Prime Orion Philippines, Inc. and Subsidiaries

Consolidated Financial Statements
June 30, 2016 and 2015
and Years Ended June 30, 2016, 2015 and 2014

and

Independent Auditors' Report

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Prime Orion Philippines, Inc. and its subsidiaries as at June 30, 2016 and 2015, and their financial performance and their cash flows for each of the three years in the period ended June 30, 2016 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Dhonabee B. Señeres
Partner
CPA Certificate No. 97133
SEC Accreditation No. 1196-AR-1 (Group A),
June 30, 2015, valid until June 29, 2018
Tax Identification No. 201-959-816
BIR Accreditation No. 08-001998-98-2015,
January 5, 2015, valid until January 4, 2018
PTR No. 5321694, January 4, 2016, Makati City

October 6, 2016

C O V E R S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1	6	3	6	7	1					

C O M P A N Y N A M E

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

20/F LKG Tower, 6801 Ayala Ave., Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A		**N/A**

C O M P A N Y I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
popi-corporate@primeorion.com	**(632) 884-1106**	**None**

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
895	**12/2**	**06/30**

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Rhodora Estrella B. Revilla	**revilla.jing@ayalaland.com.ph**	**(02) 884-1106**	**(63) 917 5439458**

CONTACT PERSON's ADDRESS

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

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	June 30	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 30)	**₱1,306,884**	₱151,763
Receivables (Notes 5 and 30)	**1,919,932**	496,125
Inventories (Note 6)	**8,836**	12,006
Real estate held for sale and development (Note 7)	**264,464**	430,103
Available-for-sale financial assets (Notes 8, 19 and 30)	**1,397,514**	1,507,408
Financial assets at fair value through profit or loss (Notes 9 and 30)	**12,703**	27,992
Other current assets (Note 10)	**240,815**	244,729
Total Current Assets	**5,151,148**	2,870,126
Noncurrent Assets		
Investment in an associate (Note 11)	**1,942**	2,571
Investment properties (Note 12)	**1,163,169**	1,329,022
Property and equipment (Note 13)	**19,507**	46,328
Software costs (Note 14)	**6,216**	8,800
Other noncurrent assets (Note 15)	**95,422**	204,226
Total Noncurrent Assets	**1,286,256**	1,590,947
TOTAL ASSETS	**₱6,437,404**	₱4,461,073
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 16 and 30)	**₱895,144**	₱667,262
Current portion of rental and other deposits (Note 17)	**141,362**	148,230
Deposit for future stock subscriptions (Note 1)	**1,406,250**	–
Total Current Liabilities	**2,442,756**	815,492
Noncurrent Liabilities		
Rental and other deposits - net of current portion (Note 17)	**88,425**	85,331
Net retirement benefits liability (Note 23)	**75,704**	96,975
Deferred rent income (Note 27)	**536**	792
Deferred income tax liabilities - net (Note 24)	**220,974**	234,565
Subscriptions payable (Note 19)	**481,675**	481,675
Total Noncurrent Liabilities	**867,314**	899,338
Total Liabilities	**₱3,310,070**	₱1,714,830

(Forward)

	June 30	
	2016	2015
Equity Attributable to Equity Holders of the Parent		
Capital stock - ₱1 par value (Note 1)		
Authorized - 2,400,000,000 shares		
Issued and subscribed - 2,378,638,123 shares (net of subscriptions receivable of ₱248,062 and ₱297,237 as at June 30, 2016 and 2015, respectively) (Note 1)	**₱2,130,576**	₱2,069,912
Additional paid-in capital	**829,904**	829,904
Equity reserves (Notes 3 and 29)	**27,469**	–
Treasury shares	**(21,916)**	(21,916)
Revaluation increment (Notes 12 and 13)	**237,011**	244,622
Unrealized valuation gains on AFS financial assets (Note 8)	**276,226**	2,066
Loss on remeasurement of retirement benefits liability (Note 23)	**(66,639)**	(72,481)
Deficit	**(340,166)**	(378,204)
	3,072,465	2,673,903
Non-Controlling Interests	**54,869**	72,340
Total Equity	**3,127,334**	2,746,243
TOTAL LIABILITIES AND EQUITY	**₱6,437,404**	₱4,461,073

See accompanying Notes to Consolidated Financial Statements.

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share)

	Years Ended June 30		
	2016	2015	2014
REVENUE AND INCOME			
Rental and other charges (Note 12)	**₱467,927**	₱414,475	₱402,520
Real estate sales (Note 7)	**274,082**	–	–
Insurance premiums and commissions - net	**237,243**	236,452	222,126
Service fees	**17,927**	8,070	6,972
Gain on sale of AFS financial assets (Note 8)	**17,240**	8,846	159,189
Interest income on AFS financial assets (Note 8)	**15,411**	11,753	7,803
Merchandise sales	**4,768**	8,611	22,070
Dividend income (Notes 8 and 9)	**2,495**	4,228	4,032
	1,037,093	692,435	824,712
COSTS AND EXPENSES			
Cost of goods sold and services (Note 20)	**430,237**	226,309	242,802
Cost of real estate sold (Notes 7 and 20)	**186,607**	–	–
Operating expenses (Note 20)	**556,944**	357,414	386,673
Commission and other underwriting expenses	**197,052**	173,252	186,534
	1,370,840	756,975	816,009
OTHER INCOME (CHARGES)			
Impairment losses on AFS financial assets (Note 8)	**(3,115)**	(241,187)	(2,600)
Gain on sale of investment property (Note 12)	**578,965**	–	–
Gain on sale of property and equipment (Note 13)	**5,972**	15,346	196
Reversal of impairment losses on receivables (Note 5)	**–**	8,009	–
Interest income (expense) and bank charges - net (Note 22)	**10,359**	1,825	(1,866)
Reversal of inventory losses (Note 6)	**4,223**	1,242	4,360
Unrealized gain (loss) on financial assets at FVPL (Note 9)	**(425)**	280	–
Rehabilitation expenses (Note 1)	**–**	(609)	(13,495)
Equity in net income (loss) of an associate (Note 11)	**(19)**	7	(24)
Recovery from insurance (Note 1)	**–**	–	269,282
Loss on write off on investment properties (Note 12)	**–**	–	(288)
Net unrealized foreign exchange gain	**93**	–	–
Provision for probable losses and impairment losses (Note 28)	**(262,424)**	–	–
Others - net	**20,188**	28,956	23,585
	353,817	(186,132)	279,150
INCOME (LOSS) BEFORE INCOME TAX	**20,070**	(250,672)	287,853
PROVISION FOR INCOME TAX - Net (Note 24)	**7,114**	11,564	81,950
NET INCOME (LOSS)	**12,956**	(₱262,236)	₱205,903
ATTRIBUTABLE TO:			
Equity holders of the Parent	**₱30,427**	(₱262,453)	₱210,618
Non-controlling interests	**(17,471)**	217	(4,715)
	₱12,956	(₱262,236)	₱205,903
EARNINGS (LOSS) PER SHARE (Note 25)			
Basic and diluted, for income for the year attributable to ordinary equity holders of the Parent	**₱0.01**	(₱0.11)	₱0.09

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended June 30		
	2016	2015	2014
NET INCOME (LOSS)	**₱12,956**	(₱262,236)	₱205,903
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Unrealized valuation gains on AFS financial assets (Note 8)	**277,649**	251	245,666
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Gain (loss) on remeasurement on retirement benefits liability - net of tax (Note 23)	**5,842**	(5,745)	(8,592)
Effect of shortened corporate life of a subsidiary	**–**	–	5,026
	283,491	(5,494)	242,100
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱296,447**	(₱267,730)	₱448,003
ATTRIBUTABLE TO:			
Equity holders of the Parent	**₱313,918**	(₱275,665)	₱454,024
Non-controlling interests	**(17,471)**	7,935	(6,021)
	₱296,447	(₱267,730)	₱448,003

See accompanying Notes to Consolidated Financial Statements.

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Equity Reserves	Revaluation Increment (Notes 12 and 13)	Unrealized Valuation Gains (Losses) on AFS Financial Assets (Note 8)	Losses on Remeasurement of Retirement Benefits Plan (Note 23)	Deficit	Equity attributable to Equity Holders of Prime Orion Philippines, Inc.	Non-Controlling Interests	Total
Balances at June 30, 2013	₱2,066,357	₱829,904	₱–	₱–	₱259,844	(₱4,859)	(₱75,328)	(₱343,172)	₱2,732,746	₱75,592	₱2,808,338
Net income	–	–	–	–	–	–	–	210,618	210,618	(4,715)	205,903
Other comprehensive income (loss)											
Unrealized valuation gain (loss)on											
AFS financial assets	–	–	–	–	–	247,849	–	–	247,849	(2,183)	245,666
Actuarial loss recognized in OCI	–	–	–	–	–	–	8,592	–	8,592	–	8,592
Total comprehensive income	–	–	–	–	–	247,849	8,592	210,618	467,059	(6,898)	460,161
Transfer of realized valuation increment	–	–	–	–	(7,611)	–	–	7,611	–	–	–
Unrealized gain transferred from equity											
to consolidated statement of income	–	–	–	–	–	(159,189)	–	–	(159,189)	–	(159,189)
Effect of shortened corporate life of a											
subsidiary	–	–	–	–	–	–	–	1,581	1,581	3,445	5,026
Balances at June 30, 2014	2,066,357	829,904	–		252,233	83,801	(66,736)	(123,362)	3,042,197	72,139	3,114,336
Net income	–	–	–	–	–	–	–	(262,453)	(262,453)	217	(262,236)
Other comprehensive income (loss)											
Unrealized valuation gain (loss)on											
AFS financial assets	–	–	–	–	–	267	–	–	267	(16)	251
Actuarial loss recognized in OCI	–	–	–	–	–	–	(5,745)	–	(5,745)	–	(5,745)
Total comprehensive income	–	–	–	–	–	267	(5,745)	(262,453)	(267,931)	201	(267,730)
Transfer of realized valuation increment	–	–	–	–	(7,611)	–	–	7,611	–	–	–
Treasury shares	–	–	(21,916)	–	–	–	–	–	(21,916)	–	(21,916)
Unrealized gain transferred from equity											
to consolidated statement of income	–	–	–	–	–	(82,002)	–	–	(82,002)	–	(82,002)
Collection of subscription receivable	3,555	–	–	–	–	–	–	–	3,555	–	3,555
Balances at June 30, 2015	₱2,069,912	₱829,904	(₱21,916)	₱–	₱244,622	₱2,066	(₱72,481)	(₱378,204)	₱2,673,903	₱72,340	₱2,746,243

(Forward)

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Equity Reserves	Revaluation Increment (Notes 12 and 13)	Unrealized Valuation Gains (Losses) on AFS Financial Assets (Note 8)	Losses on Remeasurement of Retirement Benefits Plan (Note 23)	Deficit	Equity attributable to Equity Holders of Prime Orion Philippines, Inc.	Non-Controlling Interests	Total
Balances at June 30, 2015	₱2,069,912	₱829,904	(₱21,916)	₱–	₱244,622	₱2,066	(₱72,481)	(₱378,204)	₱2,673,903	₱72,340	₱2,746,243
Net income	–	–	–	–	–	–	–	30,427	30,427	(17,471)	12,956
Other comprehensive income (loss)											
Unrealized valuation gain on AFS financial assets	–	–	–	–	–	277,649	–	–	277,649	–	277,649
Actuarial gain recognized in OCI	–	–	–	–	–	–	5,842	–	5,842	–	5,842
Total comprehensive income	–	–	–	–	–	277,649	5,842	30,427	313,918	(17,471)	296,447
Collection of subscription receivable	60,664	–	–	–	–	–	–	–	60,664	–	60,664
Equity reserves (Notes 3 and 29)	–	–	–	27,469	–	–	–	–	27,469	–	27,469
Transfer of realized valuation increment	–	–	–	–	(7,611)	–	–	7,611	–	–	–
Unrealized gain transferred from equity to consolidated statement of income	–	–	–	–	–	(3,489)	–	–	(3,489)	–	(3,489)
Balances at June 30, 2016	**₱2,130,576**	**₱829,904**	**(₱21,916)**	**₱27,469**	**₱237,011**	**₱276,226**	**(₱66,639)**	**(₱340,166)**	**₱3,072,465**	**₱54,869**	₱3,127,334

See accompanying Notes to Consolidated Financial Statements.

