past. All defaults were fully recovered.

As at December 31, 2017 and 2016, trade and other receivables of P723,645,447 and P689,666,032, respectively, were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these receivables is as follows:

	More than 90 days	**More than one year**	**Total**
2017			
Trade and other receivables	**P101,489,274**	**P622,156,173**	**P723,645,447**
2016			
Trade and other receivables	P149,296,359	P540,369,673	P689,666,032

As at December 31, 2017 and 2016, trade and other receivables of P37,747,557, were impaired and provided for. There was no provision for impairment loss in 2017 and 2016. It was assessed that a portion of the receivables is expected to be recovered. The aging of these receivables is as follows:

	More than 90 days	More than one year	Total
2017			
Trade and other receivables	**P -**	**P37,240,467**	**P37,240,467**
2016			
Trade and other receivables	P -	P37,747,557	P37,747,557

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The condominium certificates of title remain in the possession of the Parent Company until full payment has been made by the customers.

(c) Held-to-maturity (HTM)

The P1.0 million HTM investment at December 31, 2017 is an unsecured note issued by a publicly-listed universal bank with a term of 10 years.

Credit risks associated with fixed income investments are managed using:

a. Detailed credit and underwriting policies
b. Aggregate counterparty exposure limits
c. Monitoring against pre-established limits

Liquidity risk
Liquidity risk refers to the risk in which the Group encounters difficulties in meeting its short-term obligations.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group maintains adequate highly liquid assets in the form of cash and cash equivalents to assure necessary liquidity.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

		Contractual Obligation			
	Carrying Amount	Less than One Year	One to Five Years	More than Five Years	Total
2017			(In Thousand Pesos)		
Trade and other payables*	**P311,219**	**P105,425**	**P205,794**	**P -**	**P311,219**
Loans payable	**856,821**	**134,162**	**916,618**	**5,232**	**1,056,012**
2016					
Trade and other payables*	P284,680	P255,426	P26,648	P2,606	P284,680
Loans payable	287,716	121,914	179,125	7,268	308,307

**excluding payables to government*

7. Capital Management

The Parent Company manages its capital to ensure that the Parent Company is able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Parent Company consists of equity, which comprises of issued capital, reserves, retained earnings and deficit.

Management reviews the capital structure on a quarterly basis. As part of this review, management considers the cost of capital and the risks associated with it.

There were no changes in the Parent Company's approach to capital management during the year.

As part of the reforms of the Philippine Stock Exchange (PSE) to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of ten percent (10%) of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Parent Company has fully complied with this requirement in 2017 and 2016.

Tektite Insurance Brokers, Inc. (TIBI)
The operations of TIBI are subject to the regulatory requirements of the Insurance Commission (IC). Such regulations not only prescribe approval and monitoring of activities but also impose certain capital requirement.

In 2006, the IC issued Memorandum Circular No. 1-2006 which provides for the minimum capitalization requirements of all insurance brokers and reinsurance brokers. Under this circular, existing insurance brokers and reinsurance brokers must have a net worth in accordance with the amounts and schedule stipulated in the circular.

As at December 31, 2017 and 2016, the required statutory net worth for TIBI, being an existing insurance broker is P10 million.

TIBI has fully complied with the capitalization requirements of Memorandum Circular No. 1-2006 in 2017 and 2016.

8. Segment Information

Details of the Parent Company's subsidiaries as of December 31, 2017 and 2016 are as follows:

	Principal Activities	**Ownership Interest 2017**	**Ownership Interest 2016**
PRHC Property Managers, Inc. (PPMI)	Property Management	**100%**	100%
Tektite Insurance Brokers, Inc. (TIBI)	Insurance Brokerage	**100%**	100%
Sultan's Power, Inc. (SPI)	Holding Company	**100%**	100%
Universal Travel Corporation (UTC)	Travel and Tours Agency	**81.53%**	81.53%

Minority interests as of 2017 and 2016 represent the equity interests in Universal Travel Corporation not held by the Group.

The segment assets and liabilities as of December 31, 2017 and 2016 and the results of operations of the reportable segments for the years ended December 31, 2017 and 2016 are as follows:

2017

	Parent	Subsidiaries						
	Sale of Real Estate and Leasing	**Property Management**	**Insurance Brokerage**	**Holding Company**	**Travel services**	**Other Income**	**Eliminations**	**Consolidated**
	(In Thousand Pesos)							
Revenue	P831,370	P32,668	P5,691	P -	P572	P397,025	(P3,241)	P1,264,085
Segment Result	123,883	17,091	(1,306)	(3,348)	(1,230)	-	3,128	138,218
Interest expense	9,547	-	-	-	-	-	-	9,547
Interest income	(11,428)	(1)	(39)	-	(47)	-	-	(11,515)
Dividend income	(401)	-	-	-	-	-	-	(401)
Equity in net loss (gain) of associates	(3,128)	-	-	-	-	-	-	(3,128)
Income taxes	129,522	81	187	-	-	-	-	129,790
Income (loss) before minority interest	247,995	17,171	(1,158)	(3,348)	(1,277)	-	3,128	264,361
Minority interest	-	-	-	-	-	-	1,851	1,851
Net Income (Loss)	P247,995	P17,171	(P1,158)	(P3,348)	(P1,277)	P -	P4,979	P262,510
Other Information								
Segment assets	P4,282,916	P57,367	P18,445	P22,253	P30,456	P -	(P31,986)	P4,379,451
Investments at equity method	204,898	-	-	-	-	-	(120,020)	84,878
Unallocated corporate assets	-	-	-	-	-	-	-	-
Consolidated Total Assets	P4,487,814	P57,367	P18,445	P22,253	P30,456	P -	(P152,044)	P4,464,290
Segment liabilities	P1,366,607	P24,080	P2,184	P74,366	P54,079	P -	(P133,780)	P1,387,536
Consolidated Total Liabilities	P1,361,663	P19,136	P2,184	P74,366	P54,079	P -	(P133,780)	P1,382,592
Capital expenditure	P362,373	P47	P8	P -	P -	P -	P -	P362,428
Depreciation and amortization	26,253	106	821	-	164	-	-	27,344
Non-cash expenses other than depreciation	8,603	2,578	1,633	-	-	-	-	12,814

	2016							
	Parent	Subsidiaries						
	Sale of Real Estate and Leasing	Property Management	Insurance Brokerage	Holding Company	Travel services	Other Income	Eliminations	Consolidated
	(In Thousand Pesos)							
Revenue	P374,624	P33,623	P7,112	P -	P609	P180,338	(P2,041)	P594,265
Segment Result	P21,426	(P435)	P698	(P34,716)	(P1,143)	P -	(P2,083)	(P16,253)
Interest expense	7,426	8	-	1	-	-	-	7,435
Interest income	(11,051)	(1)	-	(53)	-	-	-	(11,105)
Dividend income	(307)	-	-	-	-	-	-	(307)
Equity in net loss of associates	2,083	-	-	-	-	-	-	2,083
Income taxes	8,417	948	394	-	-	-	-	9,759
Income (loss) before minority interest	27,994	520	1,092	(34,768)	(1,143)	-	(2,083)	(8,388)
Minority interest	-	-	-	-	-	-	4,486	4,486
Net Income (Loss)	P27,994	P520	P1,092	(P34,768)	(P1,143)	P -	P2,403	(P3,902)
Other Information								
Segment assets	P3,261,018	P36,110	P18,427	P23,332	P8,281	P -	(P21,609)	P3,325,559
Investments at equity method	189,034	-	-	-	-	-	(107,283)	81,751
Unallocated corporate assets	37,300	5,297	(102)	-	-	-	-	42,495
Consolidated Total Assets	P3,487,352	P41,407	P18,325	P23,332	P8,281	P -	(P128,892)	P3,449,805
Segment liabilities	P717,557	P22,772	P2,598	P57,046	P54,189	P -	(P115,415)	P738,747
Consolidated Total Liabilities	P717,557	P22,772	P2,598	P57,046	P54,189	P -	(P115,415)	P738,747
Capital expenditure	P3,421	P171	P1,781	P2,688	P -	P -	P -	P8,061
Depreciation and amortization	22,177	1,150	1,505	-	164	-	-	24,996
Non-cash expenses other than depreciation	81,100	2,164	393	-	-	-	-	83,657

