

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended: September 30, 2018
2. Commission Identification Number: 845
3. BIR Tax Identification No.: 000-508-536-000
4. Exact name of registrant as specified in its charter **SOLID GROUP INC.**
5. Province, Country or other jurisdiction  
of incorporation: Philippines
6. \_\_\_\_\_ (SEC Use Only)  
Industry Classification Code
7. Address of principal office: Postal Code: 1231  
2285 Don Chino Roces Avenue, Makati City,  
Philippines
8. Telephone No: (632) 843-1511
9. Former name, former address and former fiscal year,  
if changed since last report: N/A
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the  
RSA

| Title of Each Class | Number of Shares of Common Stock<br>Outstanding and Amount of Debt Outstanding |
|---------------------|--|
|---------------------|--|

|                            |                      |
|----------------------------|----------------------|
| Common Stock, P1 par value | 1,821,542,000 shares |
|----------------------------|----------------------|

11. Are any or all of the securities listed on the Philippine Stock Exchange?  
Yes [ X ] No [ ]

If yes, state the name of such Stock Exchange and the classes of securities listed therein:

|                           |        |
|---------------------------|--------|
| Philippine Stock Exchange | Common |
|---------------------------|--------|

12. Indicate by check mark whether the registrant:

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

Yes [ X ]

No [ ]

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

Yes [ X ]

No [ ]

## **PART I. – FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

The unaudited consolidated financial statements of the Company and its subsidiaries for the nine (9) months period ended September 30, 2018 are attached to this report.

### **Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations**

#### Key Performance Indicators

The following key performance indicators are identified by the Company and included in the discussion of the results of operations and financial condition: revenue growth, asset turnover, operating expense ratio, earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share (EPS), current ratio and debt to equity ratio.

Key performance indicators for 2018 and 2017 are as follows:

|                          | <u>2018</u>  | <u>2017</u>  |
|--------------------------|--------------|--------------|
| Revenue growth (decline) | (23%)        | (31%)        |
| Asset turnover           | 29%          | 39%          |
| Operating expense ratio  | 19%          | 15%          |
| EBITDA                   | P194 million | P353 million |
| EPS                      | P0.04        | P0.11        |
| Current ratio            | 9.65:1       | 8.40:1       |
| Debt to equity ratio     | 0.13:1       | 0.14:1       |

Revenue growth (decline) is determined as follows: revenues for the current period less revenues for last period divided by the revenues of the previous period.

Asset turnover is computed based on the revenues (annualized) earned during the period divided by the average total assets.

Operating expense ratio is calculated as follows: operating expenses for the period divided by revenues for period.

EBITDA is determined by adding back interest expense, depreciation and amortization charges, to income from operations before income tax for the period.

Earnings per share (EPS) is computed based on the net income or loss for the period divided by the weighted average shares outstanding during the year.

Current ratio is computed as follows: total current assets as of end of the period divided by total current liabilities as of end of the period.

Debt to equity ratio is computed by dividing the total liabilities excluding amounts due to related parties as of end of the period by the total equity as of end of the period.

Revenue decreased by 23% for the first nine months of 2018 vs. 31% decrease for the same period in 2017 principally due to lower revenues of the digital mobile and technical and support solutions segments.

Asset turnover stood lower at 29% for the first nine months of 2018 from 39% for the same period in 2017 as a result of lower revenues for the period.

Despite decrease in operating expenses, operating expense ratio for the first nine months of 2018 was higher at 19% from 15% for the same period in 2017 principally due to lower revenues for the period.

EBITDA amounted to P194 million for the first nine months of 2018 against P353 million for the same period in 2017. The decrease was mainly due to net loss of the digital mobile segment and lower net income of the technical support & solutions and property & related services segments.

Earnings per share amounted to P0.04 for the first nine months of 2018 from P0.11 in 2017 mainly from lower net income for the period.

Current ratio improved to 9.65:1 as of September 30, 2018 and 8.40:1 as of December 31, 2017 primarily due to decrease in current liabilities.

Debt to equity ratio stood at 0.13: 1 as of September 30, 2018 and 0.14:1 as of December 31, 2017 primarily due to lower liabilities.

### **Results of Operations**

Revenues decreased by 23% for the first nine months of 2018 reaching P2,525 million from P3,297 million for the same period in 2017 principally from lower revenues of the digital mobile and technical and support solutions segments.

Sale of goods amounted to P1,774 million for the first nine months of 2018, lower by 25% from P2,359 million for the same period in 2017 mainly due to lower volume of sales of the digital products.

Service revenue decreased by 30% to P504 million for the first nine months of 2018 from P717 million in 2017 due to lower revenues of the technical support and solutions segment.

Rental income amounted to P180 million for the first nine months of 2018, higher by 3% from P174 million for the same period in 2017. There was no material change for this account.

Interest income amounted to P55 million for the first nine months of 2018 from P32 million in 2017 mainly from higher investible funds and higher interest rates for the period.

Sale of real estate amounted to P10 million for the first nine months of 2018, a decrease of 11% from P11 million. This was due to lower condominium sale for the period.

Cost of sales, services, real estate sold and rentals amounted to P2,013 million for the first nine months of 2018, or a decrease of 22% from P2,588 million for the same period in 2017 as discussed below.

Cost of sales amounted to P1,523 million for the first nine months of 2018, lower by 25% from P2,041 million for the same period of last year due to decrease in sales.

Cost of services amounted to P402 million for the first nine months of 2018 from P500 million for the same period of 2017, a decrease by 20% mainly in relation to lower service revenue.

Cost of rentals amounted to P80 million for the first nine months of 2018 from P38 million for the same period of 2017, an increase by 107% primarily due to higher depreciation and amortization and taxes and licenses.

Cost of real estate sold amounted to P6 million for the first nine months of 2018, down by 16% from P7 million for the same period of 2017 mainly in relation to lower sale of real estate.

Gross profit amounted to P512 million for the first nine months of 2018 from P708 million for the same period in 2017. The decrease of 28% was principally due to lower revenues as explained above.

Other operating expenses (income) amounted to P472 million for the first nine months of 2018 from P453 million for the same period of 2017 as explained below.

General and administrative expenses amounted to P266 million for the first nine months of 2018 from P243 million for the same period of 2017, an increase of 10% mainly from higher salaries and employee benefits of the technical support and solutions segment; and, higher communication, light and water expenses of the property and related services segment.

Selling and distribution costs amounted to P212 million for the first nine months of 2018 from P249 million for the same period of 2017 mainly from lower commissions of the digital mobile segment.

Other operating income – net amounted to P7 million for the first nine months of 2018, down by 82% from P38 million for the same period in 2017 principally from gain on sale of investment property of the property and building services segment in 2017, none in 2018.

Operating profit amounted to P39 million for the first nine months of 2018 from P254 million for the same period in 2017, a decrease of 84% mainly from net loss of digital mobile segment and lower profit of the property & related services and technical support & solutions segments in 2018.

Other income (charges) amounted to P78 million income for the first nine months of 2018 against P32 million for the same period in 2017 mainly from the following:

Finance costs decreased to P4 million for the first nine months of 2018 compared with P9 million in 2017 primarily due to lower unrealized foreign currency losses.

Finance income was higher at P80 million for the first nine months of 2018 compared with P44 million for the same period of last year mainly due to higher foreign exchange currency gains and higher interest income from time deposits.

Other gains (losses) - net amounted to P2.6 million in the first nine months of 2018 compared with P2.2 million loss in 2017 mainly from sale of scrap and PPE, income from utilities charged to tenants and other gains.

Profit before tax was P118 million for the first nine months of 2018, a decrease of 59 % from P287 million for the same period in 2017 mainly due to lower operating profit as explained above.

Tax expense amounted to P33 million for the first nine months of 2018 from P71 million in 2017 mainly due to lower pre-tax income.

Net profit amounted to P84 million for the first nine months of 2018 against P215 million for the same period in 2017 due to the factors discussed above.

Net profit attributable to equity holders of the parent amounted to P76 million for the first nine months of 2018 against P208 million in for the same period of 2017 as discussed above.

Net profit attributable to non-controlling interest (NCI) amounted to P8 million for the first nine months of 2018 compared with P7 million in 2017 due to higher income of Starworld and minority share in net income for the period.

### **Financial Position**

Cash and cash equivalents amounted to P3,487 million as of September 30, 2018 from P3,490 million as of December 31, 2017. Cash was provided from operating activities mainly from decrease in trade and other receivables.

Trade and other receivables reached P738 million as of September 30, 2018 against P1,214 million as of December 31, 2017, or a decrease of 39% from collection of receivables of the myphone business. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties stood at P9 million as of September 30, 2018 and December 31, 2017.

Merchandise inventories and supplies - net amounted to P734 million as of September 30, 2018, compared with P538 million as of December 31, 2017 mainly from higher merchandise and finished goods for digital products.

Real estate inventories stood at P435 million as of September 30, 2018 and P440 million as of December 31, 2017. There was no material change for this account.

Other current assets amounted to P393 million as of September 30, 2018 compared with P301 million as of December 31, 2017 mainly due to deposits on purchase of land offset by reclassification of short term placements to cash and cash equivalents.

Total current assets reached P5,798 million as of September 30, 2018 from P5,995 million as of December 31, 2017 mainly from lower trade and other receivables as discussed above.

Non-current trade and other receivables amounted to P761 million as of September 30, 2018 from P692 million as of December 31, 2017 mainly from increase in cash surrender value of investment in life insurance.

Non-current available-for-sale financial assets stood at P20 million as of September 30, 2018 and December 31, 2017. There was no material change for this account.

Property and equipment amounted to P1,767 million as of September 30, 2018 from P1,909 million as of December 31, 2017, a 7% decrease due to transfer of certain properties of the property and related segment to investment property.

Investment property increased to P3,055 million as of September 30, 2018 from P2,903 as of December 31, 2017 mainly due to transfer of certain properties from property and equipment.

Post-employment benefit assets stood at P 105 million as of September 30, 2018 and December 31, 2017.

Deferred tax assets - net amounted to P130 million as of September 30, 2018 and P110 million as of December 31, 2017, an 18% increase principally due to recognition of DTA from NOLCO and allowance for inventory obsolescence of digital mobile segment.

Other non-current assets stood at P23 million as of September 30, 2018 and December 31, 2017.

Total non-current assets amounted to P5,864 million as of September 30, 2018 from P5,766 million as of December 31, 2017 as discussed above.

**Total assets reached P11,662 million as of September 30, 2018 from P11,761 million as of December 31, 2017 as discussed above.**

Interest-bearing loans amounted to P127 million as of September 30, 2018 from P115 million as of December 31, 2017. The increase of 10% was primarily due to application of unpaid interest expense to principal loan balances.

Trade and other payables amounted to P375 million as of September 30, 2018 against P475 million as of December 31, 2017, lower by 21% due to lower trade payable and accrued dealers' incentives.

Customers' deposits amounted to P18 million as of September 30, 2018 versus P16 million as of December 31, 2017 from additional deposits.

Advances from related parties stood at P1.8 million as of September 30, 2018 and P3.7 million as of December 31, 2017 from payment of advances.

Estimated liability for land and land development costs stood at P 68 million as of September 30, 2018 and December 31, 2017.

Income tax payable amounted to P10 million as of September 30, 2018 from P33 million as of December 31, 2017 mainly due to payments made by certain subsidiaries.

Total current liabilities amounted to P600 million as of September 30, 2018 from P713 million as of December 31, 2017 as a result of lower trade and other payables.

Non-current refundable deposits amounted to P26 million as of September 30, 2018 from P27 million as of December 31, 2017. There was no material change for this account.

Post-employment benefit obligation amounted to P37 million as of September 30, 2018 and December 31, 2017. This represents the unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities-net stood at P700 million as of September 30, 2018 and P697 million as of December 31, 2017. There was no material change for this account.

Total non-current liabilities amounted to P765 million as of September 30, 2018 from P762 million as of December 31, 2017.

**Total liabilities amounted to P1,366 million as of September 30, 2018 from P1,475 million as of December 31, 2017.**

Capital stock stood at P2,030 million as of September 30, 2018 and December 31, 2017.

Additional paid-in capital amounted to P4,641 million as of September 30, 2018 and December 31, 2017.

Treasury shares amounted to P115 million as of September 30, 2018 and December 31, 2017.

Revaluation reserves amounted to P19 million as of September 30, 2018 from P15 million loss as of December 31, 2017 due to gains on currency differences in translating financial statements of foreign operation.

Retained earnings amounted to P3,365 million as of September 30, 2018 from P3,398 million as of December 31, 2017 as a result of net income during the period offset by dividends paid to stockholders.

Total equity attributable to Equity holders of Parent amounted to P9,941 million as of September 30, 2018 from P9,939 million as of December 31, 2017 mainly due to higher retained earnings.

Non-controlling interests amounted to P354 million as of September 30, 2018 from P345 million as of December 31, 2017 primarily due to net income and minority share for the period.

**Total equity amounted to P10,296 million as of September 30, 2018 from P10,285 million as of December 31, 2017.**

i. Known Trends or Demands, Commitments, Events or Uncertainties that will impact Liquidity.

The Company is not aware of any known trends, demands, commitments, events or uncertainties that will materially impact on its liquidity.

ii. Events that will trigger Direct or Contingent Financial Obligation that is material to the Company, including any default or acceleration of an obligation.

As discussed in Notes of the financial statements under Contingencies, certain subsidiaries of the Company are involved in litigation or proceedings, the outcome of which could individually or taken as a whole, not adversely affect the financial results, operations or prospects of the Company. Except of these contingencies, the Company is not aware of other events that will materially trigger direct or contingent financial obligation.



- iii. Material Off-Balance Sheet Transactions, Arrangements, Obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

The Company has no material off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons created during the period that is not included in the financial statements.

- iv. Material Commitments for Capital Expenditures, the general purpose of the Commitment and Expected Sources of Funds

The Company estimates capital expenditures for the year 2018 to amount to P450 million for various real estate development, renovation and upgrade of facilities. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

- v. Known Trends, Events or Uncertainties that will impact Sales/Revenues/Income from Continuing Operations

In August 2016, Precos, Inc. sold its investment in Phil-Nanning Consortium, Inc. (PNCI). Due to this, the Company expects revenues to decrease by about 10%.

- vi. Significant elements of Income or Loss that did not arise from Continuing Operations

None

- vii. Causes for any Material Changes from Period to Period

Discussion of the material changes for each account is included in the Management Discussion and Analysis

Based on the appraisal reports obtained in 2018 the Company reported fair value gains on investment property of P136 million during the year.

- viii. Seasonal Aspects that had Material Effect on the Financial Condition or Results of Operations

There were no significant seasonality in the Company's business that materially affects financial condition or results of operations.

## **PART II –OTHER INFORMATION**

On August 10, 2018, the Board of Directors approved the declaration of cash dividend of P0.06 per share payable to stockholders of record as of August 31, 2018 and was paid on September 24, 2018.

On November 5, 2018, the Board of Directors approved the declaration of stock dividend by Solid Manila Corporation (SMC), a wholly-owned subsidiary, of one million four hundred twenty five thousand (1,425,000) shares (with a par value of Php100.00 per share) to be taken out of the unrestricted retained earnings of SMC as of year ended December 31, 2017. The said shares will be issued from the authorized but unissued capital stock of SMC.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### SOLID GROUP INC.