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended June 30		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**₱20,070**	(₱250,672)	₱287,853
Adjustments for:			
Depreciation and amortization (Notes 12, 13, 14 and 20)	**79,733**	79,748	77,167
Provision for impairment losses on:			
AFS financial assets (Note 8)	**3,115**	241,187	2,600
Investment in an associate (Note 11)	**610**	–	–
Noncurrent assets	**12,870**	–	–
Retirement benefits expense (Note 23)	**16,018**	22,773	25,339
Interest income	**(29,765)**	(16,599)	(13,623)
Gain on sale of:			
Investment property (Note 12)	**(578,965)**	–	–
Property and equipment (Note 13)	**(5,972)**	(15,346)	(196)
AFS financial assets (Note 8)	**(17,240)**	(8,846)	(159,189)
Dividend income (Notes 8 and 9)	**(2,495)**	(4,228)	(4,032)
Interest expense and bank charges (Note 22)	**331**	523	1,569
Gain on valuation of fair value of FVPL	**–**	(130)	–
Equity in net loss (income) of associates (Note 11)	**19**	(7)	24
Recovery from insurance (Note 1)	**–**	–	(269,282)
Loss on write-off of investment property (Note 12)	**–**	–	288
Unrealized foreign exchange losses (gains) - net	**(93)**	–	4
Provision for probable losses (Note 28)	**231,144**	–	–
Share-based expense (Note 29)	**27,469**	–	–
Operating income (loss) before working capital changes	**(241,698)**	48,403	(51,478)
Decrease (increase) in:			
Receivables	**(1,423,764)**	105,428	538,590
Inventories	**2,842**	6,468	11,972
Real estate held for sale and development	**165,640**	(596)	(149,328)
Amounts owed by related parties	**–**	13	–
Other current assets	**(4,656)**	(12,614)	(32,414)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(17,014)**	(6,510)	(381,846)
Rental and other deposits	**(3,774)**	18,818	15,584
Net cash flows generated from (used in) operations	**(1,522,424)**	159,410	(48,920)
Interest received	**29,765**	18,196	14,466
Income tax paid	**–**	(19,712)	(11,589)
Interest paid	**(331)**	(523)	(1,569)
Net cash flows from (used in) operating activities	**(₱1,492,990)**	₱157,371	(₱47,612)

(Forward)

	Years Ended June 30		
	2016	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES			
Contributions paid for retirement plan	**(₱29,997)**	(₱30,727)	(₱55,881)
Proceeds from sale of			
Investment properties	**703,148**	–	–
AFS financial assets (Note 8)	**21,360**	94,593	222,945
Property, plant and equipment	**19,305**	15,346	230
Disposal (acquisitions) of:			
AFS financial assets (Note 8)	**379,485**	(271,179)	(383,204)
Investment properties (Note 12)	**(22,435)**	(34,197)	(15,477)
FVPL investments	**5,298**	(27,712)	–
Property, plant and equipment (Note 13)	**(4,068)**	(7,367)	(6,152)
Software cost (Note 14)	**(1,568)**	(3,805)	(4,183)
Decrease (increase) in:			
Other noncurrent assets	**108,217**	(98,019)	8,363
Amounts owed by related parties	**(43)**	–	3
HTM investments	–	–	2,000
Deferred rent income	–	74	423
Dividends received (Note 8)	**2,495**	4,228	4,032
Net cash flows from (used in) investing activities	**1,181,197**	(358,765)	(226,901)
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of treasury shares	–	(21,916)	–
Receipt of deposit for future stock subscriptions (Note 1)	**1,406,250**	–	–
Collection of subscription receivables	**60,664**	3,555	–
Decrease in minority interest	–	(16)	2,843
Decrease in amounts owed to related parties (Note 18)	–	–	(2,673)
Net cash flows from (used in) financing activities	**1,466,914**	(18,377)	170
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,155,121**	(219,771)	(274,343)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**151,763**	371,534	645,877
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,306,884**	₱151,763	₱371,534

See accompanying Notes to Consolidated Financial Statements.

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

1. Corporate Information and Status of Operations

Corporate Information
Prime Orion Philippines, Inc. (POPI; the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 19, 1989. The Parent Company's primary purpose is to acquire by purchase, exchange, assign, donate or otherwise, and to hold, own and use, for investment or otherwise and to sell, assign, transfer, exchange, lease, develop, mortgage, pledge, traffic, deal in and with, and otherwise operate, enjoy and dispose of any and all properties of every kind and description and wherever situated, as and to the extent permitted by law, including but not limited to, buildings, tenements, warehouses, factories, edifices and structures and other improvements, and bonds, debentures, promissory notes, shares of capital stock, or other securities and obligations, created, negotiated or issued by any corporation, association, or other entity, domestic or foreign. The Parent Company's registered office address is 20/F LKG Tower, 6801 Ayala Ave., Makati City.

Prime Orion Philippines, Inc. and its subsidiaries, collectively referred to as "the Group", have principal business interests in holding companies, real estate and property development, financial services and manufacturing and distribution (see Note 26).

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

On May 29, 2014, LCI filed a Motion for Termination of Rehabilitation Proceedings, stating that LCI has substantially accomplished the tasks and conditions of the amended and restated rehabilitation plan. On August 28, 2014, the court granted LCI's Motion for Termination of Rehabilitation Proceedings and declared LCI's successful rehabilitation. The rehabilitation expenses incurred by LCI amounted to ₱0.61 million and ₱13.49 million in 2015 and 2014, respectively (nil in 2016).

Moreover, with the total lifting of the import safeguards for ceramic tiles beginning 2010, LCI suspended its manufacturing operations in 2012 and started renting out its warehouses in July 2014. In September 2016, the Board of Directors (BOD) of LCI amended LCI's Articles of Incorporation (AOI) by changing its name to Lepanto Development Corporation and its primary purpose was changed to state that it may purchase, acquire, own, lease, sell and convey real properties such as lands, buildings, factories and warehouses and machineries, equipment and other personal properties as may be necessary or incidental to the conduct of the corporate business, and to pay in cash, shares of its capital stock, debentures and other evidences of indebtedness, or other securities, as may be deemed expedient, for any business or property acquired by the corporation.

In September 2012, certain property and equipment and investment properties of Tutuban Properties, Inc. (TPI; a wholly-owned subsidiary) were damaged by fire. FLT Prime Insurance Corporation (FPIC), the insurance policy provider and also a wholly-owned subsidiary of POPI, recognized the incident as a fire loss event. The insurance policy was substantially ceded by FPIC to third party reinsurers. In line with this, TPI recognized recovery from insurance amounting to ₱269.28 million in 2014 (nil in 2016 and 2015). TPI received insurance proceeds from FPIC amounting to ₱17.89 million, ₱204.90 million and ₱174.71 million in 2016, 2015 and 2014, respectively.

On April 1, 2015, TPI signed a Memorandum of Understanding (MOU) with the Department of Transportation and Communication (DOTC) and Philippine National Railways (PNR) to formalize the agreement to cooperate in the finalization and implementation of plans to North-South Railway Project (NSRP) within a period of six (6) months. The NSRP involves construction of the North Line (Bulacan to Tutuban) and South Line (Tutuban to Albay) with the transfer station located at Tutuban Center. In 2016, discussions on the implementation of the NSRP among DOTC, PNR and TPI are on-going.

On January 13, 2015, the Insurance Commission (IC) issued Circular No. 2015-02-A which provided clarification of the provisions of Sections 194, 197, 200 and 289 of the Amended Insurance Code to ensure the compliance with the minimum capitalization and net worth requirements by the insurance companies. The Group is committed to infuse the necessary capital to comply with the IC's requirements for FPIC for 2015. While management is exploring various options, FPIC will continue to serve its portfolio of active insurance policies, the maturities of which range up to 2018.

On August 14, 2015, POPI entered into an agreement with Ayala Land, Inc. (ALI) whereby ALI will subscribe to 2,500,000,000 common shares of stock of POPI or 51.36% equity interest in POPI for a total consideration of ₱5.625 billion, subject to certain terms and conditions. In connection with the foregoing, on August 13, 2015, the BOD approved the amendment of POPI's AOI, specifically: (i) Article Sixth - to increase the number of its directors from seven (7) to nine (9); and (ii) Article Seventh - to increase its authorized capital stock from ₱2.40 billion (divided into 2.40 billion common shares at ₱1 par value) to ₱7.50 billion (divided into 7.50 billion common shares at ₱1 par value). The increase in authorized capital stock was approved by the SEC on July 4, 2016. On February 24, 2016, the Deed of Subscription was executed. As of June 30, 2016, the amount received for the subscription amounting to ₱1,406.25 million was presented as deposit for future stock subscription in the 2016 statement of financial position.

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

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

The consolidated financial statements of the Group as at June 30, 2016 and 2015 and for years ended June 30, 2016, 2015 and 2014 were approved and authorized for issue in accordance with the resolution by the BOD on October 6, 2016.