	2015							
	Parent	**Subsidiaries**						
	Sale of Real Estate and Leasing	**Property Management**	**Insurance Brokerage**	**Travel services**		**Other Income**	**Eliminations**	**Consolidated**
				(In Thousand Pesos)				
Revenue	P287,971	P29,797	P7,987	P -	P449	P27,797	(P2,024)	P351,977
Segment Result	(P131,573)	(P547)	P779	(P13,069)	(P1,668)	P -	(P3,508)	(P149,586)
Interest expense	1,839	-	-	-	-	-	-	1,839
Interest income	(14,728)	(2)	(52)	-	(32)	-	-	(14,814)
Dividend income	(314)	-	-	-	-	-	-	(314)
Equity in net loss of associates	3,507	-	-	-	-	-	-	3,507
Income taxes	1,515	350	773	-	-	-	-	2,638
Income (loss) before minority interest	(139,754)	(199)	1,500	(13,069)	(1,700)	-	(3,508)	(156,730)
Minority interest	-	-	-	-	-	-	314	314
Net Income (Loss)	(P139,754)	(P199)	P1,500	(P13,069)	(P1,700)	P -	(P3,194)	(P156,416)
Other Information								
Segment assets	P2,922,218	P36,808	P17,562	P20,566	P25,403	P -	(P29,427)	P2,993,130
Investments at equity method	160,978	-	-	-	-	-	(77,144)	83,834
Unallocated corporate assets	13,906	3,751	(408)	-	-	-	-	17,249
Consolidated Total Assets	P3,097,102	P40,559	P17,154	P20,566	P25,403	P -	(P106,571)	P3,094,213
Segment liabilities	P391,007	P20,265	P2,460	P32,724	P53,856	P -	(P89,530)	P410,783
Consolidated Total Liabilities	P391,007	P20,265	P2,460	P32,724	P53,856	P -	(P89,530)	P410,783
Capital expenditure	P4,058	P116	P2	P -	P -	P -	P -	P4,176
Depreciation and amortization	22,339	1,611	619	-	164	-	-	24,733
Non-cash expenses other than depreciation	31,884	1,691	355	-	-	-	-	33,929

The following are the principal activities of the Parent Company's subsidiaries:

PRHC Property Managers, Inc. (PPMI)
PPMI was incorporated and registered with the SEC on May 24, 1991 to engage in the business of managing, operating, developing, buying, leasing and selling real and personal property either for itself and/or for others.

The registered office of PPMI is at 5/F East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City.

Tektite Insurance Brokers, Inc. (TIBI)
TIBI was incorporated and registered with the SEC on January 2, 1989 to engage in the business of insurance brokerage.

The registered office of TIBI is at 20/F East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City.

Universal Travel Corporation (UTC)
UTC was incorporated and registered with the SEC on November 9, 1993 to engage in the business of travel services by providing, arranging, marketing, engaging or rendering advisory and consultancy services relating to tours and tour packages.

The registered office of UTC is at Ground Floor, West Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City.

UTC holds 41,673,000 shares of the Parent Company which was acquired at P50.97 million.

Sultan's Power, Inc. (SPI)
SPI was incorporated under Philippine laws and registered with the SEC on March 19, 2015 as a holding company and commenced operations as such by acquiring the majority outstanding shares of stock of Recon-X Energy Corporation, a company in pre-operating stage to engage in the business of recycling, incorporated in the Philippines.

The registered office of SPI is at Unit 2001B East Tower PSE Centre, Exchange Road Ortigas, Pasig City.

9. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash in banks	**P114,017,663**	P55,157,179
Cash on hand	**103,576**	71,040
Cash equivalents	**26,745,625**	3,614,848
	P140,866,864	P55,843,067

Cash in banks earn average annual interest ranging from 1.0% and 1.25% in 2017 and 2016. Cash equivalents represent short-term money market placements with maturities up to three months, and earn annual interest at the prevailing short-term investment rates. Interest income earned amounted to P0.51 million and P0.12 million and P0.90 million in 2017, 2016 and 2015, respectively (see Note 34).

10. Financial Assets at Fair Value Through Profit or Loss

These financial assets are equity securities of various listed companies. The fair values of these securities are based on quoted market prices.

The movements of financial assets at FVPL are summarized as follows:

	2017	2016
Balance, January 1	**P23,439,020**	P15,879,036
Fair value adjustments	**2,567,542**	7,559,984
Balance, December 31	**P26,006,562**	P23,439,020

This account is composed of the following securities at fair value:

	2017	2016
Property company	**P6,750,000**	P6,750,000
Holding firms	**19,256,562**	16,689,020
	P26,006,562	P23,439,020

Dividend income recognized in profit or loss amounted to P400,915, P306,679 and P313,904 in 2017, 2016 and 2015, respectively (see Note 35).

11. Available-for-sale (AFS) Financial Assets

This account is composed of the following securities:

	2017	2016
Cost:		
Listed shares of stocks	**P91,697,693**	P209,162,698
Trust funds	**504,805**	1,317,850
Golf and country club shares	**3,350,000**	3,350,000
	95,552,498	213,830,548
Accumulated unrealized holding loss	**(57,551,931)**	(83,275,345)
	P38,000,567	P130,555,203

The movements in the AFS financial assets are summarized as follows:

	2017	2016
January 1	**P130,555,203**	P95,544,306
Disposals	**(119,435,283)**	(1,297,230)
	11,119,920	94,247,076
Fair value adjustments	**26,929,544**	36,350,074
Transfer to consolidated statements of total comprehensive income on sale of AFS investments	**(48,897)**	(41,947)
December 31	**P38,000,567**	P130,555,203

AFS financial assets are investments in shares of stock of various listed equity securities, and golf and country club shares that present the Group with opportunity for return through dividend income and trading gains. The fair values of these investments are based on quoted market prices. Unrealized holding gains or losses from market value fluctuations are recognized as part of the Group's reserves.

Unrealized holding gain (loss) recognized in other comprehensive income from AFS financial assets amounted to P26.9 million in 2017, P36 million in 2016 and (P39 million) in 2015.

Proceeds from disposal of investments amounted to P118,817,906 in 2017.

12. Held-to-Maturity (HTM) financial assets

This account pertains to P1.0 million unsecured subordinated note issued by a universal bank with interest rate of 5.375% and has a term of 10 years. HTM investment is carried at amortized cost.

Management believes that the carrying amount of the Group's HTM financial assets approximate fair values.

13. Trade and Other Receivables

This account is composed of:

	2017	2016
Trade	**P752,602,623**	P514,171,170
Other receivables	**354,729,452**	332,154,955
	1,107,332,075	846,326,125
Less allowance for impairment loss	**(37,808,840)**	(37,747,557)
	P1,069,523,235	P808,578,568

Trade receivables include amounts due from buyers of the Parent Company's condominium projects, generally over a period of three (3) or four (4) years. The condominium certificates of title remain in the possession of the Parent Company until full payment has been made by the customers. Trade receivables due after one year amounted to P88.31 million in 2017 and P500.77 million in 2016. Trade receivables carry yield-to-maturity interest rates of 5.64% in 2017, 5.64% in 2016 and 5.58% in 2015. Interest income recognized amounted to P879,085, P746,775 and P1,654,069 as at December 31, 2017, 2016 and 2015, respectively (see Note 34).

Certain trade receivables with total carrying value of P13.4 million and P42.0 million as at December 31, 2017 and 2016 are pledged to a local bank as collateral to the Parent Company's loans payable (see Note 23).

Other receivables as at December 31, 2017 and 2016 include the remaining receivables from Xcell Property Ventures, Inc. (Xcell) amounting to P265 million and P255 million, respectively (see Note 17). The account also includes advances to contractors of Andrea North Skyline and Skyvillas Projects amounting to P20.38 million in 2017 and P16.94 million in 2016. The rest of the balances are receivables from lessees and concessionaires.