**SUSAN L. TAN**

President & Chief Executive Officer



**VINCENT S. LIM**

SVP & Chief Financial Officer

November 12, 2018

# Solid Group Inc. and Subsidiaries

Unaudited Consolidated Financial Statements

September 30, 2018 and December 31, 2017

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2018 AND DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

|  | Notes | 2018                    | 2017                    |
|--|-------|-------------------------|-------------------------|
| <b><u>ASSETS</u></b>                       |       |                         |                         |
| <b>CURRENT ASSETS</b>                      |       |                         |                         |
| Cash and cash equivalents                  | 5     | P 3,487,454,078         | P 3,490,600,099         |
| Trade and other receivables - net          | 7     | 738,179,072             | 1,214,427,626           |
| Advances to related parties                | 25    | 9,072,592               | 9,223,071               |
| Merchandise inventories and supplies - net | 9     | 734,759,665             | 538,620,487             |
| Real estate inventories - net              | 10    | 435,470,610             | 440,454,110             |
| Other current assets                       | 13    | 393,334,291             | 301,822,764             |
| Total Current Assets                       |       | 5,798,270,308           | 5,995,148,157           |
| <b>NON-CURRENT ASSETS</b>                  |       |                         |                         |
| Trade and other receivables                | 7     | 761,128,877             | 692,864,376             |
| Available-for-sale financial assets - net  | 8     | 20,878,220              | 20,997,265              |
| Property and equipment - net               | 11    | 1,767,610,584           | 1,909,014,819           |
| Investment properties - net                | 12    | 3,055,335,817           | 2,903,917,472           |
| Post-employment benefit asset              | 21    | 105,764,094             | 105,764,094             |
| Deferred tax assets - net                  | 22    | 130,375,619             | 110,772,335             |
| Other non-current assets - net             | 13    | 23,078,201              | 23,451,965              |
| Total Non-current Assets                   |       | 5,864,171,412           | 5,766,782,326           |
| <b>TOTAL ASSETS</b>                        |       | <b>P 11,662,441,720</b> | <b>P 11,761,930,483</b> |

|  | <u>Notes</u> | <u>2018</u>             | <u>2017</u>             |
|--|--------------|-------------------------|-------------------------|
| <b><u>LIABILITIES AND EQUITY</u></b>                           |              |                         |                         |
| <b>CURRENT LIABILITIES</b>                                     |              |                         |                         |
| Interest-bearing loans   | 14           | P 127,375,299           | P 115,748,223           |
| Trade and other payables                                       | 15           | 375,284,232             | 475,688,544             |
| Customers' deposits  | 2            | 18,107,004              | 16,755,990              |
| Advances from related parties                                  | 25           | 1,881,548               | 3,793,105               |
| Estimated liability for land and land development costs        | 2            | 68,304,647              | 68,304,647              |
| Income tax payable   |              | <u>10,046,315</u>       | <u>33,477,152</u>       |
| Total Current Liabilities                                      |              | <u>600,999,045</u>      | <u>713,767,661</u>      |
| <b>NON-CURRENT LIABILITIES</b>                                 |              |                         |                         |
| Refundable deposits  | 16           | 26,343,510              | 27,098,123              |
| Post-employment benefit obligation                             | 21           | 37,865,673              | 37,865,673              |
| Deferred tax liabilities - net                                 | 22           | <u>700,837,855</u>      | <u>697,238,194</u>      |
| Total Non-current Liabilities                                  |              | <u>765,047,038</u>      | <u>762,201,990</u>      |
| Total Liabilities  |              | <u>1,366,046,083</u>    | <u>1,475,969,651</u>    |
| <b>EQUITY</b>  |              |                         |                         |
| Equity attributable to the Parent Company's stockholders       |              |                         |                         |
| Capital stock  | 23           | 2,030,975,000           | 2,030,975,000           |
| Additional paid-in capital                                     | 2            | 4,641,701,922           | 4,641,701,922           |
| Treasury shares - at cost                                      | 23           | ( 115,614,380 )         | ( 115,614,380 )         |
| Revaluation reserves   | 23           | 19,135,567              | ( 15,778,108 )          |
| Retained earnings  | 23           | <u>3,365,630,485</u>    | <u>3,398,699,549</u>    |
| Total equity attributable to the Parent Company's stockholders |              | 9,941,828,594           | 9,939,983,983           |
| Non-controlling interests                                      | 2            | <u>354,567,043</u>      | <u>345,976,849</u>      |
| Total Equity   |              | <u>10,296,395,637</u>   | <u>10,285,960,832</u>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>                            |              | <u>P 11,662,441,720</u> | <u>P 11,761,930,483</u> |

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

|  | Notes      | 2018                |                      | 2017                 |                      |
|--|------------|---------------------|----------------------|----------------------|----------------------|
|  |            | 3rd Quarter         | Year to Date         | 3rd Quarter          | Year to Date         |
| <b>REVENUES</b>  |            |                     |                      |                      |                      |
| Sale of goods  | 2          | P 610,326,650       | P 1,774,102,010      | P 734,434,358        | P 2,359,846,602      |
| Rendering of services  | 25, 26     | 184,537,084         | 504,069,010          | 291,888,820          | 717,975,407          |
| Rentals  | 12, 25, 27 | 61,721,534          | 180,974,148          | 57,523,161           | 174,942,073          |
| Interest   | 7, 20, 25  | 24,632,413          | 55,857,206           | 11,693,948           | 32,823,104           |
| Sale of real estate  | 2          | -                   | 10,441,071           | 4,671,742            | 11,692,287           |
|  |            | <u>881,217,681</u>  | <u>2,525,443,445</u> | <u>1,100,212,029</u> | <u>3,297,279,473</u> |
| <b>COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS</b>                       |            |                     |                      |                      |                      |
| Cost of sales  | 17         | 537,370,246         | 1,523,665,124        | 624,137,596          | 2,041,148,722        |
| Cost of services   | 17         | 141,391,350         | 402,901,436          | 211,253,637          | 500,967,889          |
| Cost of rentals  | 12, 17     | 26,204,075          | 80,013,182           | 9,598,207            | 38,598,784           |
| Cost of real estate sold   | 17         | -                   | 6,620,959            | 3,093,390            | 7,863,289            |
|  |            | <u>704,965,671</u>  | <u>2,013,200,701</u> | <u>848,082,830</u>   | <u>2,588,578,684</u> |
| <b>GROSS PROFIT</b>  |            |                     |                      |                      |                      |
|  |            | <u>176,252,010</u>  | <u>512,242,744</u>   | <u>252,129,199</u>   | <u>708,700,789</u>   |
| <b>OTHER OPERATING EXPENSES (INCOME)</b>   |            |                     |                      |                      |                      |
| General and administrative expenses  | 18         | 86,575,573          | 266,882,542          | 85,377,114           | 243,645,306          |
| Selling and distribution costs   | 18         | 82,434,553          | 212,492,672          | 88,911,552           | 249,040,057          |
| Other operating income - net   | 19         | ( 1,434,049 )       | ( 7,040,269 )        | ( 12,388,616 )       | ( 38,859,083 )       |
|  |            | <u>167,576,077</u>  | <u>472,334,945</u>   | <u>161,900,050</u>   | <u>453,826,280</u>   |
| <b>OPERATING PROFIT (LOSS)</b>   |            |                     |                      |                      |                      |
|  |            | <u>8,675,933</u>    | <u>39,907,799</u>    | <u>90,229,149</u>    | <u>254,874,509</u>   |
| <b>OTHER INCOME (CHARGES)</b>  |            |                     |                      |                      |                      |
| Finance costs  | 20         | ( 1,484,711 )       | ( 4,173,256 )        | ( 175,060 )          | ( 9,446,068 )        |
| Finance income   | 20         | 18,585,150          | 80,213,802           | 10,253,419           | 44,129,905           |
| Other gains - net  | 20         | ( 882,647 )         | 2,628,786            | ( 3,774,564 )        | ( 2,252,685 )        |
|  |            | <u>16,217,792</u>   | <u>78,669,332</u>    | <u>6,303,795</u>     | <u>32,431,152</u>    |
| <b>PROFIT (LOSS) BEFORE TAX</b>  |            |                     |                      |                      |                      |
|  |            | <u>24,893,725</u>   | <u>118,577,131</u>   | <u>96,532,944</u>    | <u>287,305,661</u>   |
| <b>TAX EXPENSE (INCOME)</b>  |            |                     |                      |                      |                      |
|  | 22         | <u>10,176,512</u>   | <u>33,763,481</u>    | <u>27,753,990</u>    | <u>71,414,986</u>    |
| <b>NET PROFIT (LOSS)</b>   |            |                     |                      |                      |                      |
|  |            | <u>P 14,717,213</u> | <u>P 84,813,650</u>  | <u>P 68,778,954</u>  | <u>P 215,890,675</u> |
| <b>Net Profit (Loss) for the period attributable to the:</b>                       |            |                     |                      |                      |                      |
| Parent Company's stockholders  | 24         | P 11,832,938        | P 76,223,456         | P 65,759,409         | P 208,711,220        |
| Non-controlling interests  |            | <u>2,884,275</u>    | <u>8,590,194</u>     | <u>3,019,545</u>     | <u>7,179,455</u>     |
|  |            | <u>P 14,717,213</u> | <u>P 84,813,650</u>  | <u>P 68,778,954</u>  | <u>P 215,890,675</u> |
| <b>Earnings (Loss) per share attributable to the Parent Company's stockholders</b> |            |                     |                      |                      |                      |
|  | 24         | <u>P 0.01</u>       | <u>P 0.04</u>        | <u>P 0.04</u>        | <u>P 0.11</u>        |

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

|   | Notes | 2018                       |                             | 2017                       |                             |
|---|-------|----------------------------|-----------------------------|----------------------------|-----------------------------|
|   |       | 3rd Quarter                | Year to Date                | 3rd Quarter                | Year to Date                |
| <b>NET PROFIT (LOSS)</b>  |       | <u>P 14,717,213</u>        | <u>P 84,813,650</u>         | <u>P 68,778,954</u>        | <u>P 215,890,675</u>        |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>  |       |                            |                             |                            |                             |
| Items that will be reclassified subsequently to profit or loss:                         |       |                            |                             |                            |                             |
| Currency exchange differences on translating financial statements of foreign operations | 2, 23 | <u>5,892,239</u>           | <u>34,913,675</u>           | <u>4,633,464</u>           | <u>9,606,535</u>            |
|   |       | <u>-</u>                   | <u>-</u>                    | <u>-</u>                   | <u>-</u>                    |
| Other comprehensive income (loss) – net of tax  |       | <u>5,892,239</u>           | <u>34,913,675</u>           | <u>4,633,464</u>           | <u>9,606,535</u>            |
| <b>TOTAL COMPREHENSIVE INCOME</b>   |       | <u><b>P 20,609,452</b></u> | <u><b>P 119,727,325</b></u> | <u><b>P 73,412,418</b></u> | <u><b>P 225,497,210</b></u> |
| <b>Total comprehensive income (loss) attributable to:</b>                               |       |                            |                             |                            |                             |
| Parent Company's stockholders   |       | <u>P 17,725,177</u>        | <u>P 111,137,131</u>        | <u>P 70,392,873</u>        | <u>P 218,317,755</u>        |
| Non-controlling interests   |       | <u>2,884,275</u>           | <u>8,590,194</u>            | <u>3,019,545</u>           | <u>7,179,455</u>            |
|   |       | <u><b>P 20,609,452</b></u> | <u><b>P 119,727,325</b></u> | <u><b>P 73,412,418</b></u> | <u><b>P 225,497,210</b></u> |

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

|  | <u>Notes</u> | <u>2018</u>    | <u>2017</u>      |
|--|--------------|----------------|------------------|
| <b>EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS</b>          |              |                |                  |
| <b>CAPITAL STOCK</b> - P1 par value                                      |              |                |                  |
| Authorized - 5,000,000,000 shares  |              |                |                  |
| Issued - 2,030,975,000 shares  |              |                |                  |
| Outstanding - 1,821,542,000 shares                                       | P            | 2,030,975,000  | P 2,030,975,000  |
| <b>ADDITIONAL PAID-IN CAPITAL</b>  |              | 4,641,701,922  | 4,641,701,922    |
| <b>TREASURY SHARES</b> - at cost   |              |                |                  |
| Acquired at P0.5520 per share - 209,433,000 shares                       | (            | 115,614,380    | ( 115,614,380)   |
| <b>REVALUATION RESERVES</b>  |              |                |                  |
| Balance at beginning of year   | (            | 15,778,108     | ( 27,542,667)    |
| Other comprehensive income (loss) for the period                         |              | 34,913,675     | 9,606,535        |
| Balance at end of the period   |              | 19,135,567     | ( 17,936,132)    |
| <b>RETAINED EARNINGS (DEFICIT)</b>                                       |              |                |                  |
| Balance at beginning of year   |              |                |                  |
| As previously reported   |              | 3,398,699,549  | 3,129,157,242    |
| Profit (loss) for the period attributable to                             |              |                |                  |
| Parent Company's stockholders  |              | 76,223,456     | 208,711,220      |
| Cash dividends   | (            | 109,292,520    | ( 127,507,940)   |
| Balance at end of the period   |              | 3,365,630,485  | 3,210,360,522    |
| Total Equity Attributable to the Parent Company's stockholders           |              | 9,941,828,594  | 9,749,486,932    |
| <b>NON-CONTROLLING INTERESTS</b>   |              |                |                  |
| Balance at beginning of year   |              | 345,976,849    | 339,415,073      |
| Profit (loss) for the period attributable to                             |              |                |                  |
| Non-controlling interests  |              | 8,590,194      | 7,179,455        |
| Balance at end of the period   |              | 354,567,043    | 346,594,528      |
| <b>TOTAL EQUITY</b>  | P            | 10,296,395,637 | P 10,096,081,460 |
| <b>Total comprehensive income (loss) for the period attributable to:</b> |              |                |                  |
| Parent Company's stockholders  | P            | 111,137,131    | P 218,317,755    |
| Non-controlling interests  |              | 8,590,194      | 7,179,455        |
|  | P            | 119,727,325    | P 225,497,210    |

*See Notes to Consolidated Financial Statements.*



**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

|   | Notes | 2018            | 2017            |
|---|-------|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |       |                 |                 |
| Profit (loss) before tax  |       | 118,577,131     | 287,305,661     |
| Adjustments for:  |       |                 |                 |
| Interest income   | (     | 87,903,449      | ( 51,150,591 )  |
| Depreciation and amortization                                       |       | 71,794,466      | 63,791,977      |
| Impairment losses (reversal) on trade and other receivables         | (     | 116,693         | 938,494         |
| Interest expense  |       | 3,196,332       | 2,080,186       |
| Gain on redemption of financial assets at FVTPL                     |       | -               | ( 6,312,671 )   |
| Fair value (gains) loss on financial assets at FVTPL                |       | -               | 722,674         |
| Loss (reversal) on inventory obsolescence                           |       | 33,969,922      | ( 4,595,802 )   |
| Unrealized foreign currency losses (gains) - net                    | (     | 35,288,645      | ( 4,900,053 )   |
| Fair value loss (gain) on investment property - net                 |       | 42,718,036      | 40,470,393      |
| Loss (gain) on sale of investment property                          |       | -               | ( 37,510,547 )  |
| Gain on repossession of real estate unit sold                       | (     | 172,794         |                 |
| Impairment (reversal) losses on available-for-sale FA               |       | -               | -               |
| Operating profit before working capital changes                     |       | 146,774,306     | 290,839,721     |
| Decrease (increase) in trade and other receivables                  |       | 457,922,470     | 663,778,222     |
| Decrease (increase) in merchandise inventories and supplies         | (     | 230,109,100     | 2,311,120       |
| Decrease (increase) in real estate inventories                      |       | 6,620,959       | 2,924,966       |
| Decrease (increase) in advances to related parties                  |       | 150,479         | 33,913          |
| Decrease (increase) in other current assets                         | (     | 91,511,527      | ( 23,809,489 )  |
| Decrease (increase) in other non-current assets                     |       | 373,764         | ( 12,920,159 )  |
| Increase (decrease) in trade and other payables                     | (     | 101,895,231     | ( 21,027,215 )  |
| Increase (decrease) in customers' deposits                          |       | 1,351,014       | 1,807,146       |
| Increase (decrease) in advances from related parties                | (     | 1,911,557       |                 |
| Increase (decrease) in refundable deposits                          | (     | 754,613         | 6,733,540       |
| Cash generated from (used in) operations                            |       | 187,010,964     | 910,671,765     |
| Interest received   |       | 40,266,404      | 24,479,338      |
| Cash paid for income taxes  | (     | 57,886,346      | ( 42,637,903 )  |
| Net Cash From (Used in) Operating Activities                        |       | 169,391,022     | 892,513,200     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |       |                 |                 |
| Decrease (acquisitions) of financial assets at FVTPL                |       | -               | 737,322,073     |
| Decrease (acquisitions) of property and equipment                   | (     | 96,983,728      | ( 121,152,648 ) |
| Interest received   |       | 25,636,994      | 14,661,989      |
| Decrease (acquisitions) of available-for-sale financial assets      |       | 119,045         | ( 263,265 )     |
| Proceeds from sale of investment property                           |       | -               | 66,274,857      |
| Decrease (additions) to investment property                         | (     | 27,542,884      | 11,232,542      |
| Net Cash From (Used in) Investing Activities                        | (     | 98,770,573      | 708,075,548     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |       |                 |                 |
| Proceeds from (repayments of) interest-bearing loans - net          |       | 1,592,457       | 5,771,149       |
| Dividends paid  | (     | 109,292,520     | ( 127,507,940 ) |
| Interest paid   | (     | 1,355,052       | ( 2,786,817 )   |
| Net Cash From (Used in) Financing Activities                        | (     | 109,055,115     | ( 124,523,608 ) |
| <b>Effect of Currency Rate Changes on Cash and Cash Equivalents</b> |       | 35,288,645      | 4,900,053       |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>         | (     | 3,146,021       | 1,480,965,193   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>               |       | 3,490,600,099   | 2,259,894,549   |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>               |       | P 3,487,454,078 | P 3,740,859,742 |

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018 AND DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

**1.1 Company Background**

Solid Group Inc. (SGI or the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on October 16, 1933.

On February 22, 1982, the SEC approved the extension of SGI's corporate life for another 50 years. SGI currently conducts business as an investment holding company. On September 4, 1996, SGI listed its shares of stock in the Philippine Stock Exchange (PSE).

The Parent Company holds ownership interests in the following subsidiaries and associate (the Parent Company and the subsidiaries are collectively referred to herein as "the Group"):

| Subsidiaries/Associate                                 | Percentage of Ownership |      |      | Notes | Nature of Business                                       |
|--|-------------------------|------|------|-------|--|
|  | 2018                    | 2017 | 2016 |       |  |
| Subsidiaries:  |                         |      |      |       |  |
| Brilliant Reach Limited (BRL)                          | 100                     | 100  | 100  | a     | Investment holding company                               |
| Kita Corporation (Kita)                                | 100                     | 100  | 100  |       | Leasing of real estate properties                        |
| Solid Broadband Corporation (SBC)                      | 100                     | 100  | 100  |       | Broadband, cable and satellite services                  |
| Solid Group Technologies Corporation (SGTC)            | 100                     | 100  | 100  |       | Trading of pre-fabricated modular house and office units |
| Precos, Inc. (Precos)                                  | 100                     | 100  | 100  | c     | Real estate  |
| Solid Electronics Corporation (SE Corp.)               | 100                     | 100  | 100  |       | Repair services for audio and video products             |
| Solid Manila Corporation (SMC)                         | 100                     | 100  | 100  |       | Real estate  |
| Casa Bocobo Hotel, Inc. (CBHI)                         | 100                     | 100  | 100  | b     | Hotel and restaurant operations                          |
| Solid Manila Finance, Inc. (SMFI)                      | 100                     | 100  | 100  |       | Financing  |
| Solid Video Corporation (SVC)                          | 100                     | 100  | 100  |       | Trading of professional audio/video equipment            |
| Zen Towers Corporation (ZTC)                           | 100                     | 100  | 100  |       | Real estate  |
| My Solid Technologies & Devices Corporation (My Solid) | 100                     | 100  | 100  |       | Sale of mobile phones and accessories                    |
| Omni Solid Services, Inc. (OSSI)                       | 100                     | 100  | 100  |       | Logistics and assembly of consumer electronics products  |
| MyApp Corporation (MyApp)                              | 100                     | 100  | 100  | h     | Investment holding company                               |
| Green Sun Hotel Management, Inc. (GSHMI)               | 100                     | 100  | -    | j     | Hotel and restaurant operation                           |
| Skyworld Corporation (Skyworld)                        | 75                      | 75   | 75   | b, c  | Investment holding company                               |
| Interstar Holdings Company, Inc. (Interstar)           | 73                      | 73   | 73   | b, c  | Investment holding company                               |
| Starworld Corporation (Starworld)                      | 50                      | 50   | 50   | b, e  | Real estate  |
| Laguna International Industrial Park, Inc. (LIIP)      | 50                      | 50   | 50   | b, d  | Real estate  |

*Notes:*

- (a) Incorporated and domiciled in the British Virgin Islands
- (b) Indirectly owned through SMC
- (c) Pre-operating or non-operating
- (d) LIIP is 22.5% owned by SMC and 37.5% owned by Interstar
- (e) Starworld is 20% owned by SMC and 40% owned by Skyworld
- (f) Incorporated on October 23, 2014; has not yet started commercial operation as of December 31, 2017
- (g) Incorporated on December 19, 2016

SBC holds a provisional authority, granted by the National Telecommunications Commission, to use its legislative franchise under Republic Act (RA) No. 9116, *An Act Granting Solid Broadband Corporation a Franchise to Construct, Install, Establish, Operate and Maintain Telecommunications Systems throughout the Philippines* (see Note 26.3). SMFI is subject to the rules and regulations provided under RA No. 8556, *The Financing Company Act of 1998* (see Note 31).