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

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

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

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and its subsidiaries as at June 30, 2016 and 2015:

Subsidiaries	Nature of Business	Effective Percentage of Ownership	
		2016	2015
Real Estate, Property Development and Others:			
Orion Land Inc. (OLI) and Subsidiaries:			
OLI	Real Estate and Investment Holding Company	**100%**	100%
TPI and Subsidiaries:			
TPI (Note 1)	Real Estate, Mall Operations	**100%**	100%
TPI Holdings Corporation (TPIHC)	Investment Holding Company	**100%**	100%
OPDI and Subsidiaries:			
OPDI (Note 1)	Real Estate Development	**100%**	100%
Orion Beverage, Inc. (OBI) *	Manufacturing	**100%**	100%
LCI (Note 1)	Manufacturing and Distribution	**100%**	100%
Luck Hock Venture Holdings, Inc.*	Other Business Activities	**60%**	60%
Financial Services and Others:			
OE Holdings, Inc. (OEHI) and Subsidiaries:			
OEHI	Wholesale and Trading	**100%**	100%
OMI (Note 1)	Marketing and Administrative Services	**100%**	100%
ZHI Holdings, Inc. (ZHI)	Financial Holding Company	**100%**	100%
OIHPI	Financial Holding Company	**100%**	100%
FPIC (Note 1)	Non-Life Insurance Company	**78.77%**	70%
OSI (Note 1)	Management Information Technology Consultancy Services	**100%**	100%

* *Inactive*

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

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

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

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS which were adopted as at July 1, 2015.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. This amendment became effective for annual periods beginning on or after January 1, 2015 but has no impact to the Group since it has no defined benefit plan with contributions from employees and third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after July 1, 2015 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

  - A performance condition must contain a service condition.
  - A performance target must be met while the counterparty is rendering service.
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
  - A performance condition may be a market or non-market condition.
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PAS 39. The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:

  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment*, and PAS 38*, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

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

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

- PAS 40, *Investment Property*
  The description of ancillary services in PAS 40 differentiates between the investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine of the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

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

Effective July 1, 2016:

- PAS 1, Presentation of Financial Statements - Disclosure Initiative (Amendments)
  The amendments are intended to assist entities in applying judgment when meeting the presentation disclosure requirements in PFRS. The amendments include various clarifications in the presentation and disclosure of the amounts in the face of and in the notes to the financial statements.

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

- PAS 16*, Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. These amendments are not expected to apply to the Group as the Group does not have any bearer plants.

- PAS 27, *Separate Financial Statements* - *Equity Method in Separate Financial Statements* (Amendments)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. These amendments will not have any effect on the Group's consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments)
  These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments will not have any effect on the Group's consolidated financial statements.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
  The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3) must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any effect to the Group.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. This standard is not expected to apply to the Group.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after July 1, 2015 and are not expected to have a material effect to the Group. They include:

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

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

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*
  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective July 1, 2018:

PFRS 9, *Financial Instruments*

- In July 2014, the IASB issued the final version of International Financial Reporting Standard (IFRS) 9, Financial Instruments. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015."

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

- IFRS 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the effect of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Effective in July 1, 2019

- PFRS 16, *Leases*
  PFRS 16, *Leases*, replaces PAS 17, the current standard for leases, and its related Interpretations.

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases in their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value."

  The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt PFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

Effectivity Deferred

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investment in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The FRSC decided to postpone the original effective date of January 1, 2016 until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

Summary of Significant Accounting and Financial Reporting Policies

<u>Presentation of Financial Statements</u>
The Group has elected to present two statements, a consolidated statement of income and a consolidated statement of comprehensive income, rather than a single consolidated statement of comprehensive income containing the two elements.

Current versus Noncurrent Classification

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

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

A liability is current when:

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

The Group classifies all other liabilities as noncurrent.

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

Financial Instruments - Initial Recognition

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

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

As at June 30, 2016 and 2015, the Group's financial assets are in the nature of loans and receivables, financial assets at FVPL and AFS financial assets. The Group has no financial assets classified as HTM investments as at June 30, 2016 and 2015.

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

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

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

As at June 30, 2016 and 2015, the Group's financial liabilities are in the nature of other financial liabilities. As at June 30, 2016 and 2015, the Group has no financial liabilities classified as at FVPL and derivatives designated as hedging instruments in an effective hedge.

Financial Instruments - Subsequent Measurement
The subsequent measurement of financial instruments depends on their classification as follows:

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are impaired or derecognized. Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

The Group's loans and receivables include cash and cash equivalents, receivables and refundable deposits (included under "Other noncurrent assets"; see Notes 4, 5, 15 and 18).

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

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

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

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

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

Financial Assets at FVPL
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes

derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of income.

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

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

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

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

Fair Value Measurement
The Group measures financial instruments, such as financial assets at FVPL, at fair value at each end of the reporting period. Also, fair values of financial instruments measured are disclosed in Note 30.

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business on the end of the reporting period.

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

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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

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

AFS Financial Assets Carried at Fair Values
For investments in debt securities, the Group assesses at each end of the reporting period whether there is objective evidence that an investment is impaired. The losses arising from impairment of such financial assets are recognized in the consolidated statement of income.

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

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

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

<u>Derecognition of Financial Instruments</u>
Financial Assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

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

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

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

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

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

Other Current Assets
Other current assets consists creditable withholding taxes (CWTs), input value added tax (VAT), and prepayments.

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

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

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

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

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

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

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

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

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

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

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

Investment Properties
The Group's investment properties include properties utilized in its mall operations, condominium unit, commercial building, plant facilities and certain land and land improvements which are held

for rentals while the rest of the land is held for capital appreciation.

Investment properties utilized in its mall operations are stated at their revalued amount as deemed cost as allowed under PFRS less accumulated depreciation and amortization and any accumulated impairment losses. Condominium unit and commercial building are stated at cost less accumulated depreciation and any accumulated impairment losses. Land is stated at cost less any impairment in value.

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

The estimated useful lives of investment properties follow:

	Useful life in years
Land improvements	30
Buildings and improvements	30

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

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

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

<u>Property and Equipment</u>
Land and Improvements and Buildings and Improvements at Revalued Amount
Land and buildings together with their improvements stated at appraised values were determined by an independent firm of appraisers. The excess of appraised values over the acquisition costs of the properties is shown under the "Revaluation increment in property, plant and equipment" account in the consolidated statement of financial position and in the consolidated statement of changes in equity. An amount corresponding to the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost is transferred

annually from "Revaluation increment on property, plant and equipment" to "Deficit" account in the consolidated statement of financial position. In 2015, these properties were reclassified to investment properties, with the carrying amount as the deemed cost.

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

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

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

	Useful life in years
Buildings	30
Machinery and equipment	5 - 10
Transportation equipment	5
Furniture, fixtures and equipment	3 - 5
Condominium units and improvements	25
Hotel equipment	5

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

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

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

<u>Software Costs</u>

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

An item of software license is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of income in the year the items is derecognized.

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

Other Noncurrent Assets

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

Deferred Acquisition Costs

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

Subsequent to initial recognition, these costs are amortized using the twenty-fourth (24^{th}) method except for marine cargo where the deferred acquisition costs pertain to the commissions for the last two (2) months of the year. Amortization is charged to the consolidated statement of income. The unamortized acquisition costs are shown as deferred acquisition cost under "Other noncurrent assets".

Impairment of Nonfinancial Assets

Inventories and Real Estate Held for Sale and Development

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

Investment in an Associate

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

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

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

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

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

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

Nonfinancial Other Current and Noncurrent Assets
The Group provides allowance for impairment losses on nonfinancial other current and noncurrent assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease other current and noncurrent assets.

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

Recognition and Measurement

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

b) Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

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

Claims Provision and Incurred but not Reported (IBNR) losses
Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the financial reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money and includes IBNR losses. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract expires, is discharged or is cancelled.

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

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

An impairment review is performed on all reinsurance assets when an indication of impairment arises during the financial reporting period. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the consolidated statement of income.

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

The Group also assumes reinsurance risk in the normal course of business for insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognized as income and expense in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Rental and Other Deposits
Customer rental and other deposits represent payments from tenants on leased properties which are refundable at the end of the lease contract.

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

Capital Stock
Common shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to "Additional paid-in capital".

Treasury Shares
Treasury shares are own shares (POPI and subsidiaries) acquired by the Group. These are measured at acquisition cost and presented as deduction against equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

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

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

Revenue and Income Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the

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

Rent and Other Charges
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature. Other charges pertain to rebilled utility charges to tenants in relation to the operating lease on properties.

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

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the deferred reinsurance commission pertains to the premiums for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the financial reporting date is accounted for as “Deferred reinsurance commissions” in the Liabilities section of the consolidated statement of financial position.

Gain on Sale of AFS Financial Assets
Gain on sale of AFS financial assets is recognized when the Group sold its AFS financial assets higher than its fair market value at the time of sale.

Merchandise Sales, Real Estate Sales and Sale of Assets
Revenue from sale of merchandise and assets are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

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

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

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

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

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

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

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

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

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

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

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

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

- when the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

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

Leases

Determination of Whether an Arrangement Contains a Lease

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

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

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

Operating Lease Commitments - Group as a Lessor

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

Operating Lease Commitments - Group as a Lessee

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

Foreign Currency Translation

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

Claims

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

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

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

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

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

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

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

Assessment of Impairment Indicators of Property and Equipment, and Software Costs
The Group assesses impairment of property, plant and equipment, and software costs whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

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

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

There were no impairment indicators identified on the Group's property and equipment and software costs. The carrying values of property and equipment amounted to ₱19.51 million and ₱46.33 million as at June 30, 2016 and 2015, respectively, net of accumulated depreciation and amortization amounting to ₱2.11 billion and ₱2.21 billion as of the same dates (see Note 13). The carrying values of software costs amounted to ₱6.22 million and ₱8.80 million as of the same dates, respectively (see Note 14).

Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes in circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Estimating Recovery from Insurance
Management estimates that the recorded amount of the recovery from insurance is virtually certain after an exhaustive review of its existing insurance coverage against the casualty loss incurred and the discussions with and inspections conducted by the insurance company, adjusters, and technical consultants. In 2014, the Group recorded recovery from insurance amounting to ₱269.28 million (nil in 2016 and 2015; see Note 1).

Estimating Allowance for Impairment Losses on Receivables
The Group reviews its receivables from third parties and amounts owed by related parties at each end of the reporting period to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

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

Provision for impairment losses on receivables amounted to ₱36.79 million, ₱2.46 million and ₱0.73 million in 2016, 2015 and 2014, respectively. Recovery on impairment losses on receivables amounted to nil, ₱8.01 million and ₱1.29 million in 2016, 2015 and 2014, respectively. The Group wrote-off allowance for impairment losses on receivables amounting to ₱25.89 million, ₱1.32 million and ₱6.97 million in 2016, 2015 and 2014, respectively. The carrying values of the receivables amounted to ₱1,919.93 million and ₱496.12 million as at June 30, 2016 and 2015, respectively, net of allowance for impairment losses amounting to ₱312.77 million and ₱301.89 million, respectively (see Note 5).

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

Provision for inventory losses amounted to ₱1.81 million in 2014 (nil in 2016 and 2015). Reversal of allowance for impairment on inventory losses amounted to ₱4.22 million, ₱8.97 million and ₱4.59 in 2016, 2015 and 2014, respectively. The Group wrote-off allowance for impairment losses on inventories amounting ₱1.43 million and ₱13.11 million in 2015 and 2014, respectively (nil in 2016). The carrying values of inventories amounted to ₱8.84 million and ₱12.01 million as at June 30, 2016 and 2015, respectively, net of allowance for inventory losses amounting to ₱67.39 million and ₱71.61 million as at June 30, 2016 and 2015, respectively (see Note 6).

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

Impairment losses on real estate held for sale and development recognized in 2016 amounted to ₱16.03 million (nil in 2015 and 2014). The carrying values of real estate held for sale and development amounted to ₱264.46 million and ₱430.10 million as at June 30, 2016 and 2015, respectively (see Note 7).