The management determines that other receivables are recoverable. The allowance for doubtful accounts for trade receivables has been determined as follows:

	2017	2016
Collectively impaired	**P22,301,040**	P22,239,757
Individually impaired	**15,507,800**	15,507,800
Total	**P37,808,840**	P37,747,557

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the client base being large and unrelated. Accordingly, Management believes that there is no further credit provision required in excess of the allowance for impairment loss on receivables.

Receivables amounting to P1,576,440 and P929,643 were directly written-off in 2017 and 2016, respectively.

14. Real Estate Inventories

Real estate inventories at December 31 consist of the following:

	2017	2016
In progress:		
Andrea North Skyvillas Tower	**P1,102,134,283**	P1,347,240,380
Andrea North Estate	**67,094,101**	31,963,304
Others	**16,973,867**	14,245,924
	1,186,202,251	1,393,449,608

Completed units:		
Andrea North Skyline Tower	**228,314,325**	239,185,202
The Icon Plaza	**25,251,249**	30,791,051
Casa Miguel	**6,895,314**	6,895,314
	260,460,888	276,871,567
	P1,446,663,139	P1,670,321,175

In July 2011, the Parent Company had a joint arrangement with Xcell for the development of a residential/commercial condominium on the Parent Company's Fort Bonifacio lot to be called "The Icon Plaza." The Parent Company contributed lot 9-4 to the joint arrangement and in return will receive twenty percent (20%) of the aggregated area of all the completed and saleable units of the project, plus 35% of the joint arrangement's pre-tax profits from the project. The Parent Company's share on the saleable area of The Icon Plaza under joint arrangement with Xcell is recorded as real estate inventories. The percentage of completion of The Icon Plaza is 100% and 99.11% as at December 31, 2017 and 2016, respectively.

Others mainly consist of cost of the master plan design of the new towers in Andrea North project.

The cost of real estate inventories recognized as expense amounted to P471,047,441, P223,046,461 and P203,958,701 in 2017, 2016 and 2015, respectively.

15. Prepayments and Other Assets

This account consists of:

	2017	2016
Creditable withholding tax	**P135,871,413**	P138,772,461
Prepaid taxes	**49,361,717**	8,770,054
Deferred input value added tax	**645,114**	841,032
Utilities deposit	**2,343,794**	2,343,794
Others	**15,941,414**	8,707,269
	P204,163,452	P159,434,610

Creditable withholding tax is the tax withheld by the customer from their payment to the Group and which tax is creditable against the income tax payable of the Group.

Prepaid taxes are unutilized creditable withholding taxes, a portion of which was filed for refund with the Bureau of Internal Revenue.

Others includes prepaid insurance, security deposits, accrued interest, loans due from employees, other accounts receivables and initial investment made by the Parent Company to a certain project amounting to P4.43 million in 2017 and 2016 related to master plan design.

16. Real Estate Held for Development

Real estate held for development pertains to the parcels of land in the following locations:

	2017	2016
New Manila, Quezon City	**P188,653,713**	P188,653,713
Baguio City	**269,892,466**	-
	P458,546,179	P188,653,713

17. Land Invested in Joint Arrangements

<u>Xcell Property Ventures, Inc. (Xcell)</u>

In February 2005, the Parent Company entered into a joint arrangement with Next Properties, Inc., renamed Xcell Property Ventures, Inc. (Xcell), for the development of a twin-tower residential condominium on two (2) of the Parent Company's Fort Bonifacio lots to be called "The

Icon Residences." The Parent Company contributed two (2) lots to the joint arrangement namely lots 14-2A and 14-1, and in return will receive twenty-percent (20%) of net sales or P804 million whichever is higher, plus 35% of the joint arrangement's pre-tax profits from the project.

Xcell shall be solely responsible for the construction of the two (2) condominiums over a period of five (5) to six (6) years. The admission value of the property based on the joint arrangement proposal is more than its cost.

Further, it was arranged under the Parent Company's Rehabilitation Court approved plan that while construction of the Project is on-going, Xcell shall remit to the Parent Company the amount of not less than (i) P280,000,000 for lot 14-1 and (ii) P304,600,000 for lot 14-2A. Provided, however, that total remittance to the Parent Company shall not be less than P20,000,000 per quarter starting in December 2005 for lot 14-2, and in June 2007 for lot 14-1.

In 2008, the Parent Company and Xcell entered into an amended joint arrangement. The agreement provides that all amounts remitted by Xcell shall be held in trust by the Parent Company, which shall open a special trust account with the trust department of a commercial bank acceptable to Xcell. The funds held in trust, as mandated by the rehabilitation plan, shall be utilized exclusively for the completion of the Parent Company's Andrea North Skyline Tower, construction of which resumed in February 2009.

In 2012, the Parent Company and Xcell made a clarification to the joint arrangement. It was agreed that the Parent Company's 35% share on the profit shall be taken entirely from the dividends from Xcell.

In 2014, the Parent Company and Xcell made further amendments to the joint arrangement that will be the final settlement for both parties since Icon Residences and Andrea North Skyline were 100% completed and the objectives of the agreement were already achieved. The land invested in the joint arrangement was transferred to Xcell during the year and the Parent Company's final settlement from the project amounted to a total of P891 million. The Parent Company recognized an income from the joint arrangement amounting to P84.67 million in 2014. Interest income on receivables arising from the joint arrangement amounting to P10,005,694 was recognized in 2017, 2016 and 2015 (see Note 34).

Tagaytay Joint Arrangement

A parcel of land with an area of 39,975 square meters located in Iruhin West, Tagaytay City was purchased at a cost of P60.4 million exclusively for the development in relation to the arrangement. A residential subdivision will be developed on the said parcel of land. In 1997, the said project was on its planning stage and recorded construction-in-progress consists primarily of payments for architectural designs. In 1998, the project was put on hold.

Additional investment made by the Parent Company to the joint arrangement amounted to P114,987 in 2016 and P282,705 in 2015 for the upkeep of the property.

In 2016, the Parent Company sold the land in Tagaytay for a consideration of P218.30 million with a gain of P156.92 million.

18. Investments in and Advances to Associates

Details of the ownership interest in associates are as follows:

	Ownership Interest	
	2017	2016
Le Cheval Holdings, Inc. (LCHI)	**45%**	45%
Alexandra (USA), Inc. (AUI)	**45%**	45%
Meridian Assurance Corporation	**30%**	30%

Details of investment in and advances to associates are as follows:

	2017	2016
Meridian Assurance Corporation		
Investment - acquisition cost	**P88,875,080**	P88,875,080
Accumulated equity in net loss:		
Balance at beginning of year	**(7,276,418)**	(5,202,566)
Equity in net gain (loss) for the year	**3,136,183**	(2,073,852)
Balance at end of year	**(4,140,235)**	(7,276,418)
	P84,734,845	P81,598,662

Le Cheval Holdings, Inc.		
Investment - Acquisition cost	**P11,250**	P11,250
Allowance for impairment loss	**(11,250)**	(11,250)
	-	-
Accumulated equity in net income:		
Balance at beginning of year	**152,282**	161,096
Equity in net loss for the year	**(8,676)**	(8,814)
Balance at end of year	**143,606**	152,282
	P143,606	P152,282
Alexandra (USA), Inc.		
Investment - Acquisition cost	**P14,184,150**	P14,184,150
Allowance for impairment loss	**(14,184,150)**	(14,184,150)
	-	-
Advances to AUI	**132,417,765**	132,417,765
Allowance for unrecoverable advances	**(132,417,765)**	(132,417,765)
	-	-
	P84,878,451	P81,750,944

The Parent Company's management performed an assessment for impairment on its investment in associates. The imminent liquidation of Alexandra USA, Inc. (AUI) indicates the possible impairment in the value of investment in this entity. In 2011, the Parent Company provided an allowance for impairment loss amounting to P14,184,150 for investments in AUI.

In 2014, the Parent Company provided an allowance for impairment loss amounting to P11,250 for investments in LCHI.