### **1.2 Status of Operation**

#### *(a) Start of Commercial Operations of Green Sun Hotel*

On April 1, 2014, the Board of Directors (BOD) and stockholders of SMC approved the amendment to its Articles of Incorporation to include hotel operations in its secondary purpose. The amendment was approved by the SEC on April 4, 2014.

Subsequently, on October 29, 2014, Green Sun Hotel (GSH) officially started its hotel and related business operations under SMC. The Hotel offers 144 guest rooms, 13 serviced apartments, three penthouse suites, a fashion boutique, three food and beverage outlets, and a function hall situated at 2285 Don Chino Roces Avenue, Makati City. In relation to this, SMC signed an agreement with CBHI for the management of the hotel's properties and operations. On December 19, 2016, GSHMI was incorporated for the management of GSH's properties and operations.

### **1.3 Other Corporate Information**

The registered offices and principal places of business of the Parent Company and its subsidiaries and associate, except those listed below, are located at 2285 Don Chino Roces Avenue, Makati City. The registered offices and principal places of business of the other subsidiaries are as follows:

|              |   |  |
|--------------|---|--|
| BRL          | - | 2 <sup>nd</sup> Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands |
| Kita         | - | 7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga                    |
| OSSI         | - | Solid St., LIIP, Mamplasan, Biñan, Laguna  |
| SE Corp.     | - | 1172 E. Delos Santos Avenue, Balintawak, Quezon City   |
| SMC and CBHI | - | 1000 J. Bocobo corner T.M. Kalaw St., Ermita, Manila   |
| Starworld    | - | CPIP Brgys. Batino & Prinza, Calamba, Laguna   |
| ZTC          | - | 1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79, District 5, Ermita, Manila                 |

### **1.4 Approval for Issuance of Consolidated Financial Statements**

The consolidated financial statements of the Group as of and for the year ended December 31, 2017 (including the comparative consolidated financial statements as of December 31, 2016 and for the years ended December 31, 2016 and 2015) were authorized for issue by the Parent Company's BOD on April 3, 2018.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of Preparation of Consolidated Financial Statements**

#### *(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### *(b) Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. The Group presents consolidated statement of comprehensive income separate from the consolidated statement of income.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

#### *(c) Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Parent Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using the Parent Company's functional currency, which is the currency of the primary economic environment in which the Parent Company operates.

### **2.2 Adoption of New and Amended PFRS**

#### *(a) Effective in 2018 that are Relevant to the Group*

The Group adopted for the first time the following amendments, standards and interpretations, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

|                    |   |  |
|--------------------|---|--|
| PAS 40 (Amendment) | : | Investment Property – Reclassification to and from Investment Property |
|--------------------|---|--|

|  |   |  |
|--|---|--|
| PFRS 9 (2014)  | : | Financial Instruments  |
| PFRS 15  | : | Revenue from Contract with Customers   |
| IFRIC 22   | : | Foreign Currency Transactions and advance<br>Consideration - Interpretation on<br>Foreign Currency Transactions and<br>Advance Consideration |
| Annual Improvements to PFRS 2014-2016 Cycle  |   |  |
| PAS 28 (Amendment) : Investment in Associates – Clarification on<br>Fair Value through Profit or Loss Classification |   |  |

Discussed below and in the succeeding pages are the relevant information about these amendments.

- (i) PAS 40 (Amendment), *Investment Property – Reclassification to and from Investment Property*. The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use. Management has assessed that this amendment has no significant impact on the Group's consolidated financial statements.
- (ii) PFRS 9 (2014), *Financial Instruments*. This new standard on financial instruments will replace PAS 39, *Financial Instruments: Classification and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income (FVTOCI) if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

Based on an assessment of the Group's financial assets and financial liabilities as at December 31, 2018, which has been limited to the facts and circumstances existing at that date, management has identified the following areas that are expected to be most impacted by the application of PFRS 9 (2014):

- On classification and measurement of the Group's financial assets, management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects the majority of loans and receivables to continue to be accounted for at amortized cost.
  - The Group's available-for-sale (AFS) financial assets, regardless if quoted or not, will be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition.
  - In applying the ECL methodology of PFRS 9 (2014), the Group initially assessed to use the simplified approach for trade and other receivables as allowed by the standard, except for loans receivable wherein the Group will apply the ECL model.
  - The financial liabilities of the Group are measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the classification for the financial liabilities will be retained.
- (iii) PFRS 15, *Revenue from Contract with Customers*. This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group's major revenue streams, which has been limited to the facts and circumstances existing as at December 31, 2018, consist of sale of goods, rendering of services, rentals, interest and sale of real estate. Except for interest income which are covered by PFRS 9 and will continue to be amortized using the effective interest method and rental income which are covered by PAS 17, *Leases*, and will continue to be accounted for using straight line method, the other revenue streams of the Group will be recognized at point in time upon application of PFRS 15.

- (iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed

guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

- (v) Among the improvements to PFRS 2014-2016 Cycle, PAS 28 (Amendment), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* (effective from January 1, 2018) is relevant to the Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. Management has assessed that these amendments have no significant impact on the Group's consolidated financial statements.

(b) *Effective in 2018 but not Relevant to the Group*

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's financial statements:

- PFRS 2 (Amendments) : Share-based Payment – Classification and Measurement of Share-based Payment Transactions
- PFRS 4 (Amendments) : Insurance Contracts – Applying PFRS 9 with PFRS 4

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, amendments and interpretations to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions:

- (i) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Group is currently assessing the impact of this amendment on its consolidated financial statements.
- (ii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. The Group is currently assessing the impact of this new standard in its consolidated financial statements.
- (iii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17.

For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures. Management is currently assessing the impact of this new standard in its consolidated financial statements.

- (iv) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new interpretation in its consolidated financial statements.
- (v) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments, as discussed in the succeeding page, are relevant to the Group but had no material impact on the Group’s consolidated financial statements as these amendments merely clarify existing requirements.
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity’s general borrowings when calculating the capitalization rate for capitalization purposes.



- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.
- (vi) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor’s financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor’s interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. Management is currently assessing the impact of these amendments on the consolidated financial statements.

### **2.3 Basis of Consolidation**

The Group’s consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.1, after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements. The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles. The Parent Company accounts for its investments in subsidiaries, associate and non-controlling interests (NCI) as presented as follows.

#### *(a) Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Parent Company has control. The Parent Company controls an entity when it has power over the investee, it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Parent Company obtains control.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any NCI in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests

issued by the Parent Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any NCI in the acquiree, either at fair value or at the NCI's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.13).

*(b) Transactions with NCI*

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

## **2.4 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee, its chief operating decision-maker. The Executive Committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All intersegment transfers are carried out at arm's length prices. The measurement policies the Group uses for segment reporting under PFRS 8, Operating Segments, are the same as those used in its consolidated financial statements, except that post-employment benefit expenses are not included in arriving at the operating profit of the operating segments.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

## **2.5 Financial Assets**

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, Financial Instruments: Presentation. All other non-derivative financial instruments are treated as debt instruments.

### *(a) Classification and Measurement of Financial Assets*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the categories of financial assets currently relevant to the Group are shown below and in the succeeding page.

#### *(i) Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of each reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term under rare circumstances.

#### *(ii) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables – Net (excluding Advances to suppliers), Advances to Related Parties and Refundable deposits, Restricted cash and Short-term placements, presented as part of Other Current Assets and Cash bond presented as part of Other Non-current Asset accounts, in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

*(iii) AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets presented as AFS Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period. The Group's AFS financial assets include proprietary membership club shares, equity securities and others.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

*(b) Impairment of Financial Assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group recognizes impairment loss based on the category of financial assets as follows:

*(i) Carried at Amortized Cost – Loans and Receivables*

Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the agreement. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined

under the contract if the loan has a variable interest rate. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

*(ii) Carried at Cost – AFS Financial Assets*

If there is objective evidence of impairment for any of the unquoted equity instruments 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 required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

*(iii) Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

*(c) Items of Income and Expense Related to Financial Assets*

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Income or Finance Costs account in the consolidated statement of income. Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

*(d) Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial

instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## **2.6 *Merchandise Inventories and Supplies***

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Merchandise inventories, service parts, supplies, and others include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value of merchandise inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of spare parts, supplies and others is the current replacement cost.

## **2.7 *Real Estate Inventories***

Real estate inventories consist of the following:

### *(a) Land and Land Development Costs*

Land and land development costs include the acquisition cost of raw land intended for future development and sale, as well as other costs and expenses incurred to effect the transfer of title of the property.

### *(b) Property Development Costs*

Property development costs include the cost of land used as a building site for a condominium project and the accumulated costs incurred in developing and constructing the property for sale.

Land and land development costs and property development costs are carried at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## **2.8 *Other Assets***

Other assets except those classified as financial assets, pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

## **2.9 Property and Equipment**

Property and equipment, except land, are carried at acquisition cost or construction cost less subsequent depreciation, amortization and any impairment losses. Land held for use in production or administration is stated at cost less any impairment losses. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

|  |                |
|--|----------------|
| Buildings and improvements               | 10 to 25 years |
| Test, communication and other equipment  | 5 to 20 years  |
| Machinery and equipment                  | 5 to 10 years  |
| Transportation equipment                 | 5 years        |
| Computer system                          | 2 to 5 years   |
| Furniture, fixtures and office equipment | 2 to 5 years   |
| Tools and equipment                      | 2 to 3 years   |

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.20) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

Leasehold improvements are amortized over the estimated useful lives of the assets from 2 to 15 years or the terms of the relevant leases, whichever is shorter. Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18). The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation, amortization and any impairment losses, 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 (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of income in the year the item is derecognized.

## **2.10 Investment Property**

Investment property represents property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under the fair value model. It is revalued annually and is included in the consolidated statement of financial position at its fair value. Fair value is supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property (see Note 30.4).

Investment property, which consists mainly of land and improvements, and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs.

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gains or losses on investment property under the Other Operating Expenses (Income) section in the consolidated statement of income.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. For tax purposes, investment property is carried at cost less accumulated depreciation computed on a straight-line basis over the estimated net useful lives of the assets ranging from 11 to 25 years.

### ***2.11 Financial Liabilities***

Financial liabilities, which include interest-bearing loans, trade and other payables (excluding tax-related liabilities, advances from customers and reserve for warranty costs), advances from related parties and refundable deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

Interest-bearing loans are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables, advances from related parties and refundable deposits are initially recognized at their fair values and subsequently measured at amortized cost, using the effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Parent Company's BOD.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### ***2.12 Offsetting Financial Instruments***

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of



set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy, and must be legally enforceable for both entity and all counterparties to the financial instruments.

### ***2.13 Business Combinations***

Business acquisitions are accounted for using the acquisition method of accounting.

The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they are recorded in the consolidated financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for the subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

Negative goodwill, which is the excess of the Group's interest in the net fair value of the net identifiable assets acquired over acquisition cost, is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, Provisions, Contingent Liabilities and Contingent Assets, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

### ***2.14 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### ***2.15 Revenue and Expense Recognition***

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value-added tax (VAT) and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and, the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Rendering of services (other than commission income)* – Revenue is recognized when the performance of contractually agreed services have been substantially rendered.
- (b) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e., generally when the customer has acknowledged delivery of goods.
- (c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the term of the lease (see Note 2.16).
- (d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly based on a fixed amount specified in the service contract as agreed with the customer.
- (e) *Sale of real estate* – Revenue from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured

when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

Subsequent cancellations of prior years' real estate sales are deducted from revenues and cost of real estate sales in the year in which such cancellations are made.

If the transaction does not yet qualify as a sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of real estate property sold before completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development, as determined by technical staff. The estimated future expenditures for the development of the real estate property for sale are shown under the Estimated Liability for Land and Land Development Costs account in the liabilities section of the consolidated statement of financial position.

- (f) *Interest income on loans receivables* – Revenue is recognized as the interest accrues using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

- (g) *Commission income (shown as part of rendering of services)* – Revenue is recognized on an accrual basis computed based on a certain percentage of sales.
- (h) *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.
- (i) *Service charges and penalties* – Revenue is generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.

- (j) *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in the consolidated statement of income upon receipt of the goods or utilization of services or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income on an accrual basis, except capitalized borrowing costs, which are included as part of the cost of the related qualifying asset (see Note 2.20).

## **2.16 Leases**

The Group accounts for its leases as follows:

- (a) *Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

- (b) *Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and rewards of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term (see Note 2.15).

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

## **2.17 Foreign Currency Transactions and Translation**

- (a) *Transactions and Balances*

The accounting records of the Group, except BRL, are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. The accounting records of BRL are maintained in United States (U.S.) dollar.

Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income as part of Finance Income or Finance Costs.

- (b) *Translation of Financial Statements of Foreign Subsidiaries*

The operating results and financial position of BRL are translated to Philippine pesos, the Parent Company's functional and presentation currency, as presented below.

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (ii) Income and expenses for each statement of income account are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized as a separate component of other comprehensive income under currency exchange differences on translating financial statements of foreign operations, which is included under items that will be reclassified subsequently to profit or loss.

On consolidation, exchange differences arising from the translation of the net investments in BRL are recognized in other comprehensive income and taken to equity under Revaluation Reserves. When a foreign operation is partially disposed of or sold, such exchange differences are reclassified in the consolidated statement of income as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The translation of the consolidated financial statements into Philippine pesos should not be construed as a representation that the U.S. dollar and Chinese yuan RMB amounts could be converted into Philippine pesos amounts at the translation rates or at any other rates of exchange.

### ***2.18 Impairment of Non-financial Assets***

The Group's property and equipment, goodwill and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. Except for impairment losses on goodwill, an impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

## **2.19 Employee Benefits**

The Group provides post-employment benefits to employees through a defined benefit plan, as well as defined contribution plans, and other employee benefits which are recognized as follows.

### *(a) Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee-bank.

The liability recognized in the consolidated statement of financial position for post-employment defined benefit plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by an independent actuary using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bond as published by the Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Other Gains – Net under the Other Income (Charges) – Net section in the consolidated statement of income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

### *(b) Post-employment Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

### *(c) Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for

these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

*(d) Profit-sharing and Bonus Plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

*(e) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

## **2.20 Borrowing Costs**

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

## **2.21 Income Taxes**

Tax expense recognized in the consolidated statement of income comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any. Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated statement of income.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible

temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

## ***2.22 Related Party Transactions and Relationships***

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.



### ***2.23 Equity***

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise the remeasurements of post-employment defined benefit plan, cumulative translation adjustments on financial statements of foreign subsidiaries and unrealized fair value gains (losses) arising from the revaluation of certain AFS financial assets.

Retained earnings, the appropriated portion of which is not available for distribution, represent all current and prior period results of operations as reported in the consolidated statement of income, reduced by the amounts of dividends declared, if any.

NCI represent the portion of net assets and profit or loss not attributable to the Parent Company's stockholders which are presented separately in the Group's consolidated statement of income and consolidated statement of comprehensive income and within equity in the Group's consolidated statement of financial position and consolidated statement of changes in equity.

### ***2.24 Earnings Per Share***

Basic earnings per share (EPS) is computed by dividing net profit attributable to the Parent Company's stockholders by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potentially dilutive shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

### ***2.25 Events After the End of the Reporting Period***

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates 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. Actual results may ultimately differ from these estimates.

### ***3.1 Critical Management Judgments in Applying Accounting Policies***

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

#### *(a) Revenue Recognition Criteria on Real Estate Sales*

The Group recognizes revenues from real estate sales under the full accrual method. Under this method, critical judgment is made by management in determining whether the collectability of the sales price is reasonably assured. Management considers the collectability of real estate sales as reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

#### *(b) Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that certain assets are permanently impaired as of December 31, 2017, as disclosed in Note 8. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

#### *(c) Costing of Merchandise Inventories and Supplies*

The Group's inventory costing policies and procedures were based on a careful evaluation of present circumstances and facts affecting production operations. A review of the benchmarks set by management necessary for the determination of inventory costs and allocation is performed regularly. Actual data are compared to the related benchmarks and critical judgment is exercised to assess the reasonableness of the costing policies and procedures which are currently in place and to make the necessary revisions in light of current conditions.