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

Provision for impairment losses on AFS financial assets amounted to ₱3.12 million, ₱241.19 million and ₱2.60 million in 2016, 2015 and 2014, respectively. The fair values of AFS financial assets amounted to ₱1,397.51 million and ₱1,507.41 million as at June 30, 2016 and 2015, respectively, net of allowance for impairment losses amounting to ₱538.40 million and ₱535.29 million as at June 30, 2016 and 2015, respectively (see Note 8).

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

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of investment in an associate and investment properties which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that this asset may not be recoverable. Any resulting impairment loss could have a material adverse impact on financial condition and results of operations of the Group.
Provision for impairment losses on investment in an associate amounted to ₱0.61 million in 2016 (nil in 2015 and 2014). The carrying values of the investment in an associate amounted to ₱1.94 million and ₱2.57 million as at June 30, 2016 and 2015, respectively (see Note 11).

The carrying value of investment properties amounted to ₱1,163.17 million and ₱1,329.02 million as at June 30, 2016 and 2015, respectively, net of allowance for impairment losses amounting to ₱12.83 million as of the same dates (see Note 12).

Estimating Useful Lives of Depreciable Investment Properties, Property and Equipment and Software Costs

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

The carrying values of investment properties amounted to ₱1,163.17 million and ₱1,329.02 million as at June 30, 2016 and 2015, respectively (see Note 12).

The carrying values of property and equipment amounted to ₱19.51 million and ₱46.33 million as at June 30, 2016 and 2015, respectively, net of accumulated depreciation and amortization amounting to
₱2.11 billion and ₱2.21 billion as of the same dates (see Note 13).

The carrying values of software costs amounted to ₱6.22 million and ₱8.80 million as at June 30, 2016 and 2015, respectively, net of accumulated amortization amounting to ₱31.30 million and ₱ 27.14 million as of the same dates (see Note 14).

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

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

The Group provides allowance for losses on nonfinancial other current assets whenever they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for losses would increase recorded expenses and decrease nonfinancial other current and noncurrent assets.

Provisions for impairment losses on nonfinancial other current assets amounted to ₱2.85 million and ₱2.90 million, respectively, as at June 30, 2016 and 2015. As of the same dates, the carrying values of nonfinancial other current assets amounted to ₱240.82 million and ₱244.73 million, respectively (see Note 10).

There was no provision for impairment losses on nonfinancial other noncurrent assets recognized in 2016, 2015 and 2014. As at June 30, 2016 and 2015, the carrying values of nonfinancial other noncurrent assets amounted to ₱76.02 million and ₱184.59 million, respectively (amounts exclude refundable deposit, see Note 15).

Claims Liability Arising from Insurance Contracts
Estimates have to be made both for the expected ultimate cost of claims reported at the financial reporting period and for the expected ultimate cost of the IBNR claims as at financial reporting period. It can take a significant period of time before the ultimate claim costs can be established with certainty. The primary technique adopted by management in estimating the cost of notified and IBNR claims is that of using past claims settlement trends to predict future claims settlement trends. At each financial reporting period, prior year claims estimates are assessed for adequacy and changes made are charged to current year provision.

The carrying values of claims payable amounted to ₱226.39 million and ₱230.61 million as at June 30, 2016 and 2015, respectively (see Note 16).

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

Retirement benefit costs amounted to ₱20.49 million, ₱22.77 million and ₱25.34 million in 2016, 2015 and 2014, respectively. As at June 30, 2016 and 2015, the net retirement benefits liability of the Group amounted to ₱75.70 million and ₱96.98 million, respectively (see Note 23).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 23.

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

Deferred income tax assets recognized in the books amounted to ₱71.04 million and ₱69.65 million as at June 30, 2016 and 2015, respectively (see Note 24).

The temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized, as the management has assessed that it is not probable that sufficient future taxable income will be available for which the benefit of the deferred income tax assets can be utilized, are disclosed in Note 24.

Assessing and Estimating Contingencies and Provisions
The Group is currently involved in various legal proceedings and claims. The estimate of the probable costs for the resolution of these claims has been developed in consultation with inside and outside legal counsel handling the defense in these matters and is based upon the analysis of potential results. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings (see Note 28).

Total provisions amounted to ₱251.15 million in 2016 and nil in both 2015 and 2014 (see Note 28).

Estimating Fair Value of Options under the ESOWN
The Group initially measures the cost of equity-settled transactions using Cox-Ross-Rubenstein option pricing model to determine the fair value of the option at date of grant. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the volatility and dividend yield and making assumptions about them. In 2016, personnel expense and the corresponding equity reserve recognized in relation to the ESOWN amounted to ₱27.47 million. See Note 29 for further details on the ESOWN, including the assumptions used in the valuation.

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

Fair values of financial assets as at June 30, 2016 and 2015 amounted to ₱4,642.09 million and ₱2,173.65 million, respectively, while the fair values of financial liabilities as at June 30, 2016 and 2015 amounted to ₱1,560.24 million and ₱1,362.64 million, respectively (see Notes 30 and 31).

4. Cash and Cash Equivalents

	2016	2015
	(In Thousands)	
Cash on hand and in banks	**₱475,593**	₱56,304
Short-term investments	**831,291**	95,459
	₱1,306,884	₱151,763

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

Interest earned from cash in banks amounted to ₱0.57 million, ₱0.26 million and ₱0.98 million in 2016, 2015 and 2014, respectively. Interest earned from short-term investments amounted to ₱2.77 million, ₱1.42 million and ₱4.77 million in 2016, 2015 and 2014, respectively (see Note 22).

5. Receivables

	2016	2015
	(In Thousands)	
Trade debtors	**₱112,888**	₱140,907
Loans receivable	**1,425,750**	–
Insurance receivables	**397,077**	416,290
Others (Note 18)	**298,663**	242,438
	2,234,378	799,635
Less allowance for impairment losses	**314,446**	303,510
	₱1,919,932	₱496,125

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

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

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

Other receivables include noninterest-bearing receivables of OLI from Cosco Land Corporation (CLC) which are due and demandable amounting to ₱160.45 million as at June 30, 2016 and 2015. These receivables are collateralized by the shares of stock of Cyber Bay owned by CLC. The receivables from CLC are fully provided with allowance.

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

	Trade debtors	Insurance receivables	Others	Total
	(In Thousands)			
At July 1, 2013	₱90,438	₱7,755	₱218,088	₱316,281
Provisions (Note 20)	146	586	–	732
Write-off	(2)	–	(6,968)	(6,970)
Recovery	(1,285)	–	–	(1,285)
At June 30, 2014	89,297	8,341	211,120	308,758
Provisions (Note 20)	545	418	1,493	2,456
Write-off	(1,320)	–	–	(1,320)
Recovery	(649)	–	(7,360)	(8,009)
At June 30, 2015	**87,873**	**8,759**	**205,253**	**301,885**
Provisions (Note 20)	**622**	**33,115**	**3,031**	**36,768**
Write-off	**(21,984)**	**–**	**(4,171)**	**(25,885)**
At June 30, 2016	**₱66,511**	**₱41,874**	**₱204,113**	**₱312,768**

Interest earned from trade receivables amounted to ₱11.01 million, ₱1,115 and ₱0.07 million in 2016, 2015 and 2014, respectively (see Note 22).

In 2015, LCI and OMI have written-off portion of its trade receivables amounting to ₱0.84 million and ₱0.48 million, respectively. While in 2016, ₱25.82 million worth of receivables were written-off. This amount includes ₱13.78 million pertaining to OMI receivable from merchandisers and retailers for the sale of tiles while ₱7.76 million pertains to long outstanding receivable on rent, CUSA and utilities. The remaining ₱4.28 million pertains to the aggregate long outstanding trade and other receivables of the Group that were assessed to be uncollectible.

6. Inventories

	2016	2015
	(In Thousands)	
At NRV:		
Finished goods	**₱8,149**	₱11,130
Factory supplies and spare parts	**687**	682
Materials in transit	–	194
	₱8,836	₱12,006

Movements in the allowance for inventory losses are as follows:

	2016	2015
	(In Thousands)	
Beginning balances	**₱71,614**	₱82,016
Reversal	**(4,223)**	(1,242)
Write-off	–	(9,160)
	₱67,391	₱71,614

Inventories charged to operations amounted to ₱5.34 million, ₱15.80 million and ₱34.16 million in 2016, 2015 and 2014, respectively (see Note 20).

7. Real Estate Held for Sale and Development

	2016	2015
	(In Thousands)	
Land for development	**₱237,973**	₱395,549
Held for sale	**42,533**	34,554
	280,506	430,103
Allowance for impairment losses (Note 20)	**16,042**	–
	₱264,464	₱430,103

Land for development pertains to parcels of land located in Calamba, Laguna, Sto. Tomas, Batangas and San Vicente, Palawan. The composition of land for development as at June 30, 2016 and 2015 are as follows:

	2016	2015
	(In Thousands)	
Land cost	**₱212,558**	₱299,239
Construction overhead and other related costs	**22,882**	73,957
Professional fees	–	17,932
Taxes	**2,517**	4,421
	₱237,957	₱395,549

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

	2016	2015
	(In Thousands)	
Balances at beginning of year	**₱430,103**	₱429,507
Additions	**4,449**	39
Repossessions	–	557
Sale/disposal (Note 20)	**(154,046)**	–
Impairment loss (Note 20)	**(16,042)**	–
Balances at end of year	**₱264,464**	₱430,103

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

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

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

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

8. **AFS Financial Assets**

	2016	2015
	(In Thousands)	
Listed equity securities	**₱1,518,088**	₱1,249,196
Nonlisted equity securities	**106,420**	518,889
Quoted debt securities	**300,489**	258,206
Unquoted debt securities	**10,820**	16,405
	1,935,917	2,042,696
Allowance for impairment losses	**538,403**	535,288
	₱1,397,514	₱1,507,408

AFS financial assets in quoted and unquoted shares of stock are carried at fair value with cumulative changes in fair values presented as a separate account in equity. Meanwhile, unquoted debt and equity financial assets are carried at cost, net of any impairment, until the investment is derecognized.

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

Movements in the allowance for impairment losses are as follows:

	2016	2015	2014
		(In Thousands)	
Balances at beginning of year	**₱535,288**	₱294,101	₱291,501
Provisions	**3,115**	241,187	2,600
Balances at end of year	**₱538,403**	₱535,288	₱294,101

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

	Equity Holders	Non-Controlling Interests	Total
		(In Thousands)	
June 30, 2013	(₱4,859)	₱2,116	(₱2,743)
Gain (loss) recognized directly in equity	247,849	(2,183)	245,666
Loss transferred from equity to consolidated statement of income	(159,189)	–	(159,189)
June 30, 2014	83,801	(67)	83,734
Gain (loss) recognized directly in equity	267	(16)	251
Loss transferred from equity to consolidated statement of income	(82,002)	–	(82,002)
June 30, 2015	2,066	(83)	1,983
Gain recognized directly in equity	277,649	–	277,649
Loss transferred from equity to consolidated statement of income	(3,489)	–	(3,489)
June 30, 2016	**₱276,226**	**(₱83)**	**₱276,143**

Proceeds from the sale of AFS financial assets amounted to ₱21.36 million, ₱94.59 million and ₱222.95 million in 2016, 2015 and 2014, respectively, with a corresponding gain on sale of ₱17.24 million, ₱8.85 million and ₱159.19 million in 2016, 2015 and 2014, respectively.