Other than as indicated above, the Group believes that there is no indication of impairment on its investments in and advances to associates.

Aggregated amounts relating to associates are as follows:

	2017	2016
Meridian Assurance Corporation (MAC)		
Total assets	**P362,135,175**	P406,009,758
Total liabilities	**82,184,648**	138,671,991
Net assets	**279,950,527**	267,337,767
Income	**83,309,791**	94,545,992
Cost and expenses	**72,855,848**	101,458,831
Net income (loss)	**P10,453,943**	(P6,912,839)
Le Cheval Holdings, Inc. (LCHI)		
Total assets	**P45,362**	P44,984
Total liabilities	**101,235**	81,579
Net liabilities	**(55,873)**	(36,595)
Income	**378**	389
Cost and expenses	**(19,657)**	(19,977)
Net loss	**(P19,279)**	(P19,588)

Alexandra (USA), Inc. (AUI)		
Total assets	P -	P -
Total liabilities	-	-
Net assets	-	-
Income	-	-
Cost and expenses	-	-
Net loss	P -	P -

The following are the principal activities of the Group's Associates:

Meridian Assurance Corporation

MAC was incorporated and registered with the SEC on March 16, 1960, renewed on November 13, 2007, primarily to engage in the business of insurance and guarantee of any kind and in all branches except life insurance, for consideration, to indemnify any person, firm or corporation against loss, damage or liability arising from any unknown or contingent event, and to guarantee liabilities and obligations of any person, firm or corporation and to do all such acts and exercise all such powers as may be reasonably necessary to accomplish the above purposes which may be incidental.

MAC did not comply with the minimum capital requirement set by the Insurance Commission as of December 31, 2016, as it is ceding its insurance business portfolio to another insurance company. MAC, however, will continue servicing the administrative requirements of all outstanding policies issued until their expiry. On March 30, 2017, the Company wrote the Insurance Commission to apply for a license as a servicing company and tendered its Certificate of Authority (CA) as non-life insurance company. Pending issuance of the servicing license, the Company still issued new policies up to April 30, 2017. On May 1, 2017, the Insurance Commission approved the Company's application as a servicing company and issued a servicing license. As a servicing insurance company, the Company's transactions are confined to: (i) accepting periodic premium payments from its policyholders; (ii) granting policy loans and paying cash surrender values of outstanding policies to its policyholders; (iii) reviving lapsed policies of its policyholders, and (iv) such other related services. Upon divestment of the insurance business, the Company plans to engage in the business of asset management.

The registered office of MAC is at the 7/F, West Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City. Aside from its head office in Metro Manila, it maintains offices in the cities of Cebu and Davao.

Le Cheval Holdings, Inc.

LCHI was incorporated and registered with the SEC on August 30, 1994 as a holding company and commenced operations as such by acquiring the majority outstanding shares of stock of Philippine Racing Club, Inc. (PRCI), a holding company incorporated in the Philippines. In 1996, LCHI sold its shares of stock with PRCI. Thereafter, LCHI became inactive.

Alexandra (USA), Inc.

AUI was incorporated in the United States of America (USA). AUI is involved in property development in Florida, USA. AUI is jointly owned with GPI (45%) and Warrenton Enterprises Corporation (10%) of William Cu-Unjieng. AUI is in the process of liquidation after the completion of the projects in Naples and Orlando.

19. Property and Equipment

The details of the carrying amounts of property and equipment, the gross carrying amounts, and accumulated depreciation and amortization of property and equipment are shown below:

	For the Years Ended December 31, 2017 and 2016				
	Condominium Units, Building and Building Improvements	Office Furniture, Fixtures and Equipment	Transportation and Other Equipment	Leasehold and Office Improvements	Total
Cost					
January 1, 2016	P98,278,914	P21,096,173	P26,637,849	P2,226,273	P148,239,209
Additions	2,687,083	2,085,476	3,211,078	77,287	8,060,924
Disposals	-	-	(2,388,393)	-	(2,388,393)
Reclassification/adjustment	-	(104,482)	88,308	-	(16,174)

December 31, 2016	100,965,997	23,077,167	27,548,842	2,303,560	153,895,566
Additions	20,006,752	1,245,750	31,180,109	-	52,432,611
Disposals	-	(55,804)	(2,900,697)	-	(2,956,501)
December 31, 2017	**120,972,749**	**24,267,113**	**55,828,254**	**2,303,560**	**203,371,676**
Accumulated Depreciation and Amortization					
January 1, 2016	19,055,111	18,484,852	15,683,920	1,512,167	54,736,050
Provision	4,795,383	1,033,767	3,951,646	100,995	9,881,791
Disposals	-	-	(1,472,844)	-	(1,472,844)
December 31, 2016	23,850,494	19,518,619	18,162,722	1,613,162	63,144,997
Provision	3,898,409	1,060,519	7,306,932	45,450	12,311,310
Disposals	-	(42,628)	(1,335,235)	-	(1,377,863)
December 31, 2017	**27,748,903**	**20,536,510**	**24,134,419**	**1,658,612**	**74,078,444**
At December 31, 2016	P77,115,503	P3,558,548	P9,386,120	P690,398	P90,750,569
At December 31, 2017	**P93,223,846**	**P3,730,603**	**P31,693,835**	**P644,948**	**P129,293,232**

20. Investment Properties

Effective 2017, the Group changed its accounting policy on investment property from cost method to fair value method wherein after initial recognition, the Group measures all of its investment property at fair value. The gain or loss arising from a change in the fair value of investment property is recognized in profit or loss for the period in which it arises.

The Group obtained the services of an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The effects are detailed below:

	Note	**2017**
Balance, beginning		**P311,726,715**
Acquisitions		**329,274,552**
Gain on fair value change	*35*	**354,123,354**
Balance, ending		**P995,124,621**

An independent valuation of the Company's investment property was performed by appraisers as of March 6, 2017 to determine their fair value. The external independent appraiser used sales comparison approach in arriving at the value of the properties. In this approach, the value of the properties is based on sales and listings of comparable properties. This is done by adjusting, the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity or at a different floor levels of the same building. Comparison would be premised on factors such as location, size and physical attributes, selling terms, facilities offered and time element.

Details of investment property are as follows:

	2017	2016
Condominium units		
PSE Tower I	**P765,798,892**	P249,248,632
PSE Tower II	**140,543,785**	49,239,137
Baguio	**58,208,839**	-
PPMI condo unit	**30,573,105**	13,238,946
	995,124,621	311,726,715
Accumulated Depreciation	**(129,775,911)**	(114,743,716)
	P865,348,710	P196,982,999

The movements of accumulated depreciation are as follows:

	2017	2016
Balance, beginning	**P114,743,716**	P99,629,968
Provision	**15,032,195**	15,113,748
Balance, end	**P129,775,911**	P114,743,716

Depreciation and amortization expenses are recognized in separate statements of total comprehensive income as follows:

	2017	2016	2015
Cost of services	**P10,949,120**	P12,533,633	P12,496,174
General and administrative expenses	**4,083,075**	1,918,168	1,918,168
	P15,032,195	P14,451,801	P14,414,342

The aggregate fair values of the investment properties as of December 31, 2016 are as follows:

	2016
Condominium units	
PSE Tower I	P208,077,000
PSE Tower II	85,249,000
Baguio	-
PPMI condominium unit	14,628,000
	P307,954,000

Rental income from the investment properties amounted to P47.1 million, P19.5 million and P21.2 million in 2017, 2016 and 2015, respectively. Real property taxes attributable to investment properties amounted to P5,032,094 in 2017, P3,082,791 in 2016 and P2,263,214 in 2015, these are included as part of taxes and licenses in cost of services. Other direct operating expenses arising from investment properties that generate rental income represent depreciation of condominium units which amounted to P10,949,120 in 2017, P12,533,634 in 2016 and P12,496,174 in 2015.

None of the Group's investment property is pledged as collateral for loans.

