

COVER SHEET

8 4 5 - - - - -

SEC Registration Number

S O L I D G R O U P , I N C .

(Company's Full Name)

2 2 8 5 D O N C H I N O R O C E S A V E N U E ,

M A K A T I C I T Y

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

Contact Person

843-1511

Company Telephone Number

2018 DEFINITIVE INFORMATION STATEMENT

1 2

Month

3 1

Day

Fiscal Year

FORM TYPE

0 5

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept Requiring this Doc

Amended Articles Number / Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes

CC: PHILIPPINE STOCK EXCHANGE



SOLID GROUP INC.

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

To All Stockholders:

Please be advised that the annual meeting of the stockholders of Solid Group, Inc. will be held on June 28, 2018, at 3:00 p.m. at the Focus Function Room, Green Sun, 2285 Don Chino Roces Avenue Extension, Makati City.

The following is the agenda of the meeting:

1. Call to order
2. Proof of notice and certification of quorum
3. Approval of minutes of previous stockholders' meeting
4. Management report and audited financial statements
5. Ratification of acts of management
6. Election of directors
7. Appointment of external auditors
8. Other matters
9. Adjournment

For purposes of the meeting, stockholders of record as of April 30, 2018 are entitled to notice of and to vote at the said meeting. Registration for the said meeting begins at 2:00 p.m. For convenience in registering your attendance, please have available some form of identification, such as a driver's license, voter's ID, TIN card, SSS card or passport.

If you will not be able to attend the meeting but would like to be represented thereat, you may submit your proxy form, duly signed and accomplished, to the Office of the Corporate Secretary at the head office of Solid Group, Inc., 2285 Don Chino Roces Avenue, Makati City, on or before June 18, 2018. Beneficial owners whose shares are lodged with PDTC or registered under the name of a broker, bank or other fiduciary allowed by law must, in addition to the required I.D., present a notarized certification from the owner of record (i.e. the broker, bank or other fiduciary) that he is the beneficial owner, indicating thereon the number of shares. Corporate shareholders shall likewise be required to present a notarized secretary's certificate attesting to the authority of its representative to attend and vote at the stockholders' meeting. In accordance with Rule 20.11.2.18 of the 2015 Implementing Rules and Regulations of the Securities and Regulation Code, proxies executed by brokers shall be accompanied by a certification under oath stating that before the proxy was given to the broker, he had duly obtained the written consent of the persons in whose account the shares are held.

Validation of proxies will take place on June 22, 2018 at the office of the Company's stock transfer agent.

Makati City, Metro Manila, Philippines, May 24, 2018.


ANA MARIA A. KATIGBAK
Asst. Corporate Secretary

AGENDA
Details and Rationale

1. Call to order

The Chairman of the Board of Directors, Mr. Jason S. Lim, will call the meeting to order.

2. Proof of notice and certification of quorum

The Corporate Secretary, Roberto V. San Jose, will certify that copies of this Notice have been sent to all stockholders of record as of April 30, 2018, and whether the attendees represented at the meeting hold a sufficient number of shares for quorum to exist for the valid transaction of business.

3. Approval of minutes of previous stockholders’ meeting

Copies of the draft minutes will be distributed before the meeting and are available for examination at the Company website www.solidgroup.com.ph.

The stockholders will be requested to approve the draft minutes. The following is the proposed resolution:

“RESOLVED, that the minutes of the Annual Stockholders’ Meeting of Solid Group, Inc. held on June 29, 2017 be, as it is hereby, approved.”

4. Management report and audited financial statements

The President, Mrs. Susan L. Tan, will present her Report to Shareholders, discuss initiatives undertaken and challenges faced by Company in 2017, and share her personal perspective of the Company’s future.