Interest earned from AFS financial assets amounted to ₱15.41 million, ₱11.75 million and ₱7.80 million in 2016, 2015 and 2014, respectively.

Dividend income received on AFS financial assets amounted to ₱2.50 million, ₱3.27 million and ₱4.03 million in 2016, 2015 and 2014, respectively.

9. Financial Assets at FVPL

In 2016, the Group has 15,000 redeemable preferred shares with a cost of ₱2.92 million recorded as financial assets at FVPL upon initial recognition. Fair value of financial assets at FVPL as at June 30, 2016 and 2015 amounted to ₱12.70 million and ₱27.99 million, respectively, resulting to an unrealized gain (loss) of (₱0.43 million) and ₱0.28 million in 2016 and 2015, respectively (nil in 2014). During the fiscal year, 128,600 shares amounting to ₱9.66 million were redeemed. Dividend income earned from these shares amounted to ₱0.96 million in 2015 (nil in 2016 and 2014).

10. Other Current Assets

	2016	2015
	(In Thousands)	
CWTs	**₱185,608**	₱198,258
Input VAT	**33,485**	28,330
Prepayments	**24,574**	14,656
Unclaimed claims reserve fund	**–**	6,380
	243,667	247,624
Less allowance for impairment losses	**2,852**	2,895
	₱240,815	₱244,729

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

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

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

Unclaimed claims reserve fund pertains to the unclaimed payments on its trade creditors under rehabilitation plan which were deposited to Metropolitan Bank and Trust Company to serve as the fund. This is equivalent to the total amount of allowed claims that remain unclaimed as of filing of motion for termination of rehabilitation proceedings of the Company. All payments should be taken from the Fund upon presentation of sufficient evidence of identity. A creditor or worker may obtain payment within two (2) years from the opening of the account and should discharge the Company from its obligation. The fund is classified as current asset. The fund is readily available as payment for claims and was reclassified to AFS investment on June 30, 2016 upon the lapse of the two (2) - year period.

Movements in the allowance for impairment losses are as follows:

	2016	2015	2014
		(In Thousands)	
Balances at beginning of year	**₱2,895**	₱2,819	₱2,970
Provisions (Note 20)	**23**	76	61
Write-off	**(66)**	–	(212)
Balances at end of year	**₱2,852**	₱2,895	₱2,819

11. **Investment in an Associate**

	2016	2015
	(In Thousands)	
Acquisition costs:		
Balances at end of year	**₱5,959**	₱5,959
Accumulated equity in net losses		
Balances at beginning of year	**(3,388)**	(3,395)
Equity in net income (loss)	**(19)**	7
Balances at end of year	**(3,407)**	(3,388)
	2,552	2,571
Allowance for impairment loss	**(610)**	–
	₱1,942	₱2,571

Summarized of the financial statement information of the associate follows:

	2016	2015
	(In Thousands)	
Current assets	**₱9,941**	₱10,036
Noncurrent assets	**21**	21
Total liabilities	**261**	201
Revenue	**146**	223
Costs and expenses	**311**	266
Net income (loss)	**(94)**	35

12. **Investment Properties**

	2016		
	Buildings and Improvements	**Land and Improvements**	**Total**
		(In Thousands)	
Cost			
At beginning of year	**₱2,907,380**	**₱470,331**	**₱3,377,711**
Additions	**22,301**	**134**	**22,435**
Reclassification	**246**	**–**	**246**
Disposals	**–**	**(124,838)**	**(124,838)**
At end of year	**2,929,927**	**345,627**	**3,275,554**
Accumulated Depreciation and Amortization			
At beginning of year	**2,015,949**	**19,906**	**2,035,855**
Depreciation and amortization (Note 20)	**62,851**	**845**	**63,696**
At end of year	**2,078,800**	**20,751**	**2,099,551**
Balance before impairment	**851,127**	**324,876**	**1,176,003**
Less: Allowance for impairment losses	**12,834**	**–**	**12,834**
Net book values	**₱838,293**	**₱324,876**	**₱1,163,169**

	2015		
	Buildings and Improvements	Land and Improvements	Total
		(In Thousands)	
Cost			
At beginning of year	₱2,181,041	₱131,624	₱2,312,665
Additions	33,960	237	34,197
Transfer (Note 13)	692,379	338,470	1,030,849
At end of year	2,907,380	470,331	3,377,711
Accumulated Depreciation and Amortization			
At beginning of year	1,561,791	552	1,562,343
Depreciation and amortization (Note 20)	60,643	829	61,472
Transfer (Note 13)	393,515	18,525	412,040
At end of year	2,015,949	19,906	2,035,855
Balance before impairment	891,431	450,425	1,341,856
Less: Allowance for impairment losses	12,834	–	12,834
Net book values	₱878,597	₱450,425	₱1,329,022

Based on the latest appraisal reports, as determined by an independent firm of appraisers, the appraised values of the TPI's and LCI's investment properties amounted to ₱4.82 billion and ₱5.08 billion as at June 30, 2016 and 2015, respectively.

TPI

Investment properties of TPI substantially represent other land improvements, and building, machinery and equipment on the land leased from PNR which are utilized for TPI's office space, mall operations and held for rentals. These were valued by independent professionally qualified appraisers.

The appraised property is located along Claro M. Recto Avenue, within Tondo Manila. The hierarchy in which the fair value measurement in its entirety is recognized is at Level 3.

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

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

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

LCI

LCI has historically classified land and improvements and buildings and improvements at revalued amounts as property and equipment. On July 1, 2014, LCI transferred its land and improvements and buildings and improvements under property and equipment. The carrying fair value of these assets was the deemed cost of the investment property upon transfer. The transfer was made in accordance with PAS 40*, Investment Property,* since the properties were held by the Company to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Movement of revaluation increment are as follows:

	2016	2015
	(In Thousands)	
Beginning balance	**₱244,622**	₱–
Reclassification (see Note 13)	–	252,233
Transfer of realized valuation increment	**(7,611)**	(7,611)
Balances at end of year	**₱237,011**	₱244,622

On June 30, 2016 and 2015, the net book values of TPI's and LCI's investment properties follow:

	2016	2015
	(In Thousands)	
At net book value:		
Original cost	**₱285,059**	₱298,580
Revaluation reserve (OCI)	**237,011**	244,622
Revaluation reserve (closed to retained earnings)	**236,083**	250,900
	₱758,153	₱794,102

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

Rental revenue from investment properties amounted to ₱467.93 million, ₱414.48 million and ₱402.52 million in 2016, 2015 and 2014, respectively. Direct operating expenses incurred for investment properties amounted to ₱406.99million, ₱212.81 million and ₱210.96 million in 2016, 2015 and 2014, respectively, and include depreciation, real property taxes and repairs and maintenance.

On August 18, 2015, TPIHC, a subsidiary, sold its investment properties located at Sto Tomas, Batangas with an aggregate area of 191,414 square meters for a total consideration of ₱270.58 million. On September 7, 2015, the Group also sold its investment properties located in Mandaue City, Cebu for ₱432.6 million.

Gain on sale of these properties recognized in 2016 amounted to ₱578.97 million.

13. Property and Equipment

	2016						
	Leasehold Improvements	**Machinery and Equipment**	**Transportation Equipment**	**Furniture, Fixtures and Equipment**	**Condominium Units and Improvements**	**Hotel Equipment**	**Total**
				(In Thousands)			
At cost							
At beginning of year	**₱7,227**	**₱2,096,590**	**₱40,937**	**₱91,644**	**₱8,692**	**₱8,533**	**₱2,253,623**
Additions	**–**	**747**	**1,558**	**1,711**	**–**	**55**	**4,071**
Disposals/Retirement	**–**	**(70,916)**	**(16,137)**	**(28,195)**	**–**	**–**	**(115,248)**
At end of year	**7,227**	**2,026,421**	**26,358**	**65,160**	**8,692**	**8,588**	**2,142,446**
Accumulated Depreciation and Amortization							
At beginning of year	**6,725**	**2,069,817**	**34,598**	**85,754**	**4,622**	**5,779**	**2,207,295**
Depreciation and amortization (Note 20)	**241**	**4,982**	**2,258**	**2,644**	**218**	**1,542**	**11,885**
Disposals/retirements	**–**	**(65,417)**	**(14,912)**	**(28,195)**	**–**	**–**	**(108,524)**
At end of year	**6,966**	**2,009,382**	**21,944**	**60,203**	**4,840**	**7,321**	**2,110,656**
Less: Allowance for impairment loss (Note 20)	**–**	**12,283**	**–**	**–**	**–**	**–**	**12,283**
Net Book Values	**₱261**	**₱4,756**	**₱4,414**	**₱4,955**	**₱3,852**	**₱1,267**	**₱19,507**

	2015						
	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Condominium Units and Improvements	Hotel Equipment	Total
				(In Thousands)			
At cost							
At beginning of year	₱6,948	₱2,095,822	₱39,484	₱89,557	₱8,692	₱7,093	₱2,247,596
Additions	279	1,260	2,301	2,087	–	1,440	7,367
Disposals	–	(492)	(848)	–	–	–	(1,340)
At end of year	7,227	2,096,590	40,937	91,644	8,692	8,533	2,253,623
Accumulated Depreciation and Amortization							
At beginning of year	6,517	2,065,198	32,163	82,631	4,404	3,407	2,194,320
Depreciation and amortization (Note 20)	208	5,110	3,283	3,123	218	2,372	14,314
Disposals	–	(491)	(848)	–	–	–	(1,339)
At end of year	6,725	2,069,817	34,598	85,754	4,622	5,779	2,207,295
Net Book Values	₱502	₱26,773	₱6,339	₱5,890	₱4,070	₱2,754	₱46,328

	2015		
	Land and Improvements	Buildings and Improvements	Total
		(In Thousands)	
At revalued amounts:			
At beginning of year	₱338,470	₱692,379	₱1,030,849
Transfers (Note 12)	(338,470)	(692,379)	(1,030,849)
At end of year	–	–	–
Accumulated depreciation and amortization			
At beginning of year	18,525	393,515	412,040
Transfers (Note 12)	(18,525)	(393,515)	(412,040)
At end of year	–	–	–
Net book values	₱–	₱–	₱–

Certain items of property and equipment identified as idle and included under machinery and equipment were written down to their estimated recoverable amounts by ₱12.3 million.

Gain on sale of property and equipment was recognized in 2016 and 2015 and 2014 amounting to ₱5.97 million, ₱15.35 million and ₱0.20 million, respectively.

In 2015, LCI transferred its land and improvements and buildings and improvements carried at revalued amounts from property and equipment to investment property valued at deemed cost to reflect the change in use of the properties on July 1, 2014 (see Note 12).