21. Trade and Other Payables

This account consists of:

	Note	**2017**	2016
Trade		**P22,419,294**	P62,834,393
Output value added tax – net		**97,533,421**	52,693,491
Retention fee payable		**122,952,888**	107,362,001
Accrued expenses		**36,672,173**	18,130,752
Refundable deposits	*33*	**13,038,228**	6,379,394
Customers' deposits		**82,841,248**	12,064,921
Due to government agencies		**6,058,563**	4,422,807
Others		**33,295,114**	25,215,175
		P414,810,929	P289,102,934

Trade and other payables, net of current portion amounted to P219,490,864 and P26,822,814 as at December 31, 2017 and 2016, respectively. Retention fee payable pertains to retention fees withheld from the contractors of Andrea North Skyline Project.

Accrued expenses consist of unpaid liabilities on outside services, insurance, supplies and other miscellaneous expenses.

Customers' deposits consist of downpayments representing less than 25% of the contract price of the condominium unit sold received from each customer which are deductible from the total contract price.

Due to government agencies consist mainly of payable to the Bureau of Internal Revenue, SSS, HDMF and Philhealth.

Others consist of refunds payable, commissions payable and unearned rent income.

22. Unearned Income

In 2012, the Group started selling units of The Icon Plaza which is the project under joint arrangement with Xcell Ventures Property, Inc., as disclosed in Note 15. The percentage of completion of The Icon Plaza as of December 31, 2017 is 100%.

The Group has an on-going project called the Andrea North Skyvillas Tower ("Skyvillas"). Skyvillas started construction in 2011 and is 99.56% and 96.25% complete as of December 31, 2017 and 2016, respectively.

Details of unearned income are as follows:

	2017	2016
The Icon Plaza		
Total sales value of completed units	**P641,287,335**	P641,287,335
Percentage uncompleted	**0%**	0.89%
	-	P5,707,457

	2017	2016
Skyvillas Tower		
Total sales value of completed units	**P1,090,321,800**	P328,305,540
Percentage uncompleted	**0.44%**	3.75%
	4,797,416	12,311,458
Total unearned income	**P4,797,416**	P18,018,915

23. Loans Payable

The movements in the loans payable is summarized as follows:

	2017	2016
Balance, beginning	**P287,716,039**	P59,259,997
Availment of loan	**827,554,118**	246,098,000
Payment of principal	**(258,448,994)**	(17,641,958)
Balance, end	**P856,821,163**	P287,716,039

Interest on loans payable amounted to P9,547,530, P7,425,654 and P1,778,781 in 2017, 2016 and 2015, respectively.

The account is composed of the following:

	2017	2016
Payable within one year:		
Philippine Bank of Communications	**P83,333,333**	P -
Maybank Philippines, Inc.	**4,051,829**	41,999,021
Union Bank of the Philippines	**3,215,328**	132,054
RCBC Savings Bank	**1,862,476**	-
Meridian Assurance Corporation	**-**	50,000,000
Greenhills Properties, Inc.	**-**	45,000,000
	92,462,966	137,131,075

Payable after one year:		
Philippine Bank of Communications	**416,666,667**	-
Maybank Philippines, Inc.	**168,842,100**	150,000,000
Greenhills Properties, Inc.	**107,845,898**	-
Meridian Assurance Corporation	**50,000,000**	-
Union Bank of the Philippines	**13,291,879**	584,964
RCBC Savings Bank	**7,711,653**	-
	764,358,197	150,584,964
	P856,821,163	P287,716,039

Maybank Philippines, Inc. (Maybank)

In 2015, the Parent Company availed loans from Maybank with total principal amount of P75.51 million. These loans bear 6% interest and are secured by certain accounts receivable of the Parent Company with total carrying amount of P13.4 million and P42.0 million as at December 31, 2017 and 2016 (see Note 13).

In 2016, the Parent Company entered into a loan and hold-out agreement with Maybank. In April 2016, Maybank approved a P150 million credit line under which the Parent Company drewdown P80 million in April 2016 and P70 million in May 2016. These loans are payable three (3) years from date of drawdown. These loans bear 3.75% interest rate, payable monthly in arrears and secured by hold-out rights in favor of Maybank over the time deposit covering the total amount of P150 million maintained by GPI in Maybank Ortigas Branch.

Meridian Assurance Corporation (MAC)

On July 29, 2016 and August 5, 2016, the Parent Company entered into a real estate mortgage with Meridian Assurance Corporation. Loans from Meridian Assurance Corporation bear no interest and are secured by mortgages on certain investment properties of the Parent Company. The mortgaged properties have a total net book value of P83.67 million as at December 31, 2017 and 2016. No payment is expected to be made in 2018 and accordingly, loan was classified as noncurrent liability in the consolidated statements of financial position.

Greenhills Properties, Inc. (GPI)

On May 31, 2016, the Parent Company availed a P45 million loan from Greenhills Properties, Inc. which bears 4% interest rate and is payable on May 25, 2017. In 2017, the Parent Company availed additional loan amounting to P195 million payable between three (3) to five (5) years at a fixed interest rate of 8%, which shall be paid quarterly.

Union Bank of the Philippines (UBP)

In July 2016, the Parent Company availed car loans from Union Bank which bears 9.11% interest and is payable in installment over sixty (60) months.

RCBC Savings Bank (RCBC)

In July 2017, the Parent Company availed car loans from RCBC Savings Bank which bear 8.72% interest and are payable in installment over sixty (60) months.

Philippine Bank of Communications (PBCom)

In 2017, the Parent Company entered into a bridge funding agreement with PBCom. PBCom approved a P500 million credit line under which the Company drewdown P500 million in September 2017. These loans are payable within five (5) years from date of drawdown. These loans bear 6% interest rate, payable quarterly in arrears and secured by certain condominium units mortgaged in favor of PBCom with total carrying amount of oP271.6 million as of December 31, 2017.

24. Retirement Benefit Plans

The Parent Company and TIBI operate funded, non-contributory defined benefit retirement plans covering substantially all of their regular employees. The plans are administered by local banks as trustee and provide for a lump-sum benefit payment upon retirement. The benefits are based on the employees' monthly salary at retirement date multiplied by years of credited service. No other post-retirement benefits are provided.

PPMI has an unfunded, noncontributory defined benefit retirement plan.

Through their defined benefit retirement plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

- *Asset volatility* - The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit.

- *Inflation risk - Some of the Group retirement obligations are linked to inflation, and higher inflation will lead to* higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plans' assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were performed as at December 31, 2017 by independent actuaries. The present values of the defined benefit obligations, the related current service costs and past service costs were measured using the projected unit credit method.

Key assumptions used for the Parent Company:

	Valuation at	
	2017	2016
Discount rate	**5.77%**	5.56%
Future salary increase	**4.00%**	4.00%

Key assumptions used for PPMI:

	Valuation at	
	2017	2016
Discount rate	**5.70%**	5.54%
Future salary increase	**6.00%**	6.00%

Key assumptions used for TIBI:

	Valuation at	
	2017	2016
Discount rate	**5.00%**	4.71%
Future salary increase	**3.00%**	3.70%

The reconciliation of the present value of the defined benefit obligation (PVO) and the fair value of the plan assets to the recognized liability presented as accrued retirement liability in the consolidated statements of financial position is as follows:

	2017	2016
Present value of defined benefit obligation	**P56,460,438**	P168,178,855
Fair value of plan assets	**25,549,398**	24,269,935
Recognized liability	**P30,911,040**	P143,908,920

The movements in the present value of defined benefit obligation are shown below:

	2017	2016
Liability at beginning of year	**P168,178,855**	P83,040,417
Current service cost	**7,632,425**	10,865,711
Interest cost	**2,798,894**	3,021,461
Benefits paid	**(132,868,347)**	(154,825)
Past service cost	**-**	68,805,021
Remeasurement (gains) losses		
Changes based on experience	**12,073,707**	6,145,112
Changes in demographic assumptions	**(39,445)**	-
Changes in financial assumptions	**(1,315,651)**	(3,544,042)
Liability at end of year	**P56,460,438**	P168,178,855

The movements in the plan assets are shown below:

	2017	2016
Fair value of plan assets at beginning of year	**P24,269,935**	P23,343,613
Interest income	**546,113**	293,407
Contributions of the employers to the plans	**800,000**	510,754
Remeasurement gain (loss)		
Return on plan assets, excluding amounts included in interest income	**(66,650)**	122,161
Fair value of plan assets at end of year	**P25,549,398**	P24,269,935

The Group expects to contribute P11,588,441 to the retirement fund in 2017.