The President and Chief Executive Officer, Mrs. Susan L. Tan, will present the Management Report, the Company’s operational highlights and financial results and the audited financial statements for the year ended December 31, 2017. The audited financial statements were prepared by the Company’s independent auditors, Punongbayan & Araullo, a member firm of Grant Thornton International Ltd, and approved by the Company’s Audit and Governance Committee and the Board of Directors. In compliance with regulatory requirements, the audited financial statements have also been submitted to the Securities and Exchange Commission and Bureau of Internal Revenue.

Questions will be entertained from the stockholders after the presentation.

The stockholders will be requested to approve the annual report of management as presented by the Chairman and the President, and the audited financial statements for year ended December 31, 2017. The following is the proposed resolution:

“RESOLVED, that the Annual Report of Management as presented by the Chairman and the President, and the Company’s audited financial statements for the year ended December 31, 2017 be, as it is hereby, approved.”

5. Ratification of acts of management

The acts, contracts, resolutions and deeds of the Board of Directors and management of the Company were significant towards achieving the Company's performance and results, and the stockholders will be requested to ratify the same. The following is the proposed resolution:

"RESOLVED, that all acts, contracts, resolutions and actions, authorized and entered into by the Board of Directors and Management of the Company from the date of the last annual stockholders' meeting up to the present be, as they are hereby, approved, ratified and confirmed."

6. Election of directors

It is proposed to re-elect the same members of the Board of Directors. The biographical profiles of the Directors-Nominees are provided in pages 5-6 of the Information Statement that has been sent together with copies of this Notice to all stockholders of record. The Director-Nominees are the following:

For Regular Directors

1. Elena S. Lim
2. Susan L. Tan
3. Jonathan Joseph CC. Lim
4. Jason S. Lim
5. Vincent S. Lim
6. Joseph S. Lim
7. Beda T. Manalac

For Independent Directors

8. Maria G. Goolsby
9. Quintin Chua

Voting may be done in person or by proxy. Proxy forms have been distributed to all stockholders of record together with this Notice. Signed and accomplished proxy forms are required to be submitted not later than 6:00 p.m. of June 18, 2018 and shall be validated. Votes may be cumulated as provided in the Corporation Code.

7. Appointment of external auditors

Upon the favorable recommendation of the Company's Audit and Governance Committee, the Company's external auditor, Punongbayan and Araullo, is proposed to be reappointed for the current year 2018-2019. The audit partner-in-charge for audit year 2018 shall be Ms. Sheryl G. Llovido. The following is the proposed resolution:

"RESOLVED, that audit firm Punongbayan and Araullo be, as it is hereby, reappointed as the Company's external auditor for the current year 2017-2018."

8. Other matters

Stockholders may propose to discuss other issues and matters.

9. Adjournment

After all matters in the agenda have been taken up, the Chairman shall entertain a motion to adjourn the meeting.

SECURITIES AND EXCHANGE COMMISSION

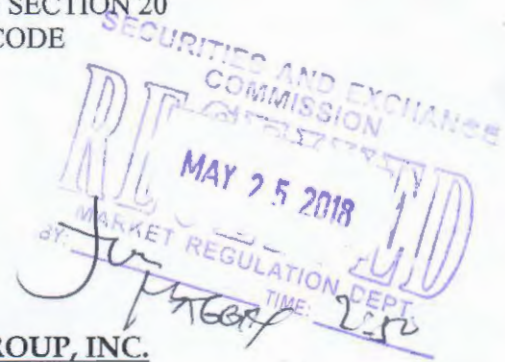
SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

☐ Preliminary Information Statement

☒ Definitive Information Statement



2. Name of Registrant as specified in its charter: SOLID GROUP, INC.
3. Province, country or other jurisdiction of incorporation or organization: Philippines
4. SEC Identification Number: 845
5. BIR Tax Identification Code: 321-000-508-536
6. Address of principal office: 2285 Don Chino Roces Avenue, Makati City
Postal Code 1231
7. Registrant's telephone number, including area code: (632) 843-1511
8. Date, time and place of the meeting of security holders: June 28, 2018 at 3:00 p.m. at the
Focus Function Room, Green Sun, 2285 Don Chino Roces Avenue (formerly: Pasong
Tamo Extension), Makati City.
9. Approximate date on which the Information Statement is first to be sent or given to security holders June 5, 2018
10. Securities Registered pursuant to Section 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding</u> <u>or Amount of Debt Outstanding</u>
Common	2,030,975,000 Common Shares (including Treasury Shares)