#### *(d) Distinction between Investment Property, Owner-occupied Properties and Real Estate Inventories*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the properties but also to other assets used in the production or supply process. On the other hand, real estate inventories are properties intended to be sold in the normal course of business.

*(e) Distinction between Operating and Finance Leases*

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's judgment, all of the Group's lease agreements were determined to be operating leases.

*(f) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 2.14 and the disclosures on relevant provisions and contingencies are presented in Notes 26 and 27.

### **3.2 Key Sources of Estimation Uncertainty**

The following are the key 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 reporting period:

*(a) Impairment of Trade and Other Receivables and Advances to Related Parties*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the counterparties, their current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimate and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7. Meanwhile, there were no impairment losses recognized on advances to related parties for the years ended December 31, 2017 based on management's assessment (see Note 25.4).

*(b) Fair Value Measurement of Financial Instruments*

Fair value measurement is generally determined based on quoted prices in active markets. Where active market quotes are not available, management applies valuation techniques to determine the fair value of financial instruments. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date. The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized on those assets are disclosed in Notes 6 and 8, respectively.

*(c) Determination of Net Realizable Value of Merchandise Inventories and Supplies*

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, modular houses, broadcast equipment and accessories (see Note 9). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next reporting period.

*(d) Determination of Net Realizable Value of Real Estate Inventories*

The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of real estate inventories. Net realizable value for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. Net realizable value in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions. The carrying amounts of the real estate inventories are disclosed in Note 9.

*(e) Estimation of Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical/commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment are analyzed in Note 11. Based on management's assessment as at December 31, 2017, there is no change in the estimated useful lives of property and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(f) Fair Value Measurement of Investment Property*

The Group's investment property, which consists of parcels of land and improvements and buildings and improvements, are carried at fair value at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 30.4.

For investment properties with appraisals conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in these elements may affect prices and the value of the assets. The amounts of fair value gains recognized on investment property are disclosed in Notes 12 and 19.

*(g) Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The carrying value of recognized deferred tax assets, which management assessed may be fully utilized in the coming years, as at December 31, 2017 is disclosed in Note 22.2. Certain deferred tax assets, however, were not recognized since management believes that there is no assurance that the related tax benefits will be realized in the coming years.

*(h) Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

In 2017, the Group recognized impairment loss is presented under the Other Operating Expenses (Income) section in the 2017 consolidated statement of income. Based on management's assessment, there were no additional impairment losses recognized for the period ended September 30, 2018.

*(i) Estimation of Liability for Land and Land Development Costs*

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as at December 31, 2017 and 2016 is disclosed in Note 10.

*(j) Estimation of Reserve for Warranty Costs*

The Group offers warranty, for a period ranging from one to two years, for each consumer electronic product sold. Management estimates the related provision for future warranty costs based on a certain percentage of sales, as determined based on historical warranty claim information as well as recent trends that might suggest that past cost information may differ from expectations. Warranty costs also include the actual cost of materials used in repairing the electronic products.

The amounts of provision for warranty claims recognized and the outstanding balance of Reserve for warranty costs, which is presented as part of Trade and Other Payables account in the consolidated statements of financial position, are disclosed in Note 15.

*(k) Valuation of Post-employment Defined Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.2 and include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit asset and obligation in the next reporting period.

The amounts of the fair value of the retirement benefit asset and present value of retirement benefit obligation and the analysis of the movements in the fair value of the retirement benefit asset and present value of retirement benefit obligation, as well as the significant assumptions used in estimating such asset and obligation are presented in Note 21.2.

#### **4. SEGMENT INFORMATION**

##### ***4.1 Business Segments***

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are as follows:

- (a)* Digital mobile services is involved in the sale of mobile phones and devices;
- (b)* Property and building services is involved in the leasing, development and sale of industrial and other real estate properties, sale of prefabricated modular houses and hotel and restaurant operations;
- (c)* Technical support and solutions is presently engaged in the business of sale of professional audio and video equipment, after sales services, warehousing and distribution; and,
- (d)* Investment and others include investment holding companies, and those included in the business of financing and credit extension.

Segment accounting policies are the same as the policies described in Note 2.4.

##### ***4.2 Segment Assets and Liabilities***

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

### 4.3 Intersegment Transactions

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

### 4.4 Analysis of Segment Information

The following tables present certain asset and liability information regarding business segments as at September 30, 2018 and December 31, 2017, the related revenue and profit information for each of the six months period ended September 30, 2018 and September 30, 2017 (amounts in thousands):

|                                       | Digital<br>Mobile | Property &<br>Related<br>Services | Technical<br>Support &<br>Solutions | Investment<br>and Others | Elimination   | Total        |
|---------------------------------------|-------------------|-----------------------------------|-------------------------------------|--------------------------|---------------|--------------|
| <b>2018</b>                           |                   |                                   |                                     |                          |               |              |
| <b>SEGMENT RESULTS</b>                |                   |                                   |                                     |                          |               |              |
| Total revenues                        | P 1,600,525       | P 328,974                         | P 577,882                           | P 113,396                | (P 95,334)    | P 2,525,443  |
| Net profit (loss)                     | ( 29,626)         | P 33,435                          | P 35,521                            | P 25,156                 | P 20,327      | P 84,814     |
| <b>SEGMENT ASSETS AND LIABILITIES</b> |                   |                                   |                                     |                          |               |              |
| Total assets                          | P 1,882,181       | P 6,313,939                       | P 942,835                           | P 8,215,503              | (P 5,692,017) | P 11,662,442 |
| Total liabilities                     | P 1,450,909       | P 1,945,942                       | P 155,230                           | P 416,555                | (P 2,602,590) | P 1,366,046  |
| <b>2017</b>                           |                   |                                   |                                     |                          |               |              |
| <b>SEGMENT RESULTS</b>                |                   |                                   |                                     |                          |               |              |
| Total revenues                        | P 2,280,383       | P 308,818                         | P 716,407                           | P 91,024                 | (P 99,352)    | P 3,297,280  |
| Net profit (loss)                     | 20,849            | P 85,325                          | P 98,157                            | P 11,560                 | (P )          | P 215,891    |
| <b>SEGMENT ASSETS AND LIABILITIES</b> |                   |                                   |                                     |                          |               |              |
| Total assets                          | P 1,952,268       | P 5,857,231                       | P 1,078,028                         | P 8,675,375              | (P 5,800,972) | P 11,761,930 |
| Total liabilities                     | P 1,491,370       | P 2,267,149                       | P 345,015                           | P 449,979                | (P 3,077,543) | P 1,475,970  |

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as at December 31:

|                           | 2018                   | 2017                   |
|---------------------------|------------------------|------------------------|
| Cash on hand and in banks | P 257,645,499          | P 690,867,359          |
| Short-term placements     | 3,229,808,579          | 2,799,732,740          |
|                           | <b>P 3,487,454,078</b> | <b>P 3,490,600,099</b> |

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 90 days and earn annual interests ranging from 0.1% to 3.5% as of September 30, 2018 and December 31, 2017.

The balance of short-term placements as of December 31, 2017 did not include an amount of P60.0 million which is shown as part of the Other Current Assets account in the 2017 consolidated statement of financial position (see Note 13). Such amount pertains to time deposits with maturity of more than three months.

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account represents investments in unit investments trust funds (UITF) which have been designated by the management as financial assets at FVTPL upon initial recognition. The reconciliation of the carrying amounts of these financial assets at the beginning and end of 2017 follows:

|                              | <u>2017</u>       |
|------------------------------|-------------------|
| Balance at beginning of year | P 741,732,076     |
| Additions                    | 124,500,000       |
| Redemptions                  | ( 869,232,076)    |
| Balance at end of year       | <u><u>P -</u></u> |

Financial assets at FVTPL are stated at their fair values which have been determined directly by reference to published prices. As at December 31, 2016, the fair value of these financial assets were derived using the net asset value per unit (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period), as published by banks and the Investment Company Association of the Philippines. In 2017, the Group redeemed all of its investments in UITF for P875.2 million. The Group recognized annual gain on redemption of financial assets at FVTPL amounting to P5.9 million, in 2017 and is presented as part of Finance Income under the Other Income (Charges) – Net section in the consolidated statements of income (see Note 20.2).

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

|  | <u>Notes</u>              | <u>2018</u>                 | <u>2017</u>          |
|--|---------------------------|-----------------------------|----------------------|
| Current:                               |                           |                             |                      |
| Trade receivables                      | 25.2, 25.5,<br>26.1, 26.3 | <b>P 239,893,033</b>        | P 766,617,490        |
| Advances to suppliers                  | 25.5                      | <b>462,277,815</b>          | 451,094,241          |
| Loans receivables                      | 25.3                      | <b>40,060,095</b>           | 37,194,998           |
| Rental receivable                      | 25.2                      | <b>58,184,337</b>           | 6,274,639            |
| Interest receivable                    |                           | <b>8,547,686</b>            | 2,209,591            |
| Receivable from officers and employees |                           | <b>6,056,931</b>            | 2,171,345            |
| Other receivables                      |                           | <u><b>15,894,192</b></u>    | <u>41,717,033</u>    |
|  |                           | <b>830,914,090</b>          | 1,307,279,337        |
| Allowance for impairment               |                           | <u><b>( 92,735,019)</b></u> | <u>( 92,851,711)</u> |
|  |                           | <u><b>738,179,072</b></u>   | <u>1,214,427,626</u> |



|  |      |                               |                               |
|--|------|-------------------------------|-------------------------------|
| Non-current:   |      |                               |                               |
| Trade receivables                                    |      | <b>16,306,958</b>             | 13,620,877                    |
| Loans receivables                                    | 25.3 | <b>647,049</b>                | 647,049                       |
| Cash surrender value of investment in life insurance |      | <u><b>744,174,870</b></u>     | <u>678,596,450</u>            |
|  |      | <u><b>761,128,877</b></u>     | <u>692,864,376</u>            |
|  |      | <b><u>P 1,499,307,949</u></b> | <b><u>P 1,907,292,002</u></b> |

Trade receivables include amounts due from the Group's receivables related to the sold condominium units which are being paid for by the customers in monthly installments. The titles to the real estate properties sold remains with the Group until the receivables are fully collected. Trade receivables from sale of condominium units are measured at amortized cost and bear effective interests ranging from 9.75% to 18.0% depending on the terms of payment.

Advances to suppliers mainly include advance payments made by My Solid for future purchases of mobile phone units and accessories (see Note 25.5). These also include advances made to various suppliers made by SVC for the purchase of pro-tapes, video and medical equipment and spare parts. Other receivables include amounts due from the sales of CCTV and credit card companies. This account also consist of unsecured, noninterest-bearing cash advances made to the ZTC's Unit Owners' Association for expenses incurred by the unit owners and rent receivables.

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of financial positions. Subsequently, any increase in cash surrender value is recognized in the consolidated statements of income (see Note 19). The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 14).

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables, which are mostly due from small business customers, were found to be impaired; hence, adequate amount of allowance for impairment has been recognized.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises of the following:

|                          | <u>2018</u>                 |   | <u>2017</u>              |
|--------------------------|-----------------------------|---|--------------------------|
| Club shares              | <b>P 24,407,258</b>         | P | 22,307,258               |
| Equity securities        | <b>8,580,000</b>            |   | 8,580,000                |
| Others                   | <u><b>420,962</b></u>       |   | <u>540,007</u>           |
|                          | <b>33,408,220</b>           |   | 31,427,265               |
| Allowance for impairment | <u><b>( 12,530,000)</b></u> | ( | <u>10,430,000)</u>       |
|                          | <b><u>P 20,878,220</u></b>  | P | <b><u>20,997,265</u></b> |

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Parent Company's investment in SPI expired on May 8, 2005. On April 11, 2005, the Parent Company received a formal notice of the expiry of

the JVA. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration.

As a result of the above events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, it reclassified its remaining investment in shares of stock of SPI with total cost of P8.6 million to AFS financial assets in 2005.

The Group's management has determined that there is an objective evidence that the decline in the fair values of SPI shares and of some of its club shares is permanent. Such evaluation was based on the significant downturn in the business operations of SPI and the prolonged decline in the market value of certain club shares of the Group. Accordingly, the Group recognized impairment losses on the SPI shares and such club shares in prior years. As at September 30, 2018 and December 31, 2017 the Parent Company's investment in SPI is fully provided with allowance for impairment losses. There were no additional impairment losses recognized on other available-for-sale financial assets in September 30, 2018 and December 31, 2017.

The fair values of the Group's investments in club shares, which represent proprietary membership club shares, as at December 31, 2017 have been determined based on quoted prices in less active markets due to lack of trading activities among its participants (see Note 30.2).

## 9. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below.

|                                      | <u>Notes</u> | <u>2018</u>                 | <u>2017</u>                 |
|--------------------------------------|--------------|-----------------------------|-----------------------------|
| Merchandise inventories              | 17.1         | <b>P 914,751,463</b>        | P 681,659,177               |
| Service parts, supplies and others   | 25.1         | <u>1,220,395</u>            | <u>4,203,582</u>            |
|                                      |              | <b>915,971,859</b>          | 685,862,759                 |
| Allowance for inventory obsolescence |              | <u>( 181,212,194)</u>       | <u>( 147,242,272)</u>       |
|                                      |              | <b><u>P 734,759,665</u></b> | <b><u>P 538,620,487</u></b> |

The movements in the allowance for inventory obsolescence are as follows:

|  | <u>Notes</u> | <u>2018</u>                 | <u>2017</u>                 |
|--|--------------|-----------------------------|-----------------------------|
| Balance at beginning of year                     |              | <b>P 147,242,272</b>        | P 96,132,177                |
| Provisions for inventory obsolescence            | 17.1, 18     | <b>33,969,922</b>           | 51,531,964                  |
| Reversal of allowance for inventory obsolescence | 17.1, 18     | <u>( )</u>                  | <u>( 421,869)</u>           |
|  |              | <b><u>P 181,212,194</u></b> | <b><u>P 147,242,272</u></b> |

The Group has no outstanding purchase commitment for the acquisition of merchandise inventories and supplies as at September 30, 2018 and December 31, 2017.

## 10. REAL ESTATE INVENTORIES

This account is composed of:

|  | <u>2018</u>                 | <u>2017</u>                 |
|--|-----------------------------|-----------------------------|
| Land and land development costs:               |                             |                             |
| Land   | <b>P 4,265,299</b>          | P 4,265,299                 |
| Land development costs                         | <u>35,281,523</u>           | <u>35,281,523</u>           |
|  | <b>39,546,822</b>           | 39,546,822                  |
| Allowance for impairment                       | <u>( 2,022,800 )</u>        | <u>( 2,022,800 )</u>        |
|  | <b>37,524,022</b>           | 37,524,022                  |
| Property development costs –                   |                             |                             |
| Construction in progress and development costs | <u>397,946,588</u>          | <u>402,930,088</u>          |
|  | <b><u>P 435,470,610</u></b> | <b><u>P 440,454,110</u></b> |

Land and land development costs pertain to cost of land and related improvements, held by Starworld and LIIP, which are held for sale. Property development costs pertain to the cost of land used as a building site and the accumulated construction costs of the condominium building project being developed by ZTC, which are also for sale.

The allowance for impairment recognized in prior years pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2018 and 2017.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba City, Laguna. As at December 31, 2017 and 2016, lot areas totaling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building (see Notes 27.4 and 27.5). The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of September 30, 2018.

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2018 and 2017 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 27.3).