The major category of plan assets as a percentage of the fair value of total plan assets as of December 31, 2017 and 2016 are as follows:

	2017	2016
Cash and cash equivalents	**89%**	67%
Equity instruments	**11%**	33%
	100%	100%

The retirement expense recognized in profit or loss consists of:

	2017	2016	2015
Past service cost	**P -**	P68,805,021	P1,337,526
Current service cost	**7,632,425**	10,865,711	8,265,399
Net interest on defined benefit liability	**2,252,781**	2,728,054	636,618
	P9,885,206	P82,398,786	P10,239,543

The retirement expense is recognized as part of employees' benefits under operating expenses in the consolidated statements of total comprehensive income.

Assumptions regarding future mortality and disability are set based on actuarial advice in accordance with published statistics and experience.

The sensitivity analysis of the defined benefit obligation is:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rate	**1.00%**	P2,873,533
	(1.00%)	3,799,540
Future salary increase	**1.00%**	3,830,262
	(1.00%)	2,843,105

The above sensitivity analyses are based on changes in principal assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized in the consolidated statements of financial position.

The BOD reviews the level of funding required for the retirement fund. This includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation.

As of December 31, 2017, the weighted average duration of defined benefit obligation is 24.43 years (2016: 19.16 years).

25. Related Party Transactions

The details of related party transactions and balances are as follows:

As at and for the year ended December 31, 2017:	**Transactions**	**Outstanding balance**	**Terms and conditions**
Sale of real estate inventories			Sales of condominium units to related parties are based on the effective price list and terms that would be available to third parties. The receivables are secured with related units until full payment; and payable monthly in two (2) years.
Principal Shareholder Greenhills Properties, Inc.			
Sale of real estate inventories	P348,616,409		
Collections during the year	87,154,102	P261,462,307	
Sale of service			Sales of services are negotiated with related parties on a cost-plus basis. The receivables are due 30 days after every end of the month. The receivables are unsecured and bear no interest.
Principal Shareholder Greenhills Properties, Inc.			
Management services	**P1,106,057**		
Brokering services	**847,738**		
Collections	**(1,953,795)**	-	
Advances			Advances to subsidiaries and associates are unsecured, non-interest bearing and to be settled in cash.
Alexandra (USA), Inc., Associate	P -	P132,417,765	
Le Cheval Holdings, Inc., Associate	19,657	81,235	
Meridian Assurance Corporation	-	(643)	
Less: Allowance for impairment loss	-	(132,417,765)	
Balance, net	19,657	80,592	
Loans payable			
Principal Shareholder			See Note 23.
Greenhills Properties, Inc.			
Availment of loan	195,000,000		
Payments during the year	132,154,102	107,845,898	
Associate			See Note 23.
Meridian Assurance Corporation			
Availment of loan	-		
Payments during the year	-	50,000,000	

As at and for the year ended December 31, 2017:	**Transactions**	**Outstanding balance**	**Terms and conditions**
Key management personnel			Key management includes directors (executive and non-executive) and executive officers. Short-term benefits are payable monthly and termination benefits are payable upon retirement.
Short-term benefits			
Salaries and other short-term employee benefits	P 47,010,465		
Termination benefits			
Provision for retirement benefits/PVO	13,819,273	P12,250,682	

As at and for the year ended December 31, 2016:	Transactions	Outstanding balance	Terms and conditions
Sale of real estate inventories			Sales of condominium units to related parties are based on the price list in force and terms that would be available to third parties. The receivables are secured; and payable monthly in two (2) years.
Principal Shareholder Greenhills Properties, Inc.			
Sale of real estate inventories	P -		
Collections during the year	31,304,875	P -	
Sale of service			Sales of services are negotiated with related parties on a cost-plus basis.
Principal Shareholder			
Greenhills Properties, Inc.			The receivables are due 30 days after every
Management services	P1,106,057		

Brokering services	392,108		end of the month. The receivables are unsecured and bear no interest.
Collections	(1,498,165)	-	
Advances (Associates)			Advances are unsecured, non-interest bearing and settled in cash.
Alexandra (USA), Inc.	P -	P132,417,765	
Le Cheval Holdings, Inc.	-	61,579	
Meridian Assurance Corporation	-	(643)	
Less: Allowance for impairment loss	-	(132,417,765)	
Balance, net	P -	P60,936	
Loans payable			
Principal Shareholder			See Note 23.
Greenhills Properties, Inc.			
Availment of loan	P45,000,000		
Payments during the year	-	P45,000,000	
Associate			See Note 23.
Meridian Assurance Corp.			
Availment of loan	50,000,000		
Payments during the year	-	50,000,000	
Key management personnel			Key management includes directors (executive and non-executive) and executive officers. Short-term benefits are payable monthly and termination benefits are payable upon retirement.
Short-term benefits			
Salaries and other short-term employee benefits	P49,181,875	P -	
Termination benefits			
Provision for retirement benefits/PVO	9,963,414	126,414,952	

Management Services
The Group provides general management services and financial management and supervision over the janitorial and security services for the efficient administration of the properties of GPI, the ultimate parent company, and third parties, collectively referred herein as property owners. In consideration for said services, the Group charges the property owners a fixed monthly amount, with a 10% escalation rate annually. These management contracts are renewable for a period of two (2) to three (3) years upon mutual agreement of both the Group and the property owners.

Advances to (from) related parties
The Parent Company's substantial receivables from AUI, an associate, which is intended to fund the latter's working capital requirement, represents non-interest bearing advances with no fixed term with the option to convert to equity in case of increase in capital. Advances contributed by AUI's stockholders were in accordance with the percentage of ownership of the stockholders in AUI.

Outstanding receivables amounted to P132.42 million in 2017 and 2016 which is fully provided with an allowance for impairment loss, and is included as part of advances to associates as disclosed in Note 18.

26. Contingencies

Parent Company
The Parent Company has a lawsuit pending decision by the Supreme Court, as follows:

In 1998, the Parent Company sued Universal Leisure Corporation (ULC) for failing to pay the remaining sales price of condominium units. ULC bought several condominium units under two Contracts to Sell. After paying the down payment, ULC refused to pay the balance due in the principal sums of P32.5 million and P32.4 million. In February 2004, a decision was rendered in favor of the defendant on the account that ULC is an assignee of receivables from DMCI Project Developers, Inc. (DMCI) and Universal Rightfield Property Holdings, Inc. (URPHI). These receivables are allegedly owed by the Parent Company to DMCI and URPHI as a result of cancellation of a joint venture agreement in 1996 entered into by the Parent Company, DMCI and URPHI. The Parent Company was ordered to deliver to ULC the titles of the condominium units and return to ULC, as assignee of defendants DMCI and URPHI, the amount of P24.7 million and pay attorney's fees of P600,000. The Parent Company appealed the decision to the Court of Appeals which affirmed the trial court's decision. During 2011, the Parent Company provided an allowance of P15,507,800 for accounts receivable that are deemed not recoverable from ULC. In December 2012, the Parent Company filed a motion for Reconsideration and the same was denied. Thereafter, the Parent Company filed a Petition for Review on Certiorari with the Supreme Court where the matter is still pending as of reporting date.

In addition, the Parent Company is involved in certain claims and pending lawsuits arising in the ordinary course of business which is either pending decision by the courts or under negotiation.

Management believes that the final settlement, if any, of the forgoing lawsuits or claims would not adversely affect the Group's financial position or result of operations.

Subsidiaries

Certain subsidiaries are defendants or parties in various lawsuits and claims involving civil and labor cases. In the opinion of the subsidiaries' management, these lawsuits and claims, if decided adversely, will not involve sums having material effect on the subsidiaries' financial position or results of operations.