11. Are any or all of registrant's securities listed on the Philippine Stock Exchange?

Yes ☒ No ☐

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY
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SOLID GROUP, INC.
INFORMATION STATEMENT

A. GENERAL INFORMATION

ITEM 1. Date, Time and Place of Meeting of Security Holders:

The annual stockholders' meeting will be held on **June 28, 2018** at 3:00 pm at the Focus Function Room, Green Sun, 2285 Don Chino Roces Avenue (formerly: Pasong Tamo Extension), Makati City.

The complete mailing address of the principal office is 2285 Don Chino Roces Avenue Extension, Makati City, Metro Manila.

The approximate date when the information statement will be first sent to security holders will be on **June 5, 2018**.

ITEM 2. Dissenters' Right of Appraisal

There are no matters to be taken up during the annual stockholders' meeting with respect to which the law allows the exercise of appraisal right by any dissenting stockholder. The Corporation Code limits the exercise of the appraisal right to the following instances:

- a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of share, or of authorizing preferences in respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence (Section 81);
- b. In case of the sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets (Section 81);
- c. In case of merger or consolidation (Section 81); or
- d. In case of investments in another corporation, business or purpose (Section 42).

Since the matters to be taken up do not include any of the foregoing, the appraisal right will not be available.

However, if at any time after this Information Statement has been sent out, an action which may give rise to the right of appraisal is proposed at the meeting, any stockholder who voted against the proposed action and who wishes to exercise such right must make a written demand within thirty (30) days after the date of the meeting or when the vote was taken, for the payment of the fair market value of his shares. Upon payment, he must surrender his certificates of stock. No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment.

ITEM 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

The directors, officers, nominees for directors and their associates do not have a substantial interest, direct or indirect, in any matter to be acted upon, other than election to office.

The registrant has not been informed in writing by any person that he intends to oppose any action to be taken by the Registrant at the meeting.

B. CONTROL AND COMPENSATION INFORMATION**ITEM 4. Voting Securities and Principal Holders**

The record date to determine the stockholders entitled to notice and to vote at the meeting is on April 30, 2018.

As of record date April 30, 2018, there are 1,821,542,000 outstanding common shares (excluding treasury) entitled to notice and to vote during the meeting. Each common share is entitled to one vote, except with respect to the election of directors where the stockholders are entitled to cumulate their votes. There is no classification of voting securities.

The election of the board of directors for the current year will be taken up and all stockholders have the right to cumulate their votes in favor of their chosen nominees for director in accordance with Section 24 of the Corporation Code. Section 24 provides that a stockholder may vote such number of shares registered in his name as of the record date for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The total number of votes cast by such stockholder should not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected.

Equity Ownership of Foreigners

As of record date April 30, 2018, foreigners collectively own 25,789,897 outstanding common shares which constitutes 1.42% of the total outstanding common shares.

Security Ownership of Certain Record and Beneficial Owners of More than 5%

The owners of more than 5% of the Company's voting securities as of record date April 30, 2018 are as follows:

(1) Title of Class	(2) Name and address of record owner and relationship with issuer	(3) Name of Beneficial Owner and Relationship with Record Owner	(4) Citizen-ship	(5) No. of Shares Held [record (r) or beneficial (b)]	(6) Percent
Common	AA Commercial, Inc. ¹ 1172 Edsa, Balintawak Quezon City	Vincent S. Lim Treasurer of AA Commercial Inc.	Filipino	[583,377,817] (r) ¹	32.03