Movement of revaluation increment are as follows:

	2016	2015
	(In Thousands)	
Beginning balance	₱–	₱252,233
Reclassification (see Note 12)	–	(252,233)
Balances at end of year	₱–	₱–

As at June 30, 2016 and 2015, the Group continues to utilize fully depreciated property and equipment with an aggregate acquisition cost amounting to ₱41.58 million and ₱66.15 million, respectively.

14. **Software Costs**

	2016	2015
	(In Thousands)	
At cost:		
Beginning balances	**₱35,940**	₱32,135
Additions	**1,568**	3,805
Ending balances	**37,508**	35,940
Accumulated amortization:		
Beginning balances	**27,140**	23,178
Amortization (Note 20)	**4,152**	3,962
Ending balances	**31,292**	27,140
Net book values	**₱6,216**	₱8,800

15. **Other Noncurrent Assets**

	2016	2015
	(In Thousands)	
Deferred acquisition cost	**₱21,344**	₱22,395
Deferred reinsurance premiums	**27,555**	22,141
Refundable deposits (Note 30)	**19,400**	19,637
Deferred input VAT	**7,572**	9,111
Spare parts and supplies	**9,180**	8,630
Prepaid rent and other expenses	**3,707**	115,832
Others	**6,664**	6,480
	₱95,422	₱204,226

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

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

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

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

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

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

Others consist mainly of various assets that are individually immaterial.

16. **Accounts Payable and Accrued Expenses**

	2016	2015
	(In Thousands)	
Claims payables	**₱226,387**	₱230,608
Reserves for unearned premiums	**118,074**	106,092
Trade payables	**61,298**	49,197
Nontrade payables	**58,652**	91,689
Due to reinsurers and ceding companies	**32,993**	41,865
Accrued expenses and others (Notes 27 and 28)	**397,740**	147,811
	₱895,144	₱667,262

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

Reserves for unearned premiums are portion of the premiums that relates to unexpired periods. Accrued expenses include janitorial, security, utilities and other accrued expenses.

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

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

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

17. **Rental and Other Deposits**

	2016			2015		
	Due within One Year	**Beyond One Year**	**Total**	Due within One Year	Beyond One Year	Total
			(In Thousands)			
Rental deposits	**₱37,405**	**₱1,275**	**₱38,680**	₱28,295	₱11,324	₱39,619
Security deposits	**55,779**	**54,576**	**110,355**	72,297	31,334	103,631
Deferred rent	**32,971**	**21,263**	**54,234**	26,643	32,937	59,580
Customer deposits	**8,420**	**1,621**	**10,041**	13,222	1,582	14,804
Construction bond	**5,286**	**2,904**	**8,190**	3,848	4,167	8,015
Other deposits	**1,501**	**6,786**	**8,287**	3,925	3,987	7,912
	₱141,362	**₱88,425**	**₱229,787**	₱148,230	₱85,331	₱233,561

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

Deferred rent pertains to rent received in advance amounting to ₱54.23 million and ₱59.58 million as at June 30, 2016 and 2015, respectively.

Customer deposits consist of priority premiums paid by tenants which serve as their reservation deposits. The fair value of noncurrent security deposits amounted to ₱15.55 million and

₱13.29 million as at June 30, 2016 and 2015, respectively (see Note 27).

18. Related Party Transactions

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

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

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

Category	Year	Amount/ Volume	Outstanding Balance	Terms	Conditions
			(In Thousands)		
Amounts owed by related parties:					
Under common control					
Guoman Philippines, Inc	**2016**	**₱50**	**₱1,677**	To be settled in cash and collectible on demand	Unsecured, non-interest bearing, impaired, and unguaranteed
	2015	₱2	₱1,628		
Genez Investments Corp.	**2016**	–	–	To be settled in cash and collectible on demand	Unsecured, non-interest bearing, impaired, and unguaranteed
	2015	–	6		
Total	**2016**	**₱50**	**₱1,677**		
Total	2015	₱2	₱1,634		

	2016	2015
	(In Thousands)	
Amounts owed by related parties	**₱1,677**	₱1,634
Less allowance for impairment losses	**(1,625)**	(1,625)
	₱52	₱9

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

	2016	2015	2014
		(In Thousands)	
Balances at beginning of year	**₱1,625**	₱1,610	₱1,610
Provision for the year (Note 20)	–	15	–
Balances at end of year	**₱1,625**	₱1,625	₱1,610

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

Significant transactions entered into among subsidiaries other than advances include:

- Insurance premium coverage for certain properties of the subsidiaries (see Note 1).
- Management contract and service agreement between the parent company and a subsidiary.

Compensation of key management personnel which pertains mostly to salaries and wages amounted to ₱75.0 million, ₱78.1 million and ₱71.8 million in 2016, 2015 and 2014, respectively.

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

19. Subscription Payable

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

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

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

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

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

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

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

As at June 30, 2016 and 2015, the Parent Company has unpaid subscription in Cyber Bay amounting to ₱481.68 million, which is presented as "Subscriptions Payable" in the consolidated statements of financial position. The investment in Cyber Bay under "AFS financial assets" amounted to ₱888.38 million and ₱610.76 million as at June 30, 2016 and 2015, respectively, net of allowance for impairment losses amounting to ₱527.48 million and ₱527.48 million as at June 30, 2016 and 2015, respectively (see Note 8).

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

	2016	2015	2014
		(In Thousands)	
Personnel expenses (Notes 21 and 29)	**₱231,251**	₱204,980	₱210,231
Rental (Note 27)	**285,139**	99,801	90,819
Cost of real estate and services sold (Note 7)	**205,014**	–	–
Share in CUSA related expenses	**92,816**	56,304	89,356
Taxes and licenses	**92,133**	30,935	37,873
Depreciation and amortization (Notes 12, 13 and 14)	**79,733**	79,748	89,356
Professional and legal fees	**71,171**	29,970	21,563
Provision for impairment losses (Notes 5, 7, 10 and 18)	**49,168**	2,547	2,606
Janitorial and security services	**13,423**	11,670	10,436
Marketing expenses	**12,718**	7,459	7,852
Communication and transportation	**8,167**	8,869	10,236
Supplies and repairs	**8,378**	5,153	7,158
Materials used and changes in inventories (Note 6)	**5,337**	15,799	34,158
Insurance	**4,203**	13,127	8,249
Representations	**2,210**	2,163	1,955
Others	**12,900**	15,198	7,627
	₱1,173,788	₱583,723	₱629,475

21. **Personnel Expenses**

	2016	2015	2014
		(In Thousands)	
Compensation and employee benefits	**₱210,761**	₱182,208	₱184,892
Retirement benefits costs (Note 23)	**20,490**	22,772	25,339
	₱231,251	₱204,980	₱210,231

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

	2016	2015	2014
		(In Thousands)	
Interest income:			
AFS financial assets	**₱–**	₱3,164	₱–
Short-term investments (Note 4)	**2,772**	1,421	4,770
Cash in banks (Note 4)	**569**	260	978
Receivables (Note 5)	**11,013**	1	71
	14,354	4,846	5,819
Interest expense and bank charges:			
Retirement benefits liability (Note 23)	**3,664**	2,498	6,116
Bank charges	**331**	444	1,394
Interest expense	**–**	–	175
Others	**–**	79	–
	3,995	3,021	7,685
	₱10,359	₱1,825	(₱1,866)

23. Retirement Benefits Liability

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

The latest independent actuarial valuation dated August 18, 2016 was determined using the projected unit credit method in accordance with PAS 19.

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

	2016	2015
	(In Thousands)	
Retirement benefits liability:		
Present value of obligation (PVO)	**₱159,862**	₱271,321
Fair value of plan assets	**(84,158)**	(174,346)
Unfunded obligation	**₱75,704**	₱96,975

	2016	2015	2014
	(In Thousands)		
Retirement benefits costs:			
Current service cost	**₱16,825**	₱20,275	₱20,843
Interest cost - net (Note 22)	**3,664**	2,497	6,116
Past service cost	**–**	–	(1,620)
	₱20,489	₱22,772	₱25,339

Movements in the retirement benefits liability are as follows:

	2016	2015
	(In Thousands)	
Balances at beginning of year	**₱96,975**	₱99,186
Benefit expense	**20,489**	22,772
Actuarial losses (gains) - net	**(5,842)**	5,745
Actual contributions	**(35,918)**	(30,728)
Balances at end of year	**₱75,704**	₱96,975

Changes in the PVO are as follows:

	2016	2015
	(In Thousands)	
Balances at beginning of year	**₱271,321**	₱242,467
Current service cost	**16,825**	20,275
Interest cost	**10,878**	10,031
Benefits paid	**(126,737)**	(9,628)
Actuarial loss (gain)	**(12,425)**	8,176
Balances at end of year	**₱159,862**	₱271,321

Changes in fair value of plan assets are as follows:

	2016	2015
	(In Thousands)	
Balances at beginning of year	**₱174,346**	₱143,282
Actual contributions	**35,918**	30,727
Interest income	**7,214**	7,534
Actuarial gain (loss) on plan assets	**(6,583)**	2,431
Benefits paid	**(126,737)**	(9,628)
Balances at end of year	**₱84,158**	₱174,346

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

	2016	2015
Cash	**17.03%**	15.39%
Equity	**69.67%**	68.63%
Fixed income	**3.30%**	4.04%
Others	**10.00%**	11.94%
	100.00%	100.0%

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

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

	2016	2015
Discount rates	**5.19%**	4.82%
Expected rates of return on plan assets	**4.85%**	6.00%
Salary increase rate	**7.00%**	7.50%

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

	Increase (decrease) in Significant assumptions	Increase (decrease) in defined benefit obligation
2016		
Discount rate	**+1%**	**(₱2,502,500)**
	(1%)	**2,941,292**
Future salary increases	**+1%**	**2,994,291**
	(1%)	**(2,594,950)**
2015		
Discount rate	+1%	(3,477,684)
	(1%)	4,042,367
Future salary increases	+1%	3,723,532
	(1%)	(3,216,121)

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

	2016	2015	2014	2013	2012
			(In Thousands)		
Defined benefit obligation	**₱159,862**	₱271,321	₱242,467	₱231,516	₱190,820
Plan assets	**84,158**	174,346	143,282	93,197	75,808
Unfunded obligation	**75,704**	96,975	99,185	138,319	115,012
Experience adjustment on plan liabilities - loss (gain)	**2,863**	(664)	(21,676)	6,256	(3,275)
Experience adjustment on plan assets - gain (loss)	**6,583**	40	4,565	4,714	(727)
Change in actuarial assumptions	**(15,288)**	9,454	(3,919)	20,793	15,615

24. Income Taxes

The Group’s current provision for income tax in 2016, 2015 and 2014 represents regular corporate income tax.