## 11. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property and equipment at the end of September 2018 and December 2017 are shown below.

|   | <u>Land</u>                   | <u>Buildings and Improvements</u> | <u>Machinery and Equipment</u> | <u>Furniture, Fixtures and Office Equipment</u> | <u>Transportation Equipment</u> | <u>Test, Communication and Other Equipment</u> | <u>Computer System</u>    | <u>Leasehold Improvements</u> | <u>Tools and Equipment</u> | <u>Construction in Progress</u> | <u>Total</u>                  |
|---|-------------------------------|-----------------------------------|--------------------------------|---|---------------------------------|--|---------------------------|-------------------------------|----------------------------|---------------------------------|-------------------------------|
| September 30, 2018                        |                               |                                   |                                |   |                                 |  |                           |                               |                            |                                 |                               |
| Cost                                      | P 1,277,854,682               | P 365,503,023                     | P 192,071,170                  | P 231,833,496                                   | P 168,761,587                   | P 15,936,701                                   | P 75,018,221              | P 105,125,105                 | P 77,096,784               | P 45,240,552                    | P 2,554,441,321               |
| Accumulated depreciation and amortization | -                             | ( 104,075,392)                    | ( 119,087,450)                 | ( 180,040,904)                                  | ( 108,390,555)                  | ( 15,599,889)                                  | ( 72,576,204)             | ( 89,581,326)                 | ( 48,132,768)              | -                               | ( 737,484,487)                |
| Accumulated impairment losses             | -                             | ( 35,000,000)                     | -                              | -   | -                               | -  | -                         | -                             | -                          | ( 14,346,250)                   | ( 49,346,250)                 |
| Net carrying amount                       | <b><u>P 1,277,854,682</u></b> | <b><u>P 226,427,631</u></b>       | <b><u>P 72,983,720</u></b>     | <b><u>P 51,792,592</u></b>                      | <b><u>P 60,371,032</u></b>      | <b><u>P 336,812</u></b>                        | <b><u>P 2,442,017</u></b> | <b><u>P 15,543,779</u></b>    | <b><u>P 28,964,016</u></b> | <b><u>P 30,894,302</u></b>      | <b><u>P 1,767,610,584</u></b> |
| December 31, 2017                         |                               |                                   |                                |   |                                 |  |                           |                               |                            |                                 |                               |
| Cost                                      | P 1,277,854,682               | P 361,070,743                     | P 169,152,246                  | P 250,079,053                                   | P 149,020,103                   | P 9,927,050                                    | P 74,795,455              | P 102,189,564                 | P 64,875,423               | P 181,390,018                   | P 2,640,354,337               |
| Accumulated depreciation and amortization | -                             | ( 88,184,946)                     | ( 92,463,398)                  | ( 178,831,782)                                  | ( 103,148,251)                  | ( 9,738,023)                                   | ( 70,261,687)             | ( 87,284,428)                 | ( 52,080,753)              | -                               | ( 681,993,268)                |
| Accumulated impairment losses             | -                             | ( 35,000,000)                     | -                              | -   | -                               | -  | -                         | -                             | -                          | ( 14,346,250)                   | ( 49,346,250)                 |
| Net carrying amount                       | <b><u>P 1,277,854,682</u></b> | <b><u>P 237,885,797</u></b>       | <b><u>P 76,688,848</u></b>     | <b><u>P 71,247,271</u></b>                      | <b><u>P 45,871,852</u></b>      | <b><u>P 189,027</u></b>                        | <b><u>P 4,533,768</u></b> | <b><u>P 14,905,136</u></b>    | <b><u>P 12,794,670</u></b> | <b><u>P 30,894,250</u></b>      | <b><u>P 1,909,014,819</u></b> |



2017:

|  |          |                      |          |                    |          |                      |
|--|----------|----------------------|----------|--------------------|----------|----------------------|
| Balance at beginning of year   | P        | 1,922,930,032        | P        | 755,106,706        | P        | 2,678,036,738        |
| Additions  |          | 69,813,706           |          | 32,332,012         |          | 102,145,718          |
| Fair value gains (losses) on investment property – net (see Note 19) |          | 226,119,344          | (        | 90,440,434)        | (        | 135,678,910)         |
| Transfer from property and equipment                                 |          | 200,250              |          | 36,032,189         |          | 36,232,439           |
| Disposals  | (        | 47,768,000)          | (        | 408,333)           | (        | 48,176,333)          |
| Balance at end of year   | <u>P</u> | <u>2,171,295,332</u> | <u>P</u> | <u>732,622,140</u> | <u>P</u> | <u>2,903,917,472</u> |

In 2017, SMC sold an investment property with a total carrying amount of P48.2 million. The recognized gain on the transaction amounted to P37.5 million in 2017, are presented as part of Other Operating Income – Net account in the 2017 consolidated statement of income (see Note 19).

### 13. OTHER ASSETS

The composition of these accounts as of September 30, 2018 and December 31, 2017 is shown below:

|                              | <u>Notes</u> | <u>2018</u>                 | <u>2017</u>          |
|------------------------------|--------------|-----------------------------|----------------------|
| <b>Current:</b>              |              |                             |                      |
| Creditable withholding taxes |              | <b>P 91,295,704</b>         | P 83,400,385         |
| Input VAT – net              |              | <b>89,647,529</b>           | 75,142,087           |
| Short-term placements        | 5            | -                           | 60,000,000           |
| Deferred costs               |              | <b>55,771,325</b>           | 40,977,153           |
| Prepayments                  |              | <b>20,199,028</b>           | 23,010,706           |
| Refundable deposits          | 27.2         | <b>9,391,929</b>            | 10,698,615           |
| Deferred input VAT           |              | <b>14,780,797</b>           | 6,090,847            |
| Advances to contractors      |              | <b>1,388,896</b>            | -                    |
| Deposit on purchases of land |              | <b>104,940,773</b>          | -                    |
| Others                       |              | <b>5,918,310</b>            | 2,502,971            |
|                              |              | <u><b>393,334,291</b></u>   | <u>P 301,822,764</u> |
| <b>Non-current:</b>          |              |                             |                      |
| Deposits to suppliers        |              | <b>7,013,884</b>            | 7,030,204            |
| Land                         |              | <b>4,935,606</b>            | 4,935,606            |
| Refundable deposits          | 27.2         | <b>4,813,269</b>            | 4,731,811            |
| Investment in shares         |              | <b>3,135,818</b>            | 3,135,818            |
| Cash bond                    |              | <b>692,234</b>              | 568,234              |
| Others                       |              | <b>2,487,391</b>            | 3,050,292            |
|                              |              | <u><b>23,078,201</b></u>    | <u>23,451,965</u>    |
|                              |              | <u><b>P 416,412,492</b></u> | <u>P 325,274,729</u> |

Short-term placements are made for 180 days and earn effective interest of 3.5% in 2017 (see Note 5). As of December, 31, 2017, deferred costs by SVC represent cost of inventories which have not been charged to cost of sales pending the completion of its projects.

Prepayments pertain to prepaid insurance, prepaid rent, and prepayments for professional fees, import charges and others. Deposits to suppliers represent refundable amount paid by the SVC to its suppliers for the distribution utilities provided to SVC.

#### 14. INTEREST-BEARING LOANS

The Group's short-term interest-bearing loans as at September 30, 2018 and December 31, 2017 amounting to P125.6 million (\$2.3 million) and P115.7 million (\$2.3 million), respectively, pertains to loan of BRL which are denominated in U.S. dollar and is currently due within 12 months after the end of reporting period; hence, classified as part of the Group's current liabilities in the consolidated statements of financial position. Presented below is the reconciliation of the Group's interest-bearing loans.

|                              | 2018                |                      | 2017                |                      |
|------------------------------|---------------------|----------------------|---------------------|----------------------|
|                              | USD                 | PHP                  | USD                 | PHP                  |
| Balance at beginning of year | \$ 2,318,535        | P 115,748,223        | \$ 2,261,325        | P 112,643,382        |
| Additional borrowings        | 29,353              | 1,592,457            | 57,210              | 2,849,802            |
| Translation adjustment       | -                   | 10,034,592           | -                   | 255,039              |
| Balance at end of year       | <u>\$ 2,347,888</u> | <u>P 127,375,299</u> | <u>\$ 2,318,535</u> | <u>P 115,748,223</u> |

The loan of BRL are secured by the cash surrender value of investment in life insurance (see Note 7). The loan bears interest at prevailing market rates ranging from 2.5% to 3.84% as of September 30, 2018 and December 31, 2017, respectively. Interest expense arising from these loans amounted to P1.9 million and P1.3 million in 2018 and 2017, respectively and is shown as part of Interest expense on interest-bearing loans under Finance Costs account in the consolidated statements of income (see Note 20.1).

The fair value of loan obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period. As at September 30, 2018 and December 31, 2017, the Group is not subjected to any covenants relating to the loan.

#### 15. TRADE AND OTHER PAYABLES

This account consists of:

|                             | Note | 2018                        | 2017                 |
|-----------------------------|------|-----------------------------|----------------------|
| Trade payables              | 25.5 | <b>P 152,228,782</b>        | P 216,881,183        |
| Accrued dealers' incentives |      | <b>66,663,442</b>           | 96,882,320           |
| Refundable deposits         |      | <b>33,933,524</b>           | 27,553,369           |
| Accrued expenses            |      | <b>45,283,002</b>           | 25,788,820           |
| Advances from customers     |      | <b>2,825,777</b>            | 20,682,813           |
| Deferred output VAT         |      | <b>12,314,758</b>           | 17,615,732           |
| Rentals payable             |      | <b>6,646,378</b>            | 9,207,379            |
| Output VAT                  |      | <b>8,352,213</b>            | 6,307,771            |
| Withholding taxes payable   |      | <b>6,200,662</b>            | 6,039,526            |
| Reserve for warranty costs  |      | <b>2,343,194</b>            | 1,448,684            |
| Retention payable           |      | <b>275,270</b>              | 43,423               |
| Due to related party        |      | <b>12,574</b>               |                      |
| Other payables              |      | <b>38,204,658</b>           | 47,237,524           |
|                             |      | <u><b>P 375,284,232</b></u> | <u>P 475,688,544</u> |

Accrued dealers' incentives pertain to rebates awarded to dealers once certain level of sales were achieved during a particular period. Accrued expenses include amounts charged for rentals, outside services, salaries and other operating expenses which remained unpaid as at the end of the reporting periods. The outstanding deferred output VAT arises from the outstanding receivables on the Group's sale of services.

The Group derecognized certain accrued expenses and other payables amounting to P1.3 million in 2017 since management believes that the possibility of cash outflows is remote as the purpose for which the liabilities were recognized no longer exists. The related Gain on derecognition of liabilities is presented as part of Other Gains – Net under the Other Income (Charges) – Net section in the consolidated statements of income (see Note 20.3).

Other payables primarily consist of payroll-related liabilities and due to government agencies for unpaid contributions for social security and other benefits of the Group's employees.

## 16. REFUNDABLE DEPOSITS

SMC and Kita have long-term refundable deposits from various tenants amounting to P26 million and P27.1 million as at September 30, 2018 and December 31, 2017, respectively. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 3.48% to 6.25% at the inception of the lease terms.

SMC recognized gain on discounting of its refundable deposits amounting to P0.5 million in 2017. These are presented as part of Finance Income in the consolidated statements of income (see Note 20.2). The interest expense recognized amounting to P1.6 million in 2017 is presented as part of Finance Costs in the consolidated statements of income (see Note 20.1).

The refundable deposits are shown as a separate line item under Non-current Liabilities section in the consolidated statements of financial position.

## 17. COSTS OF SALES, SERVICES, RENTALS AND REAL ESTATE SALES

### 17.1 Cost of Sales

The details of this account are shown below.

|                                       | Notes | <u>2018</u>            | <u>2017</u>            |
|---------------------------------------|-------|------------------------|------------------------|
| Merchandise inventories               |       |                        |                        |
| at beginning of year                  | 9     | P 681,659,177          | P 863,290,614          |
| Net purchases of merchandise          |       |                        |                        |
| inventories during the period         | 25.5  | <u>1,722,787,488</u>   | <u>2,040,224,777</u>   |
| Goods available for sale              |       | <u>2,404,446,665</u>   | 2,903,515,391          |
| Merchandise inventories               |       |                        |                        |
| at end of the period                  |       | ( 914,751,463 )        | ( 857,770,867 )        |
| Net provision (reversal of allowance) |       |                        |                        |
| for inventory obsolescence            | 9     | <u>33,969,922</u>      | <u>( 4,595,802 )</u>   |
|                                       | 18    | <u>P 1,523,665,124</u> | <u>P 2,041,148,722</u> |

### 17.2 Cost of Services

The following are the breakdown of direct costs and expenses from rendering of services:



|   | Notes | 2018                 | 2017          |
|---|-------|----------------------|---------------|
| Materials, supplies and other consumables | 25.1  | <b>P 115,527,851</b> | P 78,883,125  |
| Rentals                                   | 27.2  | -                    | 38,423        |
| Outside services                          |       | <b>35,033,655</b>    | 31,966,998    |
| Service fees                              | 26.3  | <b>58,899,903</b>    | 52,819,725    |
| Subcontracting services                   |       | <b>57,509,685</b>    | 53,082,925    |
| Salaries and employee benefits            | 21.1  | <b>48,233,078</b>    | 37,862,558    |
| Depreciation and amortization             | 11    | <b>29,935,344</b>    | 34,445,700    |
| Communication, light and water            |       | <b>24,666,173</b>    | 19,419,152    |
| Taxes and licenses                        |       | <b>1,181,150</b>     | -             |
| Transportation and travel                 |       | <b>4,647,301</b>     | 1,815,630     |
| Fuel & oil                                |       | <b>8,780,413</b>     | -             |
| Repairs and maintenance                   |       | <b>6,087,743</b>     | 8,097,203     |
| Insurance                                 |       | <b>3,429,496</b>     | -             |
| Integration                               |       | <b>1,065,162</b>     | 144,953,696   |
| Cable services                            |       | -                    | 251,723       |
| Others                                    |       | <b>7,904,482</b>     | 37,331,031    |
|   | 18    | <b>P 402,901,436</b> | P 500,967,889 |

### 17.3 Cost of Rentals

The details of this account are as follows:

|                                | Notes  | 2018                | 2017         |
|--------------------------------|--------|---------------------|--------------|
| Taxes and licenses             |        | <b>P 21,783,260</b> | P 13,521,751 |
| Outside services               |        | <b>6,733,627</b>    | 10,158,471   |
| Rentals                        | 27.2   | <b>8,737,443</b>    | 5,677,577    |
| Repairs and maintenance        |        | <b>6,334,086</b>    | 2,628,109    |
| Depreciation and amortization  | 11     | <b>24,548,324</b>   | 1,648,183    |
| Salaries and employee benefits | 21.1   | <b>585,573</b>      | 509,772      |
| Common usage service area      |        | <b>6,381,407</b>    | -            |
| Others                         |        | <b>4,909,462</b>    | 4,454,921    |
|                                | 12, 18 | <b>P 80,013,182</b> | P 38,598,784 |

Others primarily consists of supplies and transportation and travel expenses.

## 18. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

|   | Notes      | 2018                   | 2017            |
|---|------------|------------------------|-----------------|
| Net purchases of merchandise inventories  | 17.1, 25.5 | <b>P 1,722,787,488</b> | P 2,040,224,777 |
| Salaries and employee benefits            | 21.1       | <b>181,734,163</b>     | 160,532,363     |
| Manpower and other outside services       |            | <b>62,748,162</b>      | 75,427,578      |
| Subcontracting services                   |            | <b>141,283,082</b>     | 176,043,404     |
| Rentals                                   | 27.2       | <b>20,126,103</b>      | 23,690,177      |
| Changes in merchandise inventories        | 17.1       | <b>( 233,092,286 )</b> | 5,519,747       |
| Materials, supplies and other consumables | 17.1, 25.1 | <b>122,755,986</b>     | 81,537,643      |
| Taxes and licenses                        |            | <b>61,573,229</b>      | 52,658,678      |
| Depreciation and amortization             | 11         | <b>71,794,466</b>      | 63,791,977      |

|  |         |                               |                               |
|--|---------|-------------------------------|-------------------------------|
| Communication, light and water                         |         | <b>52,168,682</b>             |                               |
| Net provision (reversal) for<br>inventory obsolescence | 9, 17.1 | <b>33,969,922</b>             | ( 4,595,802)                  |
| Advertising and promotions                             |         | <b>23,934,484</b>             | 23,750,216                    |
| Broadband reimbursement                                |         | -                             | 52,819,725                    |
| Transportation and travel                              |         | <b>24,929,883</b>             | 10,785,193                    |
| Cost of real estate sold                               |         | <b>6,620,959</b>              | 7,863,289                     |
| Repairs and maintenance                                |         | <b>22,335,076</b>             | 17,374,907                    |
| Warranty charges                                       |         | <b>31,239,861</b>             | 22,719,259                    |
| Utilities and communication                            |         | -                             | 40,028,262                    |
| Cost of integration                                    |         | <b>1,065,162</b>              | 144,953,696                   |
| Service fees   |         | <b>58,899,903</b>             |                               |
| Miscellaneous  |         | <b>85,701,590</b>             | 86,138,958                    |
|  |         | <b><u>P 2,492,575,915</u></b> | <b><u>P 3,081,264,047</u></b> |

These expenses are classified in the consolidated statements of income as follows:

|                                     | <u>Note</u> | <u>2018</u>                   | <u>2017</u>                   |
|-------------------------------------|-------------|-------------------------------|-------------------------------|
| Cost of sales                       | 17.1        | <b>P 1,523,665,124</b>        | P 2,041,148,722               |
| Cost of services                    | 17.2        | <b>402,901,436</b>            | 500,967,889                   |
| Cost of rentals                     | 17.3        | <b>80,013,182</b>             | 38,598,784                    |
| Cost of real estate sales           | 17.4        | <b>6,620,959</b>              | 7,863,289                     |
| Selling and distribution costs      |             | <b>212,492,672</b>            | 249,040,057                   |
| General and administrative expenses |             | <b><u>266,882,542</u></b>     | <u>243,645,306</u>            |
|                                     |             | <b><u>P 2,492,575,915</u></b> | <b><u>P 3,081,264,047</u></b> |

## 19. OTHER OPERATING INCOME – Net

The breakdown of this account is as follows:

|   | <u>Notes</u> | <u>2018</u>               | <u>2017</u>                |
|---|--------------|---------------------------|----------------------------|
| Gain on sale of<br>investment property                              | 12           | P -                       | (P 37,510,547)             |
| Increase in cash surrender value<br>of investment in life insurance | 7            | ( 6,441,848 )             | 6,173,530                  |
| Income from utilities charged to tenants                            |              | ( 22,789,388 )            | ( 11,086,591 )             |
| Reversal of FV gains on inv. property                               |              | 42,718,036                | 40,470,393                 |
| Refund from Meralco   |              | -                         | ( 7,943,955 )              |
| Gain on sale of PPE   |              | -                         | ( 1,269,613 )              |
| Common usage service area   |              | ( 11,847,636 )            | ( 6,326,845 )              |
| Revenue share from embedded 3rd party apps                          |              | ( 5,067,389 )             | -                          |
| Miscellaneous   |              | ( <u>3,612,044</u> )      | ( <u>9,018,395</u> )       |
|   |              | <b><u>P 7,040,269</u></b> | <b><u>P 38,859,083</u></b> |

## 20. OTHER INCOME (CHARGES) – Net

### 20.1 Finance Costs

This account consists of the following:

|  | <u>Notes</u> | <u>2018</u>               | <u>2017</u>               |
|--|--------------|---------------------------|---------------------------|
| Impairment losses on trade and other receivables | 7            | <b>P -</b>                | P 938,494                 |
| Realized foreign currency losses                 |              | 166,341                   | 5,592,552                 |
| Unrealized foreign currency losses               |              | 49,805                    | -                         |
| Bank charges                                     |              | <b>492,898</b>            | -                         |
| Interest expense on interest-bearing loans       | 14           | <b>3,196,332</b>          | 2,080,186                 |
| Others   |              | <u>267,880</u>            | <u>834,836</u>            |
|  |              | <b><u>P 4,173,256</u></b> | <b><u>P 9,446,068</u></b> |

## 20.2 Finance Income

This account consists of the following:

|  | <u>Notes</u> | <u>2018</u>                | <u>2017</u>                |
|--|--------------|----------------------------|----------------------------|
| Interest income from C&CE, short-term placements and restricted cash | 5, 13        | <b>P 33,188,045</b>        | P 18,327,487               |
| Foreign currency exchange gains                                      |              |                            | 19,994,493                 |
| Realized foreign currency exchange gains                             |              | <b>11,526,041</b>          | -                          |
| Unrealized foreign currency gains                                    |              | <b>35,338,450</b>          | -                          |
| Gain on redemption of financial assets at FVTPL                      | 6            |                            | 6,312,671                  |
| Fair value gains on financial assets at FVTPL                        | 6            | -                          | ( 722,674 )                |
| Others   |              | <u>161,266</u>             | <u>217,928</u>             |
|  |              | <b><u>P 80,213,802</u></b> | <b><u>P 44,129,905</u></b> |

## 20.3 Other Gains – Net

The breakdown of this account is as follows:

|  | <u>Notes</u> | <u>2018</u>               | <u>2017</u>                 |
|--|--------------|---------------------------|-----------------------------|
| Gain on sale of property and equipment   | 11           | <b>P 626,682</b>          | P 1,622,889                 |
| Excess of standard over actual input VAT |              | 271,777                   | ( 3,877,319 )               |
| Sale of scrap                            |              |                           |                             |
| Miscellaneous                            |              | <u>1,730,327</u>          | <u>1,745</u>                |
|  |              | <b><u>P 2,628,786</u></b> | <b><u>(P 2,252,685)</u></b> |

## 21. EMPLOYEE BENEFITS

### 21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 25.8 and 25.11).

|                     | <u>Notes</u> | <u>2018</u>                 | <u>2017</u>                 |
|---------------------|--------------|-----------------------------|-----------------------------|
| Short-term benefits |              | <b><u>P 181,734,163</u></b> | <b><u>P 160,532,363</u></b> |

These expenses are classified in the consolidated statements of income as follows:

## 21.2 Post-employment Benefits

### (a) Characteristics of the Defined Benefit Plan

The Parent Company and certain subsidiaries maintain a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The Group's post-employment benefit plan provides retirement benefits ranging from 100% to 115% of the final monthly salary for every year of credited service.