Common	Affiliate AV Value Holdings Corporation ² <u>2285 Pasong Tamo Ext,</u> <u>Makati</u>	David S. Lim Director of AV Value Holding Corp.	Filipino	[499,999,999] (r) ²	27.45
Common	Affiliate PCD Nominee Corporation (F) G/F MSE Bldg., 6767 Ayala Ave., Makati Stockholder	Various stockholders None	Filipino	[351,702,725] (r) ³	19.31
Common	Lim, David S 2285 Don Chino Roces Avenue, Makati	Not applicable	Filipino	[179,488,591] (r and b)	9.85

Note 1: AA Commercial Inc. is owned by the Lim Family. Mr. Vincent S. Lim is authorized to vote the shares of stock registered in the name of AA Commercial Inc. Mr. Vincent S. Lim is the Treasurer of AA Commercial Inc.

2: AV Value Holdings Corporation is owned by the Lim Family. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is a Director of AV Value Holdings Corporation.

3. To the best knowledge of the Company, there is no beneficial owner of shares lodged under PCD Nominee Corporation that owns more than 5% of the voting securities of the Company.

Security Ownership of Management:

The following directors and officers, and nominees for director, own the following shares of the Company's stock as of record date April 30, 2018 as set forth across their names below.

(1) Title of Class	(2) Name of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Citizenship	(5) % to Total Outstanding
Common	Lim, Elena S.	[1,894] (direct)	Filipino	-
Common	Tan, Susan L.	[78,645] (direct)	Filipino	-
		[7,300,000] (indirect) ³		[0.40]
Common	Lim, David S.	[179,488,591] (direct)	Filipino	[9.85]
		[5,000,000] (indirect) ³		[0.27]
		[499,999,999] (indirect) ²		[27.45]
Common	Lim, Jonathan Joseph C.C.	9,018,000(direct)	Filipino	[0.50]
Common	Lim, Vincent S.	[71,887,187] (direct)	Filipino	[3.95]
		[583,377,817] (indirect) ¹		[32.03]
		[5,996,000] (indirect) ³		[0.33]
Common	Lim, Jason S.	[65,176,160] (direct)	Filipino	[3.58]
Common	Chua, Quintin	[5,000] (direct)	Australian	-
Common	Goolsby, Maria G.	[10,000] (direct)	Filipino	-
Common	Lim, Joseph	[2] (direct)	Filipino	-

Common	Beda T. Manalac	[1,001] (direct)	Filipino	-
Common	San Jose, Roberto V.	[242,000] (direct)	Filipino	[0.01]
Common	Katigbak, Ana Maria	-	Filipino	-
Common	Joaquin, Lita	[7,030,000] (direct)	Filipino	[0.38]
Common	Corpuz, Mellina T.	-	Filipino	-
Common	Santiago, Josephine T.	[7,000] (direct)	Filipino	-

The aggregate amount of ownership of all directors and officers as a group unnamed is 1,434,619,296 or 78.76% of the total issued and outstanding shares.

Note: 1. AA Commercial Inc. is owned by the Lim Family. Mr. Vincent S. Lim is authorized to vote the shares of stock registered in the name of AA Commercial Inc. Mr. Vincent S. Lim is the Treasurer of AA Commercial Inc.

2. AV Value Holdings Corporation is owned by the Lim Family. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is a Director of AV Value Holdings Corporation.

3. These shares were registered in the name of a member of the immediate family sharing the same household.

Voting Trust Holders of 5% or More

The Company is not aware of any stock held under a voting trust agreement. However, AA Commercial Inc. is a company owned by the Lim Family. Mr. Vincent S. Lim is authorized to vote the shares of stock registered in the name of AA Commercial Inc. Mr. Vincent S. Lim is the Treasurer of AA Commercial Inc. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is Director of AV Value Holdings Corporation.

Change in Control

There has been no change in control of the Registrant since the beginning of its last fiscal year. There are no arrangements which may result in changes in control of the Registrant.