Management believes that the final settlement, if any, of the foregoing lawsuits or claims would not adversely affect the Group's financial position or results of operations.

Accordingly, no provision has been made in the accounts for these lawsuits and claims.

27. Capital Stock

	Note	**2017**	2016	2015
Authorized				
8,000,000,000 common shares				
at P0.50 par value in 2017				
at P1 par value in 2016 and 2015	28	**P4,000,000,000**	P4,000,000,000	P8,000,000,000
Issued and outstanding				
3,688,869,746 shares in 2017 and 2016;				
3,688,839,345 shares in 2015	28	**1,844,434,873**	1,844,434,873	3,688,839,345
Subscribed				
1,314,711,261 shares in 2017 and 2016;				
1,314,741,662 shares in 2015		**657,355,632**	657,355,632	1,314,741,662
Subscriptions receivable	28	**(157,592,010)**	(243,911,982)	(487,854,362)
		499,763,622	413,443,650	826,887,300
		2,344,198,495	2,257,878,523	4,515,726,645
Additional paid-in capital				
Balance at beginning of year		**557,014,317**	114,751	114,751
Movements during the year	28	**-**	800,841,947	-
Subscription receivable	28	**-**	(243,942,381)	-
Balance at end of year		**557,014,317**	557,014,317	114,751
		P2,901,212,812	P2,814,892,841	P4,515,841,396
Treasury stock		**P160,904,214**	P163,383,895	P163,383,895

28. Quasi-Reorganization/Reduction in Par Value

On November 21, 2014, the shareholders of the Parent Company approved the following:

Quasi-reorganization consists of the following:

- Reduction of par value of the Parent Company's common shares from One Peso (P1.00) per share to Fifty Centavos (P0.50) per share.

- Decrease in the authorized capital stock of the Parent Company from Eight Billion Pesos (P8,000,000,000) to Four Billion Pesos (P4,000,000,000), divided into Eight Billion (8,000,000,000) Common Shares.
- Resulting surplus from the reduction of par value to be credited to additional paid-in capital amounting to P1,700,948,556 as of December 31, 2014.
- Offset of the Parent Company's deficit as of December 31, 2014 against additional paid in capital.

The above was approved by the SEC on February 9, 2016.

29. Reserves

	2017	2016	2015
Appropriated retained earnings for:			
Treasury stock acquisitions	**P250,000,000**	P250,000,000	P250,000,000
Unrealized holding loss on valuation of AFS investments			
Balance at beginning of year	**(49,471,316)**	(85,588,450)	(46,106,176)
Movements during the year	**25,339,278**	36,117,134	(39,482,274)
Balance at end of year	**(24,132,038)**	(49,471,316)	(85,588,450)
Remeasurement Loss on Retirement Benefit Obligation			
Balance at beginning of year	**(23,248,754)**	(22,706,987)	(19,766,095)
Movements during the year - gross	**(10,785,264)**	(773,954)	(4,201,274)
Movements during the year - tax	**3,235,579**	232,187	1,260,382
Balance at end of year	**(30,798,439)**	(23,248,754)	(22,706,987)
Others	**238,062**	238,062	951,975
	P195,307,585	P177,517,992	P142,656,538

The Group's appropriated retained earnings amounting to P250,000,000 was allocated for the Parent Company's treasury stock acquisitions.

30. Non-controlling Interest

	2017	2016
UTC		
January 1	**P2,408,393**	P2,619,549
Share in net loss	**(235,881)**	(211,156)
December 31	**2,172,512**	2,408,393
Share in reserves		
Unrealized holding gain (loss) on valuation of AFS investments		
January 1	**(5,078,578)**	(5,311,518)
Unrealized holding loss	**1,590,266**	232,940
December 31	**(3,488,312)**	(5,078,578)
	(P1,315,800)	(P2,670,185)
Recon-X Energy Corporation		
January 1	**(P4,024,633)**	P -
Share in capital	**-**	250,000
Share in net loss	**(1,615,726)**	(4,274,633)
December 31	**(5,640,359)**	(4,024,633)
	(P6,956,159)	(P6,694,818)

31. Management Fees

The Group provides general management services and financial management and supervision over the janitorial and security services thru PPMI. In consideration for the said services, the Group charges the property owners a fixed monthly amount with a 10% escalation rate annually. These management contracts are renewable for a period of two (2) to three (3) years upon mutual agreement of both PPMI and the property owners. The Group is entitled to fixed reimbursement of actual cost of the on-site staff. The total income from management fees amounted to P30.1 million, P31.6 million and P27.8 million in 2017, 2016 and 2015, respectively.

32. Commission

The Group's commission income was derived from the following activities:

	2017	2016	2015
Insurance brokerage	**P5,690,633**	P7,112,097	P7,987,175
Property management	**1,299,460**	-	940,195
Others	**571,830**	608,916	449,304
	P7,561,923	P7,721,013	P9,376,674

33. Leases

The Group as lessor

The Group leases various condominium units to various lessees. The minimum guaranteed rentals under such leases for the next five (5) years are as follows:

	2017	2016
Not later than one year	**P8,932,654**	P3,963,269
Later than one year but not later than five years	**43,036,178**	8,000
	P51,968,832	P3,971,269

The rental income earned by the Group during 2017, 2016 and 2015 amounted to P47.05 million, P19.48 million and P21.24 million, respectively. Refundable deposits on these lease agreements amounted to P13,038,228 in 2017 and P6,379,394 in 2016, and is included as part of trade and other payables as disclosed in Note 21.

Deferred rental income classified under other non-current liabilities amounting to P64.8 million as of December 31, 2017 pertains to advance rent received from lessees to be applied on the last three (3) months of the lease contract.

The Group as lessee

The Group leases various office space and storage facilities from associates and third parties. Total rent expense charged to operations amounted to P516,937, P765,544 and P881,269 in 2017, 2016 and 2015, respectively.

34. Interest Income

The Group's interest income was derived from the following:

	Note	**2017**	2016	2015
Joint arrangement	*17*	**P10,005,694**	P10,005,694	P10,005,694
Trade receivables	*13*	**879,085**	746,775	1,654,069
Cash and cash equivalents	*9*	**512,426**	117,319	897,923
Others		**117,869**	235,500	2,256,011
		P11,515,074	P11,105,288	P14,813,697

Interest income from joint arrangement pertains to the agreed amount of interest due to the late remittance of the quarterly payments as mentioned in Note 17.

35. Other Income

The account consists of:

	Note	2017	2016	2015
Gain on fair value adjustment of investment properties	20	**P354,123,354**	P -	P -
Reversal of various payables and accruals		**1,058,516**	1,354,928	7,340,207
Dividend income	10	**400,915**	306,679	313,904
Unrealized foreign exchange gain		**48,897**	109,258	539,016
Holding gain on trading investments		**-**	7,559,983	-
Refunds from electric company		**-**	-	682,033
Miscellaneous		**3,657,032**	1,407,558	1,663,164
		P359,288,714	P10,738,406	P10,538,324

36. Cost of Services

	Note	2017	2016	2015
Salaries, wages and other benefits		**P21,737,674**	P19,413,715	P16,464,296
Condominium dues		**14,291,435**	3,009,642	4,261,977
Depreciation and amortization				
Investment property	20	**10,949,120**	12,533,633	12,496,175
Property and equipment	19	**584,210**	136,494	136,676
Taxes and licenses		**5,520,127**	3,082,791	2,263,214
Outside services		**2,697,552**	1,513,575	1,879,385
Utilities		**2,254,456**	2,301,922	3,347,000
Repairs and maintenance		**2,072,631**	1,133,336	590,066
Insurance and bond premiums		**1,939,127**	495,237	915,360
Employees welfare		**1,921,456**	1,960,440	1,306,936
Commission		**1,186,819**	462,666	520,863
SSS, Pag-ibig and other contributions		**1,086,044**	1,104,419	934,940
Supplies and materials		**927,596**	897,461	1,006,952

	Note	2017	2016	2015
Rental	33	**P516,937**	P765,544	P881,269
Transportation and travel		**34,800**	19,127	26,090
Others		**2,602,510**	2,614,179	2,275,561
		P70,322,494	P51,444,181	P49,236,760