### (b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from an independent actuary in 2017 and 2016. The components of the retirement benefit asset of SGI and certain subsidiaries at the end of the reporting periods are shown below.

|                             | <u>2017</u>           |
|-----------------------------|-----------------------|
| Fair value of plan assets   | P 178,965,686         |
| Present value of obligation | ( <u>73,201,592</u> ) |
|                             | <u>P 105,764,094</u>  |

The amounts of the retirement benefit obligation recognized by certain subsidiaries at the end of the reporting periods are shown below.

|                             | <u>2017</u>            |
|-----------------------------|------------------------|
| Fair value of plan assets   | P 3,289,187            |
| Present value of obligation | ( <u>41,154,860</u> )  |
|                             | (P <u>37,865,673</u> ) |

The movements in the fair value of plan assets of the Group are presented below.

|  | <u>2017</u>          |
|--|----------------------|
| Balance at beginning of year                                       | P 191,460,844        |
| Benefits paid by the plan  | ( 16,205,625 )       |
| Interest income  | 10,203,233           |
| Return on plan assets (excluding amounts included in net interest) | ( 5,757,379 )        |
| Contributions paid into the plan                                   | <u>2,553,800</u>     |
| Balance at end of year   | <u>P 182,254,873</u> |

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

|                              | <u>2017</u>   |
|------------------------------|---------------|
| Balance at beginning of year | P 121,492,413 |
| Current service costs        | 19,677,909    |

|   |          |                    |
|---|----------|--------------------|
| Benefits paid*  | (        | 16,205,625)        |
| Interest costs  |          | 6,479,896          |
| Remeasurements – actuarial losses (gains) arising from: |          |                    |
| Experience adjustments                                  | (        | 13,236,283)        |
| Changes in financial assumptions                        | (        | 5,078,640)         |
| Changes in demographic assumptions                      |          | <u>1,226,782</u>   |
| Balance at end of year                                  | <u>P</u> | <u>114,356,452</u> |

The plan assets consist of the following as of December 31:

|                              |          |                    |
|------------------------------|----------|--------------------|
|                              |          | <u>2017</u>        |
| Debt securities:             |          |                    |
| Philippines government bonds | P        | 152,854,025        |
| Corporate bonds              |          | 13,718,540         |
| UITF                         |          | 9,670,600          |
| Mutual funds                 |          | 1,567,437          |
| Other assets                 |          | <u>4,444,271</u>   |
|                              | <u>P</u> | <u>182,254,873</u> |

The fair values of the above debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy). Mutual funds and UITF are classified both as Level 2 while other assets are classified as Level 3 in the fair value hierarchy. The plan assets earned an annual net return of P4.4 million in 2017.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

|   | <u>Notes</u> | <u>2017</u>                |
|---|--------------|----------------------------|
| <i>Reported in consolidated statements of income:</i>               |              |                            |
| Current service cost  | 21.1         | <b>P 19,677,909</b>        |
| Net interest income   | 20.3         | <b>( 3,723,337 )</b>       |
|   |              | <b><u>P 15,954,572</u></b> |
| <i>Reported in consolidated statements of comprehensive income:</i> |              |                            |
| Actuarial gains (losses) from:                                      |              |                            |
| Changes in experience adjustments                                   |              | <b>P 13,236,283</b>        |
| Financial assumptions   |              | <b>5,078,640</b>           |
| Changes in demographic assumption                                   | (            | <b>1,226,782)</b>          |
| Return on plan assets (excluding amounts included in net interest)  | (            | <b>5,757,379)</b>          |
|   | 23.3         | <b><u>P 11,330,762</u></b> |

Current service cost is presented as part of salaries and employee benefit account under the General and Administrative Expenses account in the consolidated statements of income (see Notes 18).

The net interest income is included in Other Gains – Net account in the consolidated statements of income (see Note 20.3). Amounts recognized in other comprehensive income, net of tax, were classified within items that will not be reclassified subsequently to profit or loss in the consolidated statements of comprehensive income.

For determination of the post-employment benefit obligation, the following actuarial assumptions were used:

|                       | <u>2017</u>   |
|-----------------------|---------------|
| Discount rates        | 5.58% - 5.70% |
| Salary increases rate | 9.00%         |

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working lives of employees before retirement at the age of 60 ranges from 1.95 to 10.99 years for males and 2.01 to 37 years for females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risks*

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has generally concentrated on investment in debt securities, although the Group also invests in UITF and mutual funds.

(ii) *Longevity and Salary Risks*

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) *Inflation Risk*

A significant proportion of the DBO is linked to inflation. The increase in inflation will increase the Group's liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit asset as of December 31, 2017 and 2016:

|                      | Impact on Post-employment Benefit Asset |                        |                        |
|----------------------|---|------------------------|------------------------|
|                      | Change in Assumption                    | Increase in Assumption | Decrease in Assumption |
| <u>2017</u>          |   |                        |                        |
| Discount rate        | +/- 0.5%                                | (P 9,070,616)          | P 10,138,881           |
| Salary increase rate | +/- 1.0%                                | 20,014,097             | ( 16,506,866)          |

The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the DBO as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the DBO has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the DBO recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its Management Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the plan assets as at December 31, 2017 and 2016 consists of government and corporate debt securities, although the Group also invests in UITF and mutual funds.

(iii) *Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P16.5 million based on the latest actuarial valuations. The Group expects to make contribution of P34.5 million to the plan during the next reporting period. The maturity profile of undiscounted expected benefit payments from the plan follows:

|                                  | <u>2017</u>            |
|----------------------------------|------------------------|
| Within one year                  | P 3,924,688            |
| More than one year to five years | 18,837,068             |
| More than five years to 10 years | 62,109,003             |
| More than 10 years to 15 years   | 86,996,250             |
| More than 15 years to 20 years   | 219,446,411            |
| More than 20 years               | <u>3,013,653,464</u>   |
|                                  | <u>P 3,404,966,884</u> |

## 22. TAXES

### 22.1 Registration with Economic Zone Authorities

#### (a) Registration with Clark Development Corporation (CDC)

Kita, a subsidiary, is registered with CDC under RA No. 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA No. 9400, *An Act Amending RA No. 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes*. As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% regular corporate income tax (RCIT) tax rate is applied to income coming from sources other than Kita's registered activities.

#### (b) Registration with Philippine Economic Zone Authority (PEZA)

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Industrial Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes. As of September 30, 2018 and December 31, 2017, SMC did not have transactions with PEZA-registered entities.

On July 1, 1998, the PEZA approved Starworld's registration as an Ecozone developer and operator of the CPIP – Special Economic Zone located at Bo. Parian, Calamba City. Under the terms of the registration and subject to certain requirements, Starworld shall be exempt from all national and local taxes and instead will be subject to the 5% preferential tax rate on gross income after allowable deductions.

### 22.2 Current and Deferred Taxes

The components of tax expense as reported in the consolidated statements of income and consolidated statements of comprehensive income are as follows:

|   | <u>2017</u>      |
|---|------------------|
| <i>Reported in consolidated statements of income:</i> |                  |
| Current tax expense:                                  |                  |
| RCIT at 30%   | P 102,073,471    |
| MCIT at 2%  | ( 23,929,276)    |
| Final taxes at 20% and 7.5%                           | 12,149,899       |
| Preferential tax at 5%                                | <u>1,590,086</u> |



|  |                      |
|--|----------------------|
|  | 91,884,180           |
| Application of excess MCIT   | ( 624,265)           |
| Deferred tax expense (income) relating to origination<br>and reversal of temporary differences | <u>66,589,042</u>    |
|  | <u>P 157,848,957</u> |

*Reported in consolidated statements of comprehensive income:*

|  |                    |
|--|--------------------|
| Deferred tax expense (income) on remeasurements<br>of defined benefit post-employment plan | P 2,596,877        |
| Deferred tax expense on changes<br>in fair value of AFS financial assets                   | <u>210,000</u>     |
|  | <u>P 2,806,877</u> |

A reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense reported in the consolidated statements of income is shown below.

|  |                      |
|--|----------------------|
|  | <u>2017</u>          |
| Tax on pretax profit at 30%  | P 168,438,294        |
| Adjustment for income subjected<br>to lower tax rates  | ( 5,473,954)         |
| Tax effects of:  |                      |
| Nontaxable income  | ( 8,379,376)         |
| Nondeductible expenses and losses  | 2,407,938            |
| Unrecognized deferred tax assets (DTA)<br>from (NOLCO) and MCIT<br>and other temporary differences | 1,498,054            |
| Impairment loss on receivables   | 750,797              |
| Application of unrecognized MCIT   | ( 624,265)           |
| Excess of itemized deductions<br>over optional standard deduction                                  | ( 402,113)           |
| Post-employment defined benefits   | ( 329,165)           |
| Income of foreign subsidiary not<br>subject to taxes   | ( 39,197)            |
| Benefit from previously<br>unrecognized NOLCO, MCIT<br>and other temporary differences             | 37,994               |
| Application of NOLCO   | ( 30,453)            |
| Others   | ( <u>5,597</u> )     |
|  | <u>P 157,848,957</u> |

The net deferred tax assets of certain subsidiaries having a net deferred tax asset position as of December 31 relate to the following:

|  |                |
|--|----------------|
|  | <u>2017</u>    |
| Deferred tax assets:                                       |                |
| Allowance for inventory obsolescence                       | P 43,971,501   |
| Accrued expenses   | 29,064,696     |
| Allowance for impairment on<br>trade and other receivables | 23,182,609     |
| Retirement benefit obligation                              | 8,395,322      |
| MCIT   | 4,011,357      |
| Unrealized foreign currency loss                           | 1,278,094      |
| Provision for warranty claims                              | 434,605        |
| NOLCO  | <u>434,151</u> |

|  |                      |
|--|----------------------|
| Deferred tax liabilities:                          |                      |
| Unrealized foreign currency gains                  | -                    |
| Changes in fair value of financial assets at FVTPL | -                    |
|  | <u>-</u>             |
|  | <u>-</u>             |
| Deferred tax assets – net                          | <u>P 110,772,335</u> |

The net deferred tax liabilities of SGI and other subsidiaries, which have a net deferred tax liability position as of December 31 relate to the following:

|   |                        |
|---|------------------------|
|   | <u>2017</u>            |
| Deferred tax assets:                                    |                        |
| Unearned rent income                                    | P 5,086,366            |
| Impairment losses on property and equipment             | 4,303,875              |
| Allowance for impairment on trade and other receivables | 2,917,872              |
| MCIT  | 2,717,134              |
| Loss on investment in subsidiaries                      | 838,709                |
| Unamortized past service costs                          | 598,961                |
| NOLCO   | 59,724                 |
| Allowance for inventory obsolescence                    | 35,760                 |
| Deferred rent expense – PAS 17                          | -                      |
|   | <u>16,558,401</u>      |
| Deferred tax liabilities:                               |                        |
| FV gains on investment property – net                   | ( 523,852,805)         |
| Accumulated depreciation on investment property         | ( 136,906,716)         |
| Retirement benefit asset                                | ( 29,436,332)          |
| Excess of FV over cost of property                      | ( 14,653,835)          |
| Unrealized foreign currency gains                       | ( 4,269,860)           |
| Accrued rent income                                     | ( 3,790,307)           |
| Changes in fair value of AFS                            | ( 1,080,000)           |
| Deferred rent income – PAS 17                           | <u>193,260</u>         |
|   | <u>( 713,796,595)</u>  |
| Deferred tax liabilities – net                          | <u>(P 697,238,194)</u> |

The components of net deferred tax expense (income) reported in the consolidated statements of income are as follows:

|  |               |
|--|---------------|
|  | <u>2017</u>   |
| FV gains on investment property – net            | P 45,989,950  |
| Excess of MCIT over RCIT                         | 25,517,625    |
| Allowance for inventory obsolescence             | ( 15,333,029) |
| Accumulated depreciation on investment property  | 10,917,024    |
| Retirement benefit asset                         | ( 8,122,932)  |
| Reserve for commission                           | 5,168,062     |
| NOLCO  | 4,824,320     |
| Unrealized foreign currency gains (losses) – net | ( 2,111,743)  |
| Unamortized pre-operating expenses               | ( 1,556,619)  |

|   |                     |
|---|---------------------|
| Refundable deposits                                     | 1,247,766           |
| Provision for warranty claims                           | 395,409             |
| Allowance for impairment on trade and other receivables | ( 321,143)          |
| Deferred rent income – PAS 17                           | ( 137,041)          |
| Unamortized past service costs                          | 130,590             |
| Changes in FV of financial assets at FVTPL              | ( 47,374)           |
| Unearned rent income                                    | <u>28,177</u>       |
|   | <u>P 66,589,042</u> |

The deferred tax expense recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of AFS financial assets and remeasurements of post-employment defined benefit plan (see Note 23.3).

The movements in the Group’s NOLCO and MCIT are as follows:

| <u>Year</u>   | <u>Original Amount</u> | <u>Applied</u>      | <u>Expired Balance</u> | <u>Remaining Balance</u> | <u>Valid Until</u> |
|---------------|------------------------|---------------------|------------------------|--------------------------|--------------------|
| <b>NOLCO:</b> |                        |                     |                        |                          |                    |
| 2017          | P 22,095,114           | P -                 | P -                    | P 22,095,114             | 2020               |
| 2016          | 30,461,687             | 6,557,311           | -                      | 23,904,376               | 2019               |
| 2015          | 26,420,480             | 3,380,378           | -                      | 23,040,102               | 2018               |
| 2014          | <u>49,791,181</u>      | <u>33,079,292</u>   | <u>16,711,889</u>      | <u>-</u>                 |                    |
|               | <u>P 128,768,462</u>   | <u>P 43,016,981</u> | <u>P 16,711,889</u>    | <u>P 69,039,592</u>      |                    |
| <b>MCIT</b>   |                        |                     |                        |                          |                    |
| 2017          | P 78,115               | P -                 | P -                    | P 78,115                 | 2020               |
| 2016          | 13,102,960             | 9,042,429           | -                      | 4,060,531                | 2019               |
| 2015          | 7,702,496              | 7,702,496           | -                      | -                        | 2018               |
| 2014          | <u>9,393,350</u>       | <u>9,393,350</u>    | <u>-</u>               | <u>-</u>                 |                    |
|               | <u>P 30,276,921</u>    | <u>P 26,188,275</u> | <u>P -</u>             | <u>P 4,138,646</u>       |                    |

The NOLCO, MCIT and other deductible temporary differences as of December 31 for which the related deferred tax assets have not been recognized by certain entities in the Group are shown below.

|   | <u>2017</u>                |                            |
|---|----------------------------|----------------------------|
|   | <u>Amount</u>              | <u>Tax Effect</u>          |
| NOLCO   | <b>P 61,381,137</b>        | <b>P 18,414,342</b>        |
| Allowance for impairment of trade receivables         | <b>13,600,000</b>          | <b>4,080,000</b>           |
| Unrealized foreign currency gain                      | <b>( 356,304)</b>          | <b>( 106,891)</b>          |
| Allowance for impairment loss on AFS financial assets | <b>3,809,492</b>           | <b>1,142,848</b>           |
| Retirement benefit obligation                         | -                          | -                          |
| MCIT  | -                          | -                          |
| Allowance for inventory obsolescence                  | -                          | -                          |
|   | <u><b>P 78,434,325</b></u> | <u><b>P 23,530,299</b></u> |

The deferred tax liability on unrealized foreign currency gains in 2017 was not recognized since the Group has sufficient deferred tax assets to cover any future tax liability that will arise once this gain has been realized. Except for ZTC in 2017 and 2018, the Group opted to claim itemized deductions in computing for its income tax due.