ITEM 5. Directors and Executive Officers

There are nine (9) seats in the Board. The term of office of each member is one (1) year. The names, ages and citizenship of current directors and executive officers are shown below:

Position	Name	Years Served in the Same Position	Age	Citizenship
Chairman Emeritus	Elena S. Lim	17	88	Filipino
Chairman of the Board	Jason S. Lim	2	61	Filipino
Director and President and Chief Executive Officer	Susan L. Tan	2	64	Filipino

Director and Senior VP and Chief Financial Officer	Vincent S. Lim	8	59	Filipino
Director	Quintin Chua	15	58	Australian
Director	Maria G. Goolsby	3	79	Filipino
Director	Joseph Lim	8	91	Filipino
Director and VP for Business Development and Investor Relations	Beda T. Manalac	8	57	Filipino
Director	Jonathan Joseph CC. Lim	1	32	Filipino
Corporate Secretary	Roberto V. San Jose	22	75	Filipino
Assistant Corporate Secretary	Ana Maria Katigbak-Lim	21	49	Filipino
Senior VP	David S. Lim	2	62	Filipino
Senior VP and Chief Accounting Officer	Mellina T. Corpuz	12	51	Filipino
VP and Treasurer	Lita Joaquin	16	57	Filipino
Chief Information Officer	Josephine T. Santiago	5	50	Filipino
Chief Audit Executive	Ericson B. Salvador	1	46	Filipino

The following is a brief write-up on the background and business experience of the Company's directors and executive officers during the last five (5) years:

Elena S. Lim is Chairman Emeritus since May 2001. Prior to that, she was President/ Chief Executive Officer from 1996 to May 2001 and is a Director since 1996. She is also Chairman of the Board of Laguna International Industrial Park, Inc. and Starworld Corporation. Ms. Lim is married to Joseph Lim.

Jason S. Lim is Chairman of the Board effective June 2016. He was Sr. Vice President and Chief Operating Officer from May 2002 to 2016. He is a Director since May 1998. He is Chairman of Solid Video Corporation, Solid Electronics Corporation, Green Sun Hotel Management Inc., MySolid Technologies and Devices Corporation, Solid Manila Corporation and SolidGroup Technologies Corporation. He is also currently President of Omni Solid Services, Inc., Zen Towers Corporation, Kita Corporation, Solid Manila Finance Inc., Precos, Inc. and Casa Bocobo Hotel Inc. Mr. Lim is the son of Joseph and Elena Lim.

Susan L. Tan is President and Chief Executive Officer in June 2016. She was Chairman of the Board from May 2001 to 2016. She was Vice President of the Company from April 1999 to April 2001 and is a Director since 1996. She was Chief Operating Officer of the Company since 1996 up to March 1999. She is Chairman of Kita Corporation, Solid Manila Finance Inc and Precos, Inc she is currently President of Omni Solid Services Inc., Solid Video Corporation, Green Sun Hotel Management, Inc., Solid Electronics Corporation and Zen Towers Corporation. Ms. Tan is the daughter of Joseph and Elena Lim.

Vincent S. Lim is Sr. Vice President and Chief Financial Officer in September 2010 and was Sr. Vice President for Finance and Investments since June 2006 up to September 2010. He was Sr. VP and Chief Financial Officer from May 2002 up to June 2006. He is a director since 1996 and was VP/ Chief Financial Officer from 1996 up to May 2002. He is Treasurer for Omni Solid Services, Inc. and Solid Electronics Corporation, Kita Corporation, Solid Video Corporation, Solid Manila Corporation, Green Sun Hotel Management, Inc., MySolid Technologies and Devices

Corporation, Omni Solid Services, Inc., SolidGroup Technologies Corporation, Zen Towers Corporation, Casa Bocobo Hotel, Inc., Precos, Inc. and Solid Manila Finance Inc. He is also an Independent Director of Security Land Corporation effective June 2013. Mr. Lim is the son of Joseph and Elena Lim.