	2016	2015	2014
		(In Thousands)	
Current	**₱21,478**	₱15,721	₱10,105
Final	**2,599**	3,991	1,485
Deferred	**(16,963)**	(8,148)	70,360
	₱7,114	₱11,564	₱81,950

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

	2016	2015	2014
At statutory tax rates	**30.0%**	30.0%	30.0%
Additions to (reductions in) income taxes resulting from:			
Movements in unrecognized deferred income tax assets	**(78.6)**	(28.1)	(9.6)
Expired NOLCO	**(27.3)**	(15.3)	0.8
Exempt income from dividend	–	8.9	–
Interest income already subjected to final taxes	**(1.3)**	(1.3)	(0.1)
Gain on sale of AFS financial assets	–	0.9	(1.7)
Nondeductible expenses	**(56.5)**	(0.9)	–
Expired MCIT	**(0.3)**	(0.6)	0.1
Other nontaxable income	**128.1**	(0.1)	0.5
Exempt income from extinguishment of debt	–	–	(16.9)
At effective tax rates	**(5.9%)**	(6.5%)	3.1%

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

	2016	2015
	(In Thousands)	
Deferred income tax assets:		
Casualty loss	**₱–**	₱18,974
Deferred rent	**18,453**	17,874
Allowance for impairment losses on receivables	**11,902**	11,976
Retirement benefits liability	**6,110**	6,990
PAS 17 rent expense	**10,054**	–
Unamortized past service cost	**5,048**	6,605
MCIT	**2,742**	–
NOLCO	**14,307**	
Allowance for impairment losses on insurance receivables	–	3,449
Deferred reinsurance commission	–	1,393
Excess of reserve for unearned premiums per books over tax basis - net	–	123
Others	**2,428**	2,268
	₱71,044	₱69,652

(Forward)

	2016	2015
	(In Thousands)	
Deferred income tax liabilities:		
Revaluation increment on property and equipment	**(₱101,577)**	(₱108,100)
Recovery on insurance	**(98,382)**	(98,382)
Remeasurement gain on retirement benefits liability	**(19,992)**	(6,982)
Unrealized gain on valuation of AFS financial assets	**(1,198)**	(1,865)
Accrued rent income	–	327
` Unrealized foreign exchange loss (gain)	**(38)**	(28)
Revaluation reserve on investment properties	**(70,825)**	(75,149)
Deferred acquisition cost	**(7)**	(6,753)
Undepreciated capitalized rent, interest and customs duties		(6,474)
Retirement plan assets	–	(661)
Unrealized gain on valuation of FVPL	–	(150)
	(292,019)	(304,217)
	(₱220,975)	(₱234,565)

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

	2016	2015
	(In Thousands)	
NOLCO	**₱413,585**	₱354,391
Allowance for impairment losses on receivables, other current assets, inventories and others	**1,914,683**	4,201,175
Retirement benefits liability	**5,122**	73,675
Gain on remeasurement of retirement benefits plan	**87,823**	–
Unamortized past service cost	**53,438**	44,110
MCIT	**2,945**	2,602
Incurred but not reported losses	**3,003**	2,000
Accrued rent	**108**	323
Unrealized foreign exchange losses	**444**	36

As at June 30, 2016, the Company has NOLCO and MCIT that can be claimed as deduction from future taxable income and tax due, respectively:

Year Incurred	Expiration Date	NOLCO	MCIT
2014	2017	₱106,072	₱179
2015	2018	46,744	1,296
2016	2019	308,459	4,194
		₱461,275	₱5,669

The following are the movements in NOLCO as at June 30, 2016 and 2015:

	2016	2015
	(In Thousands)	
Balances at beginning of year	**₱354,391**	₱412,160
Additions	**308,459**	46,744
Expirations/Application	**(201,575)**	(104,513)
	₱461,275	₱354,391

The following are the movements in MCIT as at June 30, 2016 and 2015:

	2016	2015
	(In Thousands)	
Balances at beginning of year	**₱2,602**	₱2,789
Additions	**4,194**	1,338
Expirations/Application	**(1,127)**	(1,525)
	₱5,669	₱2,602

25. **Earnings Per Share**

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

	2016	2015	2014
		(In Thousands)	
a. Net income (loss) attributable to equity holders of the Parent	**₱30,427**	(₱262,453)	₱210,618
b. Weighted average number of shares	**2,378,638**	2,367,149	2,367,149
Basic earnings per share (a/b)	**₱0.01**	(₱0.11)	₱0.09

26. **Segment Information**

Business Segments

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

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

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

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

2016

	Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution	Others	Total	Elimination	Total
				(In Thousands)				
Revenue and income	**₱6,006**	**₱740,178**	**₱248,402**	**₱40,308**	**₱2,559**	**₱1,037,453**	**(₱360)**	**₱1,037,093**
Cost and expenses	**(165,384)**	**(864,414)**	**(301,888)**	**(77,645)**	**(18,240)**	**(1,427,571)**	**56,731**	**(1,370,840)**
Other income (charges)	**304,463**	**(17,379)**	**(2,336)**	**862**	**(3,669)**	**281,941**	**71,876**	**353,817**
Income (loss) before income tax	**145,085**	**(141,615)**	**(55,822)**	**(36,475)**	**(19,350)**	**(108,177)**	**128,247**	**20,070**
Provision for income tax	**308**	**12,486**	**2,348**	**(7,972)**	**(55)**	**7,114**	**–**	**7,114**
Net income (loss)	**144,777**	**(154,101)**	**(58,170)**	**(28,503)**	**(19,295)**	**(115,291)**	**128,247**	**12,956**
Segment assets	**4,536,835**	**2,289,280**	**689,220**	**754,882**	**47,155**	**8,317,272**	**(1,879,968)**	**6,437,304**
Segment liabilities	**2,137,053**	**776,421**	**443,928**	**333,725**	**202,865**	**3,893,992**	**(583,922)**	**3,310,070**

2015

	Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution	Others	Total	Elimination	Total
				(In Thousands)				
Revenue	₱50,935	₱409,742	₱247,881	₱27,737	₱6,140	₱742,435	(₱50,000)	₱692,435
Cost and expenses	(34,713)	(407,413)	(238,053)	(68,630)	(15,642)	(764,451)	7,476	(756,975)
Other income (charges)	(225,793)	31,918	(5,207)	19,301	1,120	(178,661)	(7,471)	(186,132)
Income (Loss) before income tax	(209,571)	34,247	4,621	(21,592)	(8,382)	(200,677)	(49,995)	(250,672)
Provision for income tax	186	7,282	3,746	246	104	11,564	–	11,564
Net income (loss)	(209,757)	26,965	875	(21,838)	(8,486)	(212,241)	(49,995)	(262,236)
Segment assets	2,577,618	2,306,905	761,126	790,404	54,840	6,490,893	(2,029,820)	4,461,073
Segment liabilities	693,724	640,939	532,229	333,761	196,110	2,396,763	(681,933)	1,714,830

2014

	Holding Company	Real Estate and Property Development	Financial Services	Manufacturing and Distribution	Others	Total	Elimination	Total
				(In Thousands)				
Revenue	₱2,979	₱552,562	₱237,094	₱22,526	₱9,551	₱824,712	₱–	₱824,712
Cost and expenses	(25,637)	(431,981)	(248,836)	(95,223)	(18,671)	(820,348)	4,339	(816,009)
Other income (charges)	2,972	289,438	(2,629)	(5,899)	(393)	283,489	(4,339)	279,150
Income (Loss) before income tax	(19,686)	410,019	(14,371)	(78,596)	(9,513)	287,853	–	287,853
Provision for income tax	95	83,432	1,232	(3,490)	681	81,950	–	81,950
Net income (loss)	(₱19,781)	₱326,587	(₱15,603))	(₱75,106)	(10,194)	₱205,903	₱–	₱205,903
Segment assets	₱2,641,421	₱2,275,700	₱891,177	₱929,981	₱50,624	₱6,788,903	(₱1,962,913)	₱4,825,990
Segment liabilities	690,675	602,730	671,888	323,446	187,110	2,475,849	(764,195)	1,711,654

Geographical Segments

The Group does not have geographical segments.

27. **Long-term Lease**

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

On December 22, 2009, TPI renewed its lease contract with PNR for another twenty five (25) years beginning September 5, 2014, the end of the original lease agreement. Related rent expense charged to operations amounted to ₱264.74 million, ₱99.80 million and ₱90.82 million in 2016, 2015 and 2014, respectively (see Note 20).

As at June 30, 2016 and 2015, the aggregate annual commitments on these existing lease agreements for the succeeding years are as follows:

	2016	2015
	(In Thousands)	
Less than one (1) year	**₱118,907**	₱137,614
More than one (1) year but not more than five (5) years	**447,675**	689,402
More than five (5) years	**2,941,659**	3,056,840
	₱3,508,241	₱3,883,856

<u>Group as a Lessor</u>
The Group has entered into commercial property leases on its buildings. These leases have remaining terms of one (1) year to less than five (5) years. Renewals are subject to the mutual consent of the lessor and the lessee.

Tenants are required to post security deposits, which shall be refunded, without interest, within sixty (60) days after the expiration of the lease period, deducting the amount of damages to the leased premises, if any. The table below shows the movement analysis of the carrying value of noncurrent security deposits as at June 30, 2016 and 2015, respectively.

	2016	2015
	(In Thousands)	
Undiscounted amount at beginning of year	**₱14,565**	₱10,241
Additions	**2,626**	4,324
	17,191	14,565
Discount on security deposit:		
Balance at beginning of year	**1,275**	1,121
Addition	**899**	445
Accretion of interest	**(529)**	(291)
Balance at end of year	**1,645**	1,275
Net carrying value	**₱15,546**	₱13,290

The discounted amount of noncurrent rental deposits amounted to ₱15.55 million and ₱13.29 million as at June 30, 2016 and 2015.

Accretion of interest for the fiscal year ended June 30, 2016 is included under "Other Income (Charges)" in the consolidated statement of income.

	2016	2015
	(In Thousands)	
Beginning of year	**₱1,181**	₱1,107
Additions	–	446
Amortization	–	(372)
Balance at end of year	**₱1,181**	₱1,181

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

The table below shows the movement analysis of the carrying value of deferred rent income as at June 30, 2016 and 2015:

	2016	2015
	(In Thousands)	
Beginning of year	**₱1,181**	₱1,107
Additions	–	446
Amortization	–	(372)
Balance at end of year	**₱1,181**	₱1,181

The amounts of deferred rent income were distributed as follows:

	2016	2015
Current portion	**₱645**	₱389
Noncurrent portion	**536**	792
	₱1,181	₱1,181

The current portion of the deferred rent income was included in "Accrued expenses and others" under "Accounts payable and accrued expenses".

28. Provisions and Contingencies

The Group is contingently liable for lawsuits, claims and assessments, which are either pending decision by the courts or under negotiation. Management and its legal counsels believe that the eventual outcome of these lawsuits or claims will not have a material effect on the consolidated financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. Total provisions recognized amounted to ₱251.15 million in 2016 and nil in 2015 and 2014. Related liability recognized as at June 30, 2016 and 2015 amounted to ₱251.15 million and nil, respectively (see Note 16).

Other information normally required under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, are not disclosed as they may prejudice the Group's position.

On March 15, 2016, management announced its plans to evaluate and assess the Group's performance, including initiatives to effectively transition and turnaround the Group. In September 2016, management announced its intention to restructure the Group to remove certain redundancies.