## 23. EQUITY

### 23.1 Capital Stock

The Parent Company has a total authorized capital stock of P5.0 billion divided into 5,000,000,000 shares with P1 par value.

On June 18, 1996, the SEC issued an Order approving the Registration Statement covering the securities which comprised the Parent Company's entire authorized capital stock. On September 4, 1996, the Parent Company's shares were listed in the PSE and the trading of offer shares commenced. The Parent Company offered to the public 665,000,000 shares at an offer price of P5.85 per share. The offer shares consisted of 524,475,000 primary shares (new shares) and 140,525,000 secondary shares (existing shares).

As of September 30, 2018, and December 31, 2017, the Company has issued shares of 2,030,975,000 (with P1 par value), of which, 386,922,704 shares are held by the public as of December 31, 2017. There are 4,267 holders of the listed shares, which closed at P1.57 per share on December 31, 2017.

### 23.2 Retained Earnings

The BOD approved the declaration of cash dividends as follows:

| <u>Date of Declaration</u> | <u>Stockholders of Record as of</u> | <u>No. of Shares Outstanding</u> | <u>Amount per Share</u> | <u>Total</u>  |
|----------------------------|-------------------------------------|----------------------------------|-------------------------|---------------|
| August 11, 2017            | August 31, 2017                     | 1,821,542,000                    | P 0.07                  | P 127,507,940 |
| August 10, 2018            | August 31, 2018                     | 1,821,542,000                    | P 0.06                  | P 109,292,520 |

Retained earnings is restricted in the amount of P115.6 million as of December 31, 2017 equivalent to the cost of 209,433,000 shares held in treasury. The dividends were paid within their respective year of declaration and approval.

### 23.3 Revaluation Reserves

The components of this account and its movements are as follows:

|   | <u>Notes</u> | <u>2018</u>         |
|---|--------------|---------------------|
| Balance at beginning of year  |              | (P 15,778,108)      |
| Currency exchange differences on translating FS of foreign operations |              | <u>34,913,675</u>   |
| Balance at end of the period  |              | <u>P 19,135,567</u> |

## 24. EARNINGS PER SHARE

Basic and diluted earnings for profit attributable to the Parent Company's stockholders are computed as follows:

|   | <u>2018</u>          | <u>2017</u>          |
|---|----------------------|----------------------|
| Net profit for the year attributable to the Parent Company's stockholders | <u>P 76,223,456</u>  | <u>P 208,711,220</u> |
| Divided by weighted average shares outstanding:                           |                      |                      |
| Number of shares issued   | <u>2,030,975,000</u> | 2,030,975,000        |
| Treasury shares   | <u>(209,433,000)</u> | <u>(209,433,000)</u> |
|   | <u>1,821,542,000</u> | <u>1,821,542,000</u> |
| Earnings per share – basic and diluted                                    | <u>P 0.04</u>        | <u>P 0.11</u>        |

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of September 30, 2018 and September 30, 2017; hence, diluted earnings per share is equal to the basic earnings per share.

## 25. RELATED PARTY TRANSACTIONS

The Group's related parties include other companies owned by the Parent Company's majority stockholders and the Group's key management personnel.

A summary of the Group's related party transactions as at December 31, 2017 is summarized below and in the succeeding pages.

| Related Party Category                         | Notes | Amounts of Transaction |  | Outstanding                  |
|--|-------|------------------------|--|------------------------------|
|  |       | 2017                   |  | Receivable (Payable)<br>2017 |
| <b>Related Parties Under Common Ownership:</b> |       |                        |  |                              |
| Purchase of mobile phones                      | 25.5  | P 2,553,884,042        |  | ( P 1,010,941)               |
| Advances to suppliers                          | 25.5  | 2,581,598,142          |  | 435,170,669                  |
| Purchase of spare parts                        | 25.1  | 27,714,099             |  | ( 7,067,911)                 |
| Sale of goods                                  | 25.8  | 13,058,613             |  | 7,712,111                    |
| Purchase of supplies and services              | 25.1  | 5,879,937              |  | ( 567,882)                   |
| Rendering of services                          | 25.9  | 4,462,209              |  | 1,098,802                    |
| Lease of real property                         | 25.2  | 2,393,875              |  | 162,103                      |
| Granting (collection) of business loans        | 25.3  | ( 2,000,000)           |  | 12,000,000                   |
| Commissions                                    | 25.5  | 1,501,182              |  | 1,501,182                    |
| Interest income                                | 25.3  | 1,070,519              |  | -                            |
| Cash advances obtained                         | 25.4  | -                      |  | ( 3,793,105)                 |
| Cash advances granted                          | 25.4  | -                      |  | 9,223,071                    |
| <b>Others:</b>                                 |       |                        |  |                              |
| Key management personnel compensation          | 25.6  | 43,301,964             |  | -                            |

None of the companies under the Group is a joint venture. The Parent Company is not subject to joint control. Related parties that exercise significant influence over the Parent Company are AA Commercial Inc. and AV Value Holdings Corporation.

Unless otherwise stated, the Group's outstanding receivables from and payables to related parties arising from advances, sale and purchase of goods, management services and other services, are unsecured, noninterest-bearing and generally settled in cash within 12 months from the end of the reporting period. None of the Group's outstanding receivables from related parties are impaired.

### 25.1 Purchase of Goods, Supplies and Services

Outstanding payable from STL and CPD is presented as part of Trade payables under the Trade and Other Payables – Net account in the consolidated statements of financial position (see Note 7).

In 2017, SVC purchased electronic devices from Avid Sales Corporation (Avid) amounting to P5.9 million and recorded as part of Net purchases under Cost of Sales in the 2017 consolidated statement of income. Outstanding payable for this purchase amounted to P0.6 million as of December 31, 2017 and are shown as part of Trade payables under the Trade and Other Payables – Net in the statement of financial position (see Note 15).

### ***25.2 Lease of Real Property***

SMC leases out certain land and buildings to Avid, a related party under common ownership. Also, SE Corp. leases out its office space to CPD and Avid. Income from these leases is shown as part of Rentals in the consolidated statements of income (see Note 12). Uncollected billings, on the other hand, form part of Rental receivables under the Trade and Other Receivables – Net account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from related parties are unsecured and do not bear any interest.

### ***25.3 Granting of Loans***

SMFI grants business loans and other loans to its related parties that bear interest rate of 9.0% as of September 30, 2018 and December 31, 2017. Annual interest earned from these loans amounted to P1.1 million in 2017 and is presented as part of Interest under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Loans receivables under the Trade and Other Receivables – net account in the consolidated statements of financial position (see Note 7).

In prior years, SMFI granted unsecured business loan to Avid with the original principal loan amounting to P80.0 million. Principal repayment related to this loan amounted to P2.0 million in 2017. This loan is payable on demand. The outstanding receivables from this business loan amounted to P12.0 million as of September 30, 2018 and December 31, 2017. All other business loans granted to related parties are unsecured.

### ***25.4 Advances to and from Related Parties***

Certain subsidiaries of the Group grants and obtains unsecured, noninterest-bearing cash advances to and from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes. The outstanding balances of Advances to Related Parties amounted to P12 million and P9.2 million as of September 30, 2018 and December 31, 2017, while the outstanding balances of Advances from Related Parties amounted to P1.9 million and P3.8 million as of September 30, 2018 and December 31, 2017, respectively.

These advances have no definite repayment dates and are generally settled in cash depending on available resources of the parties involved

### ***25.5 Transactions with Solid Trading Limited (STL)***

SVC earns commission from sales of STL, a company owned by SGP's majority stockholders, to customers in the Philippines. Commissions earned are presented as part of Rendering of Services in the consolidated statements of income. The outstanding balance arising from these transactions as of December 31, 2017 are shown as part of Trade receivables under the Trade and Other Receivables – Net account in the consolidated statements of financial position (see Note 7).

SVC also collects the receivables related to the sales of STL, which are payable immediately upon receipt. No collections was received in behalf of STL in 2017.

My Solid purchases mobile phone inventories from STL amounting to P2.6 billion, in 2017. In 2017, My Solid acquired mobile phone spare parts from STL amounting to P27.7 million. Total outstanding payable

from these purchases amounted to P8.1 million as of December 31, 2017 and are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

My Solid also made advance payments to STL for its future purchase of mobile phone inventories. The outstanding advances amounting to P435.2 million as of December 31, 2017, is presented as part of Advances to suppliers under Trade and Other Receivables – Net account in the consolidated statements of financial position (see Note 7).

### **25.6 Key Management Personnel Compensation**

The compensation of key management personnel is broken down as follows:

|                         | <u>2017</u>         |
|-------------------------|---------------------|
| Short-term benefits     | P 41,084,414        |
| Post-employment benefit | <u>2,217,550</u>    |
|                         | <u>P 43,301,964</u> |

These amounts are shown as part of Salaries and employee benefits under General and Administrative Expenses account in the consolidated statements of income (see Note 21).

### **25.7 Transactions with the Retirement Fund**

The Group has established a formal multi-employer retirement plan which is administered by a trustee bank, except for CBHI, My Solid, SGTC and ZTC, whose retirement fund remained unfunded as of December 31, 2017.

The retirement fund consists of government securities, corporate bonds, UITF and mutual funds with fair values totaling P182.3 million as at December 31, 2017 (see Note 21.2). The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also has no investments in the Parent Company's shares of stock which are listed for trading at the PSE. The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 21.2.

### **25.8 Sale of Goods**

My Solid and SVC sells mobile phones, tablets and accessories to Avid. Revenues from said transactions are presented as part of Sale of Goods account in the statements of comprehensive income.

The outstanding receivables from these transactions which are generally unsecured, noninterest-bearing and settled through cash within 30 to 45 days are presented as part of Trade receivables under the Trade and Other Receivables account in the statements of financial position (see Note 7).

### **25.9 Rendering of Services**

OSSI provides assembly, repair, warehouse and distribution services to Avid. Revenues from the said transactions amounting to P4.5 million in 2017 are presented as part of Rendering of Services account under the Revenues account in the statements of comprehensive income.

The outstanding receivables arising from these transactions, which are generally unsecured, noninterest-bearing and settled through cash within 30 to 60 days, amounts to P1.1 million as of December 31, 2017 and is presented as part of Trade under the Trade and Other Receivables account in the statements of financial position (see Note 7).

## 26. SIGNIFICANT CONTRACTS AND AGREEMENTS

### *26.1 Memorandum of Understanding with SPI*

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with SPI for network support services to be performed by the former to the latter. Under the MOU, SPI authorized SE Corp. to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee equivalent to a certain percentage of SPI's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by SPI. In the first quarter of 2009, SE Corp. and SPI agreed to lower the network support fees to 0.45% of SPI's net sales. Subsequently, SE Corp. and SPI agreed that network support fees shall be fixed at P1.25 million per month effective April 2009. Management believes that the MOU continues to be effective unless revoked by any of the parties.

Annual network support fees and in-warranty service fees relating to Sony products amounted to P86.7 million in 2017 and are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balances arising from these transactions amounted to P19.4 million as of December 31, 2017, and are included as part of Trade receivables under the Trade and Other Receivables – Net account in the consolidated statements of financial position (see Note 7).

### *26.2 Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK)*

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony HK, a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses. Management believes that the Agreement continues to be effective although no formal renewal has been made since 2007.

### *26.3 Management Agreement with Sky Cable Corporation*

SBC and Sky Cable Corporation (SCC) agreed that the management and administration of the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base (the "Assets") of SBC be entrusted to SCC. SCC, as the manager of the Assets, was given the overall power and responsibilities to handle all aspects necessary to carry out the administration and operations of the Assets and SBC, to accord the necessary additional authorizations, should the need arise.

Annual revenues arising from these transactions amounted to P2.2 million in 2017 and is presented as part of Rendering of Services under Revenues in the consolidated statements of income. The outstanding receivable amounted to P0.4 million as of December 31, 2017 and is included as part of Trade receivables under Trade and Other Receivables – Net account in the consolidated statements of financial position (see



Note 7). The related expense is presented as part of Service fees under Cost of Services account in the consolidated statements of income (see Note 17.2).

## 27. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

### *27.1 Operating Lease Commitments – Group as Lessor*

Certain subsidiaries lease out real estate properties under various non-cancellable lease agreements with terms ranging from one to ten years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum lease receivables under these non-cancellable operating leases as of December 31 are presented below.

|   | <u>2017</u>         |
|---|---------------------|
| Within one year                             | P 34,609,719        |
| After one year but not more than five years | 50,039,883          |
| More than five years                        | <u>294,247</u>      |
|   | <u>P 84,943,849</u> |

Annual rental income earned from these transactions are presented as Rentals under Revenues section in the consolidated statements of income.

### *27.2 Operating Lease Commitments – Group as Lessee*

The Group is a lessee under non-cancellable operating leases covering several parcels of land. These leases have terms of 25 years expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

|   | <u>2017</u>         |
|---|---------------------|
| Within one year                             | P 24,275,484        |
| After one year but not more than five years | <u>17,038,791</u>   |
|   | <u>P 41,314,275</u> |

Annual rental expense charged to operations from these operating leases are shown as part of Rentals under Cost of Rentals account in the consolidated statements of income (see Notes 17.2 and 17.3).

Refundable deposits received in relation to these lease arrangements amounted to P15.4 million as of December 31, 2017. These amounts are presented as part of Other Current Assets and Other Non-current Assets in the consolidated statements of financial position (see Note 13).

### *27.3 Estimated Liability for Land and Land Development Cost*

The Group has commitment of about P68.3 million as at September 30, 2018 and December 31, 2017 for the fulfillment of projects in the development and marketing of CPIP (see Note 10).

#### **27.4 Purchase Commitments**

In 2007, ZTC entered into several construction contracts with various suppliers for the construction of the Tri Towers condominium building (see Note 10). The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 was not yet started as of March 31, 2018.

#### **27.5 Possible Impact of Government Project**

In 2005, ZTC received a notification from the Urban Roads Projects Office (URPO) of the Department of Public Works and Highways (DPWH) that the location of the Tri Towers condominium building project might be affected by the plans of the National Government of the Philippines for the construction of the proposed 2nd Ayala Bridge (see Note 10). However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the ZTC's property will be affected by the road's right-of-way.

The Group decided to continue the Tri Towers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project.

#### **27.6 Others**

As of December 31, 2017, the Group has unused credit facilities amounting to P1.1 billion.

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. As of December 31, 2017, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's consolidated financial statements.

### **28. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 29.1. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its BOD and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate continuous returns.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

#### **28.1 Market Risk**

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from its operating, investing and financing activities.

(a) *Foreign Currency Risk*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's foreign currency denominated trade and other receivables, interest-bearing loans and trade and other payables, which are primarily denominated in U.S. dollars. The Group also holds U.S. dollar-denominated cash and cash equivalents. To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial assets and financial liabilities, translated into Philippine pesos at the closing rate as of September 30, 2018 and 2017, are as follows:

|                       | <u>2018</u>                 | <u>2017</u>                 |
|-----------------------|-----------------------------|-----------------------------|
| Financial assets      | <b>P 542,652,846</b>        | P 1,350,546,170             |
| Financial liabilities | <b>( 12,928,126)</b>        | <b>( 379,938,808)</b>       |
| Short-term exposure   | <b><u>P 529,724,720</u></b> | <b><u>P 970,607,362</u></b> |

The following table illustrates the sensitivity of the Group's profit (loss) before tax with respect to changes in Philippine pesos against foreign currency exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 9 months at a 99% confidence level.

|           | <u>2018</u>                              |                                   | <u>2017</u>                              |                                   |
|-----------|--|-----------------------------------|--|-----------------------------------|
|           | Reasonably<br>Possible<br>Change in Rate | Effect in<br>Profit Before<br>Tax | Reasonably<br>Possible<br>Change in Rate | Effect in<br>Profit Before<br>Tax |
| Php – USD | 12.67%                                   | <b><u>P 67,110,511</u></b>        | 9.03%                                    | <b><u>P 87,645,845</u></b>        |

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

(b) *Interest Rate Risk*

At September 30, 2018 and December 31, 2017, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 5). All other financial assets and financial liabilities have fixed rates.

The following illustrates the sensitivity of profit (loss) before tax for the year to a reasonably possible change in interest rates of +/-2.81% in 2018 and +/-1.60% in 2017. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 2.81% and 1.60%, profit (loss) before tax in 2018 and 2017 would have increased/decreased by P98 million and P16.1 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax in 2018 and 2017 would have been lower by the same amounts.

(c) *Other Price Risk*

The Group's market price risk arises from its investments carried at fair value (i.e., financial assets classified as financial assets at FVTPL and AFS financial assets). The Group manages exposures to price risk by

monitoring the changes in the market price of the investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

## 28.2 Credit Risk

Credit risk is the risk that the counterparties may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting loans and selling goods and services to customers including related parties, placing deposits with banks.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below.

|   | <u>Notes</u> | <u>2018</u>                   | <u>2017</u>            |
|---|--------------|-------------------------------|------------------------|
| Cash and cash equivalents   | 5            | <b>P 3,487,454,078</b>        | P 3,490,600,099        |
| Trade and other receivables<br>excluding advances to suppliers) – net | 7            | <b>1,037,030,133</b>          | 1,456,197,761          |
| Short-term placements   | 13           | -                             | 60,000,000             |
| Refundable deposits   | 13           | <b>14,205,198</b>             | 15,430,426             |
| Advances to related parties   | 25.4         | <b>9,072,592</b>              | 9,223,071              |
| Cash bond   | 13           | <b><u>692,234</u></b>         | <u>568,234</u>         |
|   |              | <b><u>P 4,548,454,235</u></b> | <u>P 5,032,019,591</u> |

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of real estate sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

### (a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the PDIC up to a maximum coverage of P0.5 million for every depositor per banking institution.