Jonathan Joseph C.C. Lim is a director in June 2017. He is the Data Protection Officer of the Company in August 2017. He is President of Solid Group Technologies Corporation (SGTC) since January 2015. Prior to that he was Business Development Director of Solid Manila Corporation since August 2013. In addition, he was Sales Manager of Solid Broadband Corporation since October 2009. He is the son of David S. Lim.

Quintin Chua is the Independent Director since March 25, 2003. He is the Chairman and Managing Director of QC Investments Pty. Ltd, Chairman and President of Nature's Harvest Corp. and Director of Hexagon Financing Corp.

Maria G. Goolsby is the Independent Director since June 25, 2015. She served as Executive Director for Corporate Philanthropy and Social Responsibility of Union Bank of the Philippines during the last five (5) years and since year 2003. She used to hold the position of Senior Vice President of Union Bank of the Philippines, Philippine Banking Corporation and Boston Bank of the Philippines.

Joseph Lim is the Founding Chairman of Solid Group of Companies and served as Chairman of the Board of the Company from 1996 until 2006. In the past five years to present, he has been Chairman of various manufacturing and trading companies in Hongkong and China among which are Solid Co. Ltd., Solid Trading Ltd. and Solid Industrial (Shenzhen) Co. Ltd. He is the Chairman of Phil-Nanning Consortium Inc. Mr. Lim is the incumbent Chairman of the China-Philippines Chamber of Commerce. Mr. Lim is married to the Company's Chairman Emeritus, Ms. Elena S. Lim, and is the father of Chairman Ms. Susan L. Tan and Directors Mr. David S. Lim, Mr. Jason S. Lim and Mr. Vincent S. Lim. Mr. Lim assumed position as Director in June 2010.

Beda T. Mañalac is Director and Vice President for Business Development since September 30, 2010. He is President of Solid Manila Corporation effective January 2012. He was Vice President for Business Development of MyPhone mobile phones under MySolid Technologies and Devices Corporation since 2007 to May 31, 2010.

David S. Lim is Senior Vice President in June 2016. He was President and Chief Executive Officer in May 2001 to 2016. He is also Director up to June 2017. He was Vice-President since 1996 up to April 2001. He is concurrently President of MySolid Technologies and Digital Devices Corporation, Interstar Holdings Company, Inc., Laguna International Industrial Park, Inc., Skyworld Corporation and Starworld Corporation. Mr. Lim is the son of Joseph and Elena Lim.

Lita Joaquin is the Treasurer since May 2002. She was also director from June 2006 up to August 2007. She was Comptroller in 1996 to April 2002 and Director in May 1997 where she held office up to May 1998. She also became General Manager of Solid Manila Finance Inc. in October 1999. Ms. Joaquin is the niece of Mr. Joseph Lim.

Roberto V. San Jose is the Corporate Secretary of the Company and has held the office since 1996. He is Chairman of Mabuhay Holdings Corporation; a director of Interport Resources Corporation, Anglo-Philippine Holdings Corporation, and Vulcan Industrial and Mining Corporation; and Corporate Secretary of Alsons Consolidated Resources Inc., FMF Development Corporation, Premiere Horizon Alliance Corporation, and Marcventures Holdings, Inc. He is also either a director, corporate secretary, or an officer of various companies which are clients of the

law firm of Castillo Laman Tan Pantaleon & San Jose, of which he is presently a Senior Consultant. He is a member of the Integrated Bar of the Philippines.

Ana Maria A. Katigbak is the Assistant Corporate Secretary of the Company and has held the office since 1997. She is a partner in Castillo, Laman, Tan, Pantaleon & San Jose Law Offices. She also acts as director of Vulcan Industrial and Mining Corporation and Mabuhay Holdings Corporation, Corporate Secretary of IPM Holdings Inc., and Assistant Corporate Secretary of Energy Development Corporation, IRC Properties, Inc., Mabuhay Holdings, Inc., Marcventures Holdings, Inc., Paxys Inc., and Premiere Horizon Alliance Corporation. She is a member of the Integrated Bar of the Philippines.