29. **Share-based Payments**

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

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

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

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

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

The resulting personnel expense recognized in 2016 amounted to ₱27.47 million (see Note 20).

30. **Financial Risk Management Objectives, Policies and Capital Management**

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

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

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

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

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

Credit quality of neither past due nor impaired financial asset
The credit quality of financial assets is being managed by the Group by grouping its financial assets into two: (a) High grade financial assets are those that are current and collectible; (b) Standard grade financial assets need to be consistently followed up but are still collectible. The tables below show the credit quality by class of financial assets based on the Group's credit rating system:

2016

	Neither past due nor impaired		Past due or	
	High grade	Standard grade	individually impaired	Total
		(In Thousands)		
Loans and Receivables:				
Cash and cash equivalents	**₱1,306,884**	**₱–**	**₱–**	**₱1,306,884**
Receivables:				
Trade debtors	**24,480**	**–**	**88,408**	**112,888**
Insurance receivables	**231,993**	**7,876**	**157,208**	**397,077**
Loans receivable	**1,467,859**	**–**	**–**	**1,467,859**
Others	**57,698**	**–**	**198,856**	**256,554**
Deposits (under "Other noncurrent assets")	**18,992**	**–**	**408**	**19,400**
AFS Financial Assets:				
Listed equity securities	**979,685**	**–**	**538,403**	**1,518,088**
Quoted debt securities	**300,489**	**–**	**–**	**300,489**
Unquoted debt securities	**10,820**	**–**	**–**	**10,820**
Nonlisted equity securities	**106,420**	**–**	**–**	**106,420**
Financial Assets at FVPL	**12,703**	**–**	**–**	**12,703**
	₱4,518,123	**₱7,876**	**₱983,283**	**₱5,509,282**

2015

	Neither past due nor impaired		Past due or	
	High grade	Standard grade	individually impaired	Total
		(In Thousands)		
Loans and Receivables:				
Cash and cash equivalents	₱151,035	₱–	₱–	₱151,035
Receivables:				
Trade debtors	8,118	33,429	95,066	136,613
Insurance receivables	400,122	–	16,168	416,290
Others	26,758	3,838	195,077	225,673
Deposits (under "Other noncurrent assets")	19,338	200	99	19,637
AFS Financial Assets:				
Listed equity securities	713,908	–	535,288	1,249,196
Quoted debt securities	258,206	–	–	258,206
Unquoted debt securities	16,405	–	–	16,405
Nonlisted equity securities	518,889	–	–	518,889
Financial Assets at FVPL	27,992	–	–	27,992
	₱2,140,771	₱37,467	₱841,698	₱3,019,936

The tables below show the aging analyses of financial assets per class that the Group held as at June 30, 2016 and 2015. A financial asset is past due when a counterparty has failed to make payment when contractually due.

2016

	Neither past	**Past due but not impaired**					
	due nor impaired	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**Over 90 days**	**Individually impaired**	**Total**
			(In Thousands)				
Loans and Receivables:							
Cash and cash equivalents	**₱1,306,884**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,306,884**
Receivables:							
Trade debtors	**24,480**	**2,651**	**3,254**	**1,909**	**14,083**	**66,511**	**112,888**
Insurance receivables	**231,993**	**9,448**	**367**	**8,864**	**97,122**	**49,283**	**397,077**
Loans receivable	**1,467,859**	–	–	–	–	–	**1,467,859**
Others	**57,698**	**204**	–	–	–	**198,652**	**256,554**
Deposits (under "Other noncurrent assets")	**18,992**	–	–	–	–	**408**	**19,400**
AFS Financial Assets							
Listed equity securities	**979,685**	–	–	–	–	**538,403**	**1,518,088**
Quoted debt securities	**300,489**	–	–	–	–	–	**300,489**
Unquoted debt securities	**10,820**	–	–	–	–	–	**10,820**
Nonlisted equity securities	**106,420**	–	–	–	–	–	**106,420**
Financial asset at FVPL	**12,703**	–	–	–	–		**12,703**
	₱4,518,123	**₱12,303**	**₱3,621**	**₱10,773**	**₱111,205**	**₱853, 257**	**₱5,509,282**

2015

	Neither past due nor impaired	Past due but not impaired Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Individually impaired	Total
			(In Thousands)				
Loans and Receivables:							
Cash and cash equivalents	₱151,035	₱–	₱–	₱–	₱–	₱–	₱151,035
Receivables:							
Trade debtors	41,547	4,206	604	169	1,321	88,766	136,613
Insurance receivables	400,122	–	–	–	–	16,168	416,290
Others	30,596	–	–	–	2,541	192,536	225,673
Deposits (under "Other noncurrent assets")	19,538	–	–	–	76	23	19,637
AFS Financial Assets							
Listed equity securities	713,908	–	–	–	–	535,288	1,249,196
Quoted debt securities	258,206	–	–	–	–	–	258,206
Unquoted debt securities	16,405	–	–	–	–	–	16,405
Nonlisted equity securities	518,889	–	–	–	–	–	518,889
Financial asset at FVPL	27,992	–	–	–	–		27,992
	₱2,178,238	₱4,206	₱604	₱169	₱3,938	₱832,781	₱3,019,936

Liquidity Risk

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

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

The tables below summarize the maturity profile of the Group's financial assets and liabilities as at June 30, 2016 and 2015 based on contractual undiscounted payments:

2016

	On demand	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
				(In Thousands)		
Loans and Receivables:	**₱1,306,884**	–	–	–	–	**₱1,306,884**
Cash and cash equivalents						
Trade debtors	**112,888**	–	–	–	–	**112,888**
Insurance receivables	**397,077**	–	–	–	–	**397,077**
Loans receivable	**1,467,859**	–	–	–	–	**1,467,859**
Others	**254,824**	–	–	–	–	**254,824**
Amounts owed by related parties	**1,729**	–	–	–	–	**1,729**
Deposits (under "Other noncurrent assets")	**19,400**	–	–	–	–	**19,400**
AFS Financial Assets						
Listed equity securities	**1,518,088**	–	–	–	–	**1,518,088**
Quoted debt securities	**300,489**	–	–	–	–	**300,489**
Unquoted debt securities	**10,820**	–	–	–	–	**10,820**
Nonlisted equity securities	**106,420**	–	–	–	–	**106,420**
Financial asset at FVPL	**12,703**	–	–	–	–	**12,703**
	₱5,509,281	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,509,281**
Accounts payable and accrued expenses	**₱436,764**	**₱50,947**	**₱21,565**	**₱134,713**	**₱–**	**₱643,989**
Subscription payable	**481,675**	–	–	–	–	**481,675**
Rental and other deposits	**97,554**	**16,192**	**14,160**	**13,456**	**90,070**	**231,432**
	₱1,015,993	**₱67,139**	**₱35,725**	**₱148,169**	**₱148,012**	**₱1,357,096**

2015

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 Year	Total
			(In Thousands)			
Loans and Receivables:						
Cash and cash equivalents	₱151,035	–	–	–	–	₱151,035
Trade debtors						
Insurance receivables	136,613	–	–	–	–	136,613
Others	416,290	–	–	–	–	416,290
Amounts owed by related parties	224,039	–	–	–	–	224,039
Deposits (under "Other		–	–	–	–	
noncurrent assets")	1,634					1,634
AFS Financial Assets	19,637	–	–	–	–	19,637
Listed equity securities		–	–	–	–	
Quoted debt securities	1,249,196	–	–	–	–	1,249,196
Unquoted debt securities	258,206	–	–	–	–	258,206
Nonlisted equity securities	16,405	–	–	–	–	16,405
Financial asset at FVPL	518,889	–	–	–	–	518,889
Loans and Receivables:	27,992	–	–	–	–	27,992
	₱3,019,936	₱–	₱–	₱–	₱–	₱3,019,936
Accounts payable and accrued expenses	₱525,926	₱54,949	₱68,798	₱–	₱128	₱649,801
Subscription payable	481,675	–	–	–	–	481,675
Rental and other deposits	50,241	15,555	77,554	4,880	86,606	234,836
	₱1,057,842	₱70,504	₱146,352	₱4,880	₱86,734	₱1,366,312

Foreign Currency Risk

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

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

table below summarizes the Group's exposure to foreign currency risk as at June 30, 2016 and 2015. Included in the table are the Group's assets and liabilities at carrying amounts:

	2016		2015	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
		(In Thousands)		
Financial Asset:				
Cash in banks				
USD	**$2**	**₱94**	$22	₱1,009
Short-term investments				
USD	–	–	35	1,578
Financial Liability:				
Accounts payable				
USD	**2**	**94**	2	80
EUR	**1**	**51**	1	50
GBP	**1**	**37**	1	42
Net financial asset	**$–**	**₱–**	$53	₱2,415

As at June 30 2016 and 2015, the exchange rates of other currencies to Philippine Peso are as follows:

	2016	2015
USD	**₱47.06**	₱45.09
EUR	**52.25**	50.80
GBP	**63.06**	71.13

The following table presents the impact on the Group's income before income tax due to changes in the fair value of its financial assets and liabilities, brought about by a reasonably possible change in the foreign currencies/₱ exchange rate (holding all other variables constant) as at June 30, 2016 and 2015.

	Increase/ decrease in currency rate	Effect on income (loss) before income tax
	(In Thousands)	
2016		
USD	**+0.55%**	**₱–**
	-0.78%	**–**
EUR	**+1.40%**	**(1.00)**
	-0.96%	**0.95**
(forward)		
GBP	**+1.04%**	**(.61)**
	-3.07%	**1.80**
2015		
USD	+0.41%	22.79
	-0.65%	(36.13)
EUR	+2.34%	(2.30)
	-1.30%	1.28
GBP	+1.98%	(1.16)
	-1.41%	0.83

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

Equity Price Risk

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

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

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

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

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

	Change in Equity price index	Effect on Equity
	(In Thousands)	
2016		
Upper Limit	**+18.42%**	**₱28,435**
Lower Limit	**(18.42%)**	**(28,435)**
2015		
Upper Limit	+11.59%	₱34,677
Lower Limit	(11.59%)	(34,677)
2014		
Upper Limit	+17.62%	232,049
Lower Limit	(17.62%)	(232,049)

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

Capital Management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes as at June 30, 2016 and 2015.

As at June 30, 2016 and 2015, the Group considers the following accounts as capital:

	2016	2015
	(In Thousands)	
Capital stock	**₱2,130,576**	₱2,069,912
Additional paid-in capital	**829,904**	829,904
	₱2,960,480	₱2,899,816

The Group is not subject to externally imposed capital requirements.

31. **Financial Instruments**

The following method and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such values at June 30, 2016 and 2015 are set out below:

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

Receivables, Accounts Payable and Accrued Expenses and Amounts owed by Related Parties
The carrying amounts receivables, accounts payable and accrued expenses and amounts owed by related parties approximate their fair values due to their short-term nature.

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

AFS Financial Assets
AFS equity financial assets that are listed are based on their bid prices as at June 30, 2016 and 2015. AFS debt financial assets that are quoted are based on market prices. Unquoted debt and nonlisted AFS financial assets are based on latest available transaction price at the end of the reporting period.

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