### (b) Trade and Other Receivables

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management consider the quality of trade and other receivables that are not past due or impaired to be good.

Except for trade receivables arising from real estate sales, none of the financial assets are secured by collateral or other credit enhancements. Trade receivables arising from real estate sales are secured by industrial lots and condominium units sold to buyers and are covered by postdated checks.

(c) *Advances to Related Parties*

The Group is not exposed to have any significant credit risk exposure in respect of advances to related parties. These advances are generally receivable in cash upon demand. These related parties are considered to be in good financial condition.

Some of the unimpaired trade receivables are past due at the end of the reporting period. Trade receivables and advances to related parties that are past due but not impaired can be shown as follows:

|  | <u>2017</u>        |
|--|--------------------|
| Not more than three months                           | P 186,742          |
| More than three months but<br>not more than one year | <u>9,222,673</u>   |
|  | <u>P 9,409,415</u> |

There were no other financial assets that are past due as of December 31, 2017.

### **28.3 Liquidity Risk**

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in short-term placements and UITF. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of December 31, 2017, the Group's financial liabilities have contractual maturities, which are presented below.

|                               | <u>Current</u>             |                           | <u>Non-current</u>      |
|-------------------------------|----------------------------|---------------------------|-------------------------|
|                               | <u>Within<br/>6 Months</u> | <u>6 to 12<br/>Months</u> | <u>1 to 5<br/>Years</u> |
| Interest-bearing loans        | P -                        | P 115,748,223             | P -                     |
| Trade and other payables      | -                          | 423,594,018               | -                       |
| Advances from related parties | -                          | 3,793,105                 | -                       |
| Refundable deposits           | <u>-</u>                   | <u>-</u>                  | <u>27,098,123</u>       |
|                               | <u>P -</u>                 | <u>P 543,135,346</u>      | <u>P 27,098,123</u>     |

The above contractual maturities reflect the gross cash flows, which may differ with the carrying values of the financial liabilities at the end of reporting period.

## 29. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 29.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

| Notes                             | September 2018   |                        | Dec 2017               |                 |                 |
|-----------------------------------|------------------|------------------------|------------------------|-----------------|-----------------|
|                                   | Carrying Amounts | Fair Values            | Carrying Amounts       | Fair Values     |                 |
| <b>Financial assets</b>           |                  |                        |                        |                 |                 |
| Loans and receivables:            |                  |                        |                        |                 |                 |
| Cash and cash equivalents         | 5                | <b>P3,487,454,078</b>  | <b>P 3,487,454,078</b> | P 3,490,600,099 | P 3,490,600,099 |
| Trade and other receivables – net | 7                | <b>1,037,030,133</b>   | <b>1,037,030,133</b>   | 1,491,189,261   | 1,491,189,261   |
| Short-term placements             | 13               |                        |                        | 60,000,000      | 60,000,000      |
| Refundable deposits               | 13               | <b>14,205,198</b>      | <b>14,205,198</b>      | 15,430,426      | 15,430,426      |
| Advances to related parties       | 25.4             | <b>9,072,592</b>       | <b>9,072,592</b>       | 9,223,071       | 9,223,071       |
| Restricted cash and cash bond     | 13               | <b>692,234</b>         | <b>692,234</b>         | 568,234         | 568,234         |
|                                   |                  | <b>4,548,454,235</b>   | <b>4,548,454,235</b>   | 5,032,019,591   | 5,032,019,591   |
| AFS financial assets:             |                  |                        |                        |                 |                 |
| Golf club shares – net            | 8                | <b>11,307,258</b>      | <b>11,307,258</b>      | 11,877,258      | 11,877,258      |
| Equity                            |                  | 8,580,000              | <b>8,580,000</b>       | 8,580,000       | 8,580,000       |
| Others                            |                  | <b>420,962</b>         | <b>420,962</b>         | 540,007         | 540,007         |
|                                   |                  | <b>20,308,220</b>      | <b>20,308,220</b>      | 20,997,265      | 20,997,265      |
|                                   |                  | <b>P 4,568,762,455</b> | <b>P 4,568,762,455</b> | P 5,053,016,856 | P 5,053,016,856 |
| <b>Financial liabilities</b>      |                  |                        |                        |                 |                 |
| At amortized cost:                |                  |                        |                        |                 |                 |
| Interest-bearing loans – net      | 14               | <b>P 127,375,299</b>   | <b>P 127,375,299</b>   | P 115,748,223   | P 115,748,223   |
| Trade and other payables          | 15               | <b>343,247,629</b>     | <b>343,247,629</b>     | 423,594,017     | 423,594,017     |
| Refundable deposits               | 16               | <b>26,343,510</b>      | <b>26,343,510</b>      | 27,098,123      | 27,098,123      |
| Advances from related parties     | 25.4             | <b>1,881,548</b>       | <b>1,881,548</b>       | 3,793,105       | 3,793,105       |
|                                   |                  | <b>P 498,847,986</b>   | <b>P 498,847,986</b>   | P 570,233,468   | P 570,233,468   |

See Notes 2.5 and 2.11 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 28.

### 29.2 Offsetting of Financial Instruments

The Group has not set-off financial instruments and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) may have the option to settle all such amounts on a net basis in the event of default of the other party through approval by the respective BODs and stockholders of both parties.

The Group's outstanding cash advances obtained from other related parties amounting to P3 million and P3.8 million as at September 30, 2018 and December 31, 2017, respectively, and presented as Advances from Related Parties account in the consolidated statements of financial position, can be offset against and by the amount of outstanding cash advances granted to other related parties amounting to P9.3 million and P9.2 million and as at September 30, 2018 December 31, 2017, respectively.

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, certain agreements between the Group and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both parties elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however,

each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. As at December 31, 2017, the Group's cash surrender value of investment in life insurance amounting to P678.6 million, and presented as part of Trade and Other Receivables – Net account in the consolidated statements of financial position may be used to settle the outstanding loans of BRL amounting to P115.7 million as at December 31, 2017, respectively, and included as part of Interest-bearing Loans in the consolidated statements of financial position (see Notes 7 and 14).

## 30. FAIR VALUE MEASUREMENTS AND DISCLOSURES

### *30.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### *30.2 Financial Instruments Measured at Fair Value*

The tables below show the fair value hierarchy of the Group's classes of financial assets measured at fair value in the consolidated statements of financial position on a recurring basis as of September 30, 2018 and December 31, 2017.

| Notes                | 2018    |         |              |         |              |
|----------------------|---------|---------|--------------|---------|--------------|
|                      | Level 1 | Level 2 | Level 3      | Total   |              |
| AFS financial assets | 8       | P -     | P 19,887,258 | P -     | P 19,887,258 |
|                      |         | 2017    |              |         |              |
|                      |         | Level 1 | Level 2      | Level 3 | Total        |
| AFS financial assets | 8       | P -     | P 20,457,258 | P -     | P 20,457,258 |

As of December 31, 2017, the Group has certain unquoted AFS financial assets amounting to P540,007, that are measured at cost; hence, these assets are not included within the fair value hierarchy.

The Group has no financial liabilities measured at fair value as at December 31, 2017. There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

Financial assets at FVTPL are stated at their fair values which have been determined directly by reference to published prices. As at September 30, 2018 and December 31, 2017, the fair value of these financial assets were derived using the net asset value per unit (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period), as published by banks and the Investment Company Association of the Philippines.

### 30.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The tables below summarize the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

| Notes                             | 2018    |                        |            |                        |                        |
|-----------------------------------|---------|------------------------|------------|------------------------|------------------------|
|                                   | Level 1 | Level 2                | Level 3    | Total                  |                        |
| <b>Financial Assets</b>           |         |                        |            |                        |                        |
| <i>Loans and receivables:</i>     |         |                        |            |                        |                        |
| Cash and cash equivalents         | 5       | P 3,487,454,078        | P -        | P -                    | P 3,487,454,078        |
| Trade and other receivables – net | 7       | -                      | -          | 1,037,030,133          | 1,037,030,133          |
| Short-term placements             | 13      | -                      | -          | -                      | -                      |
| Refundable deposits               | 13      | -                      | -          | 14,205,198             | 14,205,198             |
| Advances to related parties       | 25.4    | -                      | -          | 9,072,592              | 9,072,592              |
| Restricted cash and cash bond     | 13      | -                      | -          | 692,234                | 692,234                |
|                                   |         | <b>P 3,487,454,078</b> | <b>P -</b> | <b>P 1,061,000,157</b> | <b>P 4,548,454,235</b> |
| <b>Financial Liabilities</b>      |         |                        |            |                        |                        |
| <i>At amortized cost:</i>         |         |                        |            |                        |                        |
| Interest-bearing loans – net      | 14      | P -                    | P -        | P 127,375,299          | P 127,375,299          |
| Trade and other payables          | 15      | -                      | -          | 343,247,629            | 343,247,629            |
| Refundable deposits               | 16      | -                      | -          | 26,343,510             | 26,343,510             |
| Advances from related parties     | 25.4    | -                      | -          | 1,881,548              | 1,881,548              |
|                                   |         | <b>P -</b>             | <b>P -</b> | <b>P 498,847,986</b>   | <b>P 498,847,986</b>   |
|                                   |         | 2017                   |            |                        |                        |
|                                   |         | Level 1                | Level 2    | Level 3                | Total                  |
| <b>Financial Assets</b>           |         |                        |            |                        |                        |
| <i>Loans and receivables:</i>     |         |                        |            |                        |                        |
| Cash and cash equivalents         | 5       | P 3,490,600,099        | P -        | P -                    | P 3,490,600,099        |
| Trade and other receivables – net | 7       | -                      | -          | 1,456,197,761          | 1,456,197,761          |
| Short-term placements             |         | 60,000,000             | -          | -                      | 60,000,000             |
| Refundable deposits               | 13      | -                      | -          | 15,430,426             | 15,430,426             |
| Advances to related parties       | 25.4    | -                      | -          | 9,223,071              | 9,223,071              |
| Restricted cash and cash bond     | 13      | -                      | -          | 568,234                | 568,234                |
|                                   |         | <b>P 3,550,600,099</b> | <b>P -</b> | <b>P 1,481,419,492</b> | <b>P 5,032,019,591</b> |



*Financial Liabilities*

*At amortized cost:*

|                               |      |   |          |   |          |   |                    |   |                    |
|-------------------------------|------|---|----------|---|----------|---|--------------------|---|--------------------|
| Interest-bearing loans – net  | 14   | P | -        | P | -        | P | 115,748,223        | P | 115,748,223        |
| Trade and other payables      | 15   |   | -        |   | -        |   | 423,594,017        |   | 423,594,017        |
| Refundable deposits           | 16   |   | -        |   | -        |   | 27,098,123         |   | 27,098,123         |
| Advances from related parties | 25.4 |   | -        |   | -        |   | 3,793,105          |   | 3,793,105          |
|                               |      |   | <u>-</u> |   | <u>-</u> |   | <u>570,233,469</u> |   | <u>570,233,468</u> |

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments.

### 30.4 Fair Value Measurements of Non-financial Assets

The tables below show the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017.

|                           | 2018       |                       |                      |                       |
|---------------------------|------------|-----------------------|----------------------|-----------------------|
|                           | Level 1    | Level 2               | Level 3              | Total                 |
| Land and improvements     | P -        | P 2,176,713,088       | P -                  | P2,176,713,088        |
| Building and improvements | -          | -                     | 878,622,729          | 878,622,729           |
|                           | <u>P -</u> | <u>P2,176,713,088</u> | <u>P 878,622,729</u> | <u>P3,055,335,817</u> |

  

|                           | 2017       |                       |                      |                       |
|---------------------------|------------|-----------------------|----------------------|-----------------------|
|                           | Level 1    | Level 2               | Level 3              | Total                 |
| Land and improvements     | P -        | P2,171,295,332        | P -                  | P2,171,295,332        |
| Building and improvements | -          | -                     | 732,622,140          | 732,622,140           |
|                           | <u>P -</u> | <u>P2,171,295,332</u> | <u>P 732,622,140</u> | <u>P2,903,917,472</u> |

The fair value of the Group's land and improvements and building and improvements classified under Investment Property (see Note 12) are determined on the basis of the appraisals performed by Royal Asia Appraisal Corporation in 2017 is independent appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's non-financial assets indicated above is their current use. The fair value of these non-financial assets were determined based on the following approaches:

(a) *Fair Value Measurement for Land and Improvements*

The Level 2 fair value of land and improvements was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value.

(b) *Fair Value Measurement for Building and Building Improvements*

The Level 3 fair value of the buildings and improvements under Investment Property account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

### 31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not higher than 1:1 on a monthly basis.

The following is the computation of the Group's debt-to-equity ratio:

|   | <u>2018</u>                  | <u>2017</u>           |
|---|------------------------------|-----------------------|
| Total liabilities (excluding advances from related parties) | <b>P 1,364,164,535</b>       | P 1,472,176,546       |
| Total equity  | <b><u>10,296,395,637</u></b> | <u>10,285,960,832</u> |
|   | <b><u>0.13 : 1</u></b>       | <u>0.14 : 1</u>       |

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities excluding amounts due to related parties. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

As at September 30, 2018 and December 31, 2017, the Group is not subject to any externally-imposed capital requirements, except for SMFI as indicated below.

Under Section 6 of RA No. 8556, SMFI is required to maintain a minimum paid-up capital of not less than P10.0 million. SMFI is in compliance with the minimum paid-up capital requirement as at September 30, 2018 and December 31, 2017.

**SOLID GROUP INC. AND SUBSIDIARIES**  
**SCHEDULE OF RELEVANT RATIOS**  
**SEPTEMBER 30, 2018**

| <b>LIQUIDITY RATIOS</b>        | <b>FORMULA</b>  | <b>2018</b> | <b>2017</b> |
|--------------------------------|---|-------------|-------------|
| <b>LIQUIDITY RATIOS</b>        |   |             |             |
| Current ratio                  | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$  | 9.65 : 1    | 8.40 : 1    |
| Acid Test ratio                | $\frac{\text{Cash \& Cash Equivalents + Trade Receivables FAFVPL + AFS}}{\text{Current Liabilities}}$ | 7.03 : 1    | 6.59 : 1    |
| <b>SOLVENCY RATIOS</b>         |   |             |             |
| Debt to Equity ratio           | $\frac{\text{Total Liabilities (excluding advances from related parties)}}{\text{Total Equity}}$      | 0.13 : 1    | 0.14 : 1    |
| Gearing Ratio                  | $\frac{\text{Financial Debt}}{\text{Total Equity}}$   | 0.01 : 1    | 0.01 : 1    |
| <b>Asset to equity ratio</b>   | $\frac{\text{Total Assets}}{\text{Total Equity}}$   | 1.13 : 1    | 1.14 : 1    |
| <b>Interest coverage ratio</b> | $\frac{\text{EBIT}}{\text{Interest Expense}}$   | 38 : 1      | 139 : 1     |
| <b>Profitability Ratios</b>    |   |             |             |
| Operating Margin               | $\frac{\text{Operating Profit}}{\text{Total Revenues}}$   | 1.58%       | 7.73%       |
| Net Profit Margin              | $\frac{\text{Net Income after Tax}}{\text{Total Revenues}}$   | 3.36%       | 6.55%       |
| Return on Total Assets         | $\frac{\text{Net Income after Tax}}{\text{Average Total Assets}}$                                     | 0.72%       | 1.90%       |
| Return on Equity               | $\frac{\text{Net Income after Tax}}{\text{Total Equity}}$   | 0.82%       | 2.14%       |

**SOLID GROUP INC. & SUBSIDIARIES**  
**AGING OF TRADE AND OTHER RECEIVABLES**  
**SEPTEMBER 30, 2018**

|   | <u>Current</u>            | <u>1-30 days</u>         | <u>31-60 days</u>        | <u>61-90 days</u>        | <u>91 days &amp; over</u> | <u>TOTAL</u>               |
|---|---------------------------|--------------------------|--------------------------|--------------------------|---------------------------|----------------------------|
| TRADE                                   | 170,650,934               | 23,274,012               | 10,520,972               | 6,489,749                | 28,957,365                | <b>239,893,033</b>         |
| ADVANCES TO SUPPLIERS                   | 447,485,098               | 836,555                  | 5,068,029                | 1,984,770                | 6,903,364                 | <b>462,277,815</b>         |
| LOANS RECEIVABLES                       | 39,283,078                | -                        | -                        | -                        | 777,016                   | <b>40,060,095</b>          |
| RENTAL RECEIVABLES                      | 23,025,728                | 3,547,537                | 2,265,484                | 440,781                  | 28,904,807                | <b>58,184,337</b>          |
| INTEREST RECEIVABLES                    | 8,547,686                 | -                        | -                        | -                        | -                         | <b>8,547,686</b>           |
| RECEIVABLE FROM OFFICERS AND EMPLOYEES  | 4,360,675                 | 134,354                  | 452,735                  | 293,514                  | 815,653                   | <b>6,056,931</b>           |
| OTHER RECEIVABLES                       | 8,132,154                 | 808,867                  | 755,541                  | 1,351,666                | 4,845,964                 | <b>15,894,192</b>          |
| TOTAL                                   | <b><u>701,485,354</u></b> | <b><u>28,601,325</u></b> | <b><u>19,062,761</u></b> | <b><u>10,560,480</u></b> | <b><u>71,204,169</u></b>  | <b>830,914,090</b>         |
| ALLOWANCE FOR IMPAIRMENT                |                           |                          |                          |                          |                           | <b><u>(92,735,019)</u></b> |
| <b>TRADE AND OTHER RECEIVABLES, NET</b> |                           |                          |                          |                          |                           | <b><u>738,179,072</u></b>  |