37. General and Administrative Expenses

	Note	2017	2016	2015
Selling expense		**P86,524,655**	P29,898,450	P14,952,399
Salaries, wages, and benefits		**57,915,644**	64,998,883	71,440,540
Transportation and travel		**42,400,956**	15,304,143	13,034,154
Representation and entertainment		**25,800,335**	82,944	521,271
Professional fees		**25,749,694**	18,021,845	9,954,685
Taxes and licenses		**12,769,446**	19,643,808	12,497,359
Depreciation and amortization				

Property and equipment	*19*	**10,699,770**	9,745,297	9,520,075
Investment property	*20*	**4,083,075**	2,580,115	2,580,115
Provision for retirement benefits	*24*	**9,885,206**	82,398,786	10,239,543
Insurance and bond premiums		**8,389,155**	5,927,490	8,850,449
Outside services		**6,366,142**	29,764,095	17,622,391
SSS, Pag-ibig, Medicare and other benefits		**5,583,071**	5,132,801	6,285,711
Condominium dues		**3,012,019**	5,804,952	6,419,152
Utilities		**2,421,130**	2,705,158	837,116
Postage and communication		**1,713,373**	2,050,488	1,508,691
Impairment loss on trade receivables		**1,576,440**	1,257,943	595,557
Corporate social responsibility expenses		**763,005**	1,115,318	859,836
Supplies and materials		**196,821**	275,798	866,380
Repairs and maintenance		**132,698**	175,230	6,204,868
Membership dues		**2,600**	173,804	159,824
Impairment loss on accrued interest receivable		-	-	16,649,171
Impairment loss on other assets		-	-	7,770,831
Impairment loss on investments and advances to associates	*18*	-	-	11,250
Commission expense		-	-	10,729
Miscellaneous		**12,588,768**	8,358,535	6,651,951
		P318,574,003	P305,415,883	P226,044,048

Miscellaneous expenses include PSE fees, trainings and seminars, donations and contributions, and various petty expenses.

38. Other Expenses

	2017	2016	2015
Bank charges	**P707,777**	P123,949	P159,156
Foreign exchange loss	-	-	21,253,539
Others	**1,585,802**	3,346,000	-
	P2,293,579	P3,469,949	P21,412,695

Others pertain to various individually insignificant expenses.

39. Income Taxes

The components of income tax expense (benefit) are as follows:

	2017	2016	2015
Current	**P8,808,783**	P34,772,027	P4,042,657
Deferred	**120,981,600**	(25,013,536)	(1,404,943)
	P129,790,383	P9,758,491	P2,637,714

A reconciliation between tax expense (benefit) and the product of accounting income (loss) multiplied by 30% in 2017, 2016 and 2015 follow:

	2017	2016	2015
Income (loss) before income tax	**P392,962,161**	P1,370,383	(P154,091,941)
Income tax expense (benefit)	**117,888,648**	411,115	(42,306,867)
Additions to (reductions in) income tax resulting from the tax effects of:			
Unrecognized deferred tax assets	**18,957,463**	11,038,433	31,099,643
Non-deductible cost of sales	**105,838**	507,973	305,000
Unrecognized NOLCO	**383,165**	358,953	519,595

Impairment loss on trade and other receivables	**-**	278,893	5,173,418
Unrealized gain (loss) on trading investments	**(770,262)**	(2,267,995)	6,376,062
Reversal of accruals and payables		(441,681)	-
Dividend income	**(120,274)**	(92,004)	(94,171)
Interest income subjected to final tax	**(153,728)**	(35,196)	(269,376)
Impairment loss on other assets	**-**	-	1,834,262
Other non-deductible expenses	**4,461,579**	-	148
Gain on sale of shares of stocks	**(5,761,798)**	-	-
Gain on changes in fair value of investment property	**(5,200,248)**	-	-
	P129,970,383	P9,758,491	P2,637,714

Under Republic Act No. 8424, the Group is subject to either the 30% regular income tax or 2% minimum corporate income tax (MCIT), whichever is higher. The excess MCIT over the regular income tax shall be carried forward and applied against the regular income tax due for the next three consecutive taxable years.

The details of the Group's MCIT are as follows:

Year Incurred	Expiry date	Amount	Applied/Expired	Balance
2017	2020	P7,751,632	P -	P7,751,632
2016	2019	6,979,694	-	6,979,694
2015	2018	2,114,819	-	2,114,819
2014	2017	5,943,044	(5,943,044)	-
		P22,789,189	(P5,943,044)	P16,846,145

The details of the Group's NOLCO are as follows:

Year Incurred	Expiry date	Amount	Applied/Expired	Balance
2017	2020	P38,407,094	P -	P38,407,094
2016	2019	27,238,477	-	27,238,477
2015	2018	104,807,694	-	104,807,694
2014	2017	1,580,065	(1,580,065)	-
		P172,033,330	(P1,580,065)	P170,453,265

The components of the net deferred income tax assets and liabilities recognized by the Group are as follows:

	2017		2016	
	Tax Base	**Deferred Tax**	Tax Base	Deferred Tax
Deferred tax assets:				
Provision for retirement benefits	**P65,172,510**	**P19,551,753**	P142,095,573	P42,628,672
Impairment loss on receivables	**328,300**	**98,490**	-	-
Deferred rent income	**64,863,260**	**19,458,978**		
	130,364,070	**39,109,221**	142,095,573	42,628,672
Deferred tax liabilities:				
Revaluation surplus	**36,073,960**	**10,822,188**	339,960	101,988
Gain on fair value adjustment of investment properties	**336,789,193**	**101,036,758**		
Accrued rent receivable	**8,337,490**	**2,501,247**		
Unrealized foreign exchange gain	**-**	**-**	105,447	31,634
	381,200,643	**114,360,193**	445,407	133,622
	(P250,836,573)	**(P75,250,972)**	P141,650,166	P42,495,050

The recognized deferred tax assets were from the Parent Company and PPMI. The management of the Parent Company and PPMI have evaluated the available evidence about future taxable income and other possible sources of realization of the recognized deferred tax assets, and consequently believe that the deferred tax assets recognized are fully realizable in the future.

The components of the deferred income tax assets not recognized by the Group are as follows:

	2017		2016	
	Tax Base	**Deferred Tax**	Tax Base	Deferred Tax
Allowance for impairment loss on advances to subsidiaries and associates	**P166,223,470**	**P49,867,041**	P166,223,470	P49,867,041
NOLCO	**170,453,265**	**51,135,980**	133,626,239	40,087,872
Allowance for doubtful accounts	**37,240,467**	**11,172,140**	37,419,257	11,225,777
Allowance for impairment loss on investments in subsidiaries and associates	**19,918,193**	**5,975,458**	19,918,193	5,975,458
Accrued retirement benefit expense	**1,813,347**	**544,004**	1,813,347	544,004
MCIT	**9,866,450**	**9,866,450**	8,057,863	8,057,863
	P405,515,192	**128,561,073**	P367,058,369	P115,758,015

The deferred tax assets not recognized were from the Parent Company, TIBI and UTC, this was due to their limited capacity to take full advantage of the tax benefit.

40. Earnings (Loss) Per Share

	2017	2016	2015
Net income (loss) attributable to equity holders of Parent Company	**P264,361,753**	(P3,902,319)	(P156,415,644)
Weighted average no. of common shares issued and outstanding	**4,877,907,002**	4,877,907,002	4,877,907,002
Income (loss) per share	**0.05**	(P0.00)	(P0.03)

The weighted average number of common shares was computed as follows:

	2017	2016	2015
Issued and outstanding shares	**3,688,869,746**	3,688,869,746	3,688,839,345
Subscribed shares	**1,314,711,261**	1,314,711,261	1,314,741,662
Treasury shares	**(125,674,005)**	(125,674,005)	(125,674,005)
Average number of shares	**4,877,907,002**	4,877,907,002	4,877,907,002

The Group has no potential dilutive shares as at December 31, 2017, 2016 and 2015.

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