Mellina T. Corpuz is the Chief Accounting Officer effective June 2006. Prior to that, she was the Senior Accounting Manager since 2002 and was the Accounting Manager since 1996.

Josephine Santiago is the Chief Information Officer in October 2012. She is also the Corporate Secretary of subsidiaries and affiliates of Solid Group Inc. for the last five years.

Ericson B. Salvador is the Chief Audit Executive in June 2017. Prior to that, he was the Senior Audit Manager of the subsidiaries and affiliates of Solid Group Inc. for more than five years.

Nominees for Election

The following have been nominated for election at the annual stockholders' meeting:

Position	Name	Age	Citizenship
Director	Elena S. Lim	88	Filipino
Director	Susan L. Tan	64	Filipino
Director	Jonathan Joseph CC. Lim	32	Filipino
Director	Jason S. Lim	61	Filipino
Director	Vincent S. Lim	59	Filipino
Independent Director	Quintin Chua	58	Australian
Independent Director	Maria G. Goolsby	79	Filipino
Director	Joseph Lim	91	Filipino
Director	Beda T. Mañalac	57	Filipino

Independent Directors - Nominees

Mr. Quintin Chua is an incumbent Independent Director of the Corporation. Please refer to the preceding discussion for the biographical information and background of Mr. Chua. He has been re-nominated for Independent Director by Mrs. Susan L. Tan. He is not acting as a representative of any director or substantial shareholder of Solid Group, Inc. and/or any of its related companies and/or any of its substantial shareholders, pursuant to a deed of trust or under any contract or arrangement. Mr. Chua is not related to Mrs. Susan L. Tan.

Ms. Maria G. Goolsby is an incumbent Independent Director of the Corporation. Please refer to the preceding discussion for the biographical information and background of Ms. Goolsby. She has been re-nominated for Independent Director by Mrs. Elena S. Lim. She is not acting as a representative of any director or substantial shareholder of Solid Group, Inc. and/or any of its related companies and/or any of its substantial shareholders, pursuant to a deed of trust or under any contract or arrangement. Ms. Goolsby is not related to Mrs. Elena S. Lim.

Nomination and Election of Independent Directors

The Company complies with the requirements of SRC Rule 38 on the nomination and election of independent directors. On June 9, 2009, the SEC approved the Amended By-laws incorporating the requirements under SRC Rule 38 on the nomination and election of independent directors.

In compliance with SRC Rule 38 and the Company's Manual on Corporate Governance, a Corporate Governance, Compensation & Nomination Committee was constituted with the following as current members:

1. Maria G. Goolsby (Chairman)
2. Vincent S. Lim (Vice Chairman);
3. Susan L. Tan
4. Quintin Chua (Independent Director)
5. Mellina T. Corpuz (non-voting)

The Nomination Committee pre-screened and accepted the nominations of Mr. Quintin Chua and Ms. Goolsby as Independent Directors conformably with the criteria prescribed in SRC Rule 38 and the Company's Code of Corporate Governance. Mr. Chua was nominated by Mrs. Susan L. Tan while Ms. Goolsby was nominated by Mrs. Elena S. Lim. Mr. Chua and Mrs. Tan are not related to each other. Ms. Goolsby and Mrs. Lim are likewise not related to each other.

Attached as **Exhibit 1** hereto is a certification that none of the Company's directors and officers are connected with any government agencies or instrumentalities.

In compliance with SEC Memorandum Circular No. 5-2017, the Company will submit updated Certifications of Qualification for the Independent Directors together with the company's Information Statement (SEC Form 20-IS) and before the election of independent director.

Family Relationships and Related Transactions

Mrs. Elena S. Lim is married to Mr. Joseph Lim. Their children, namely, Mrs. Susan L. Tan, Mr. David S. Lim, Mr. Jason S. Lim and Vincent S. Lim are all executive officers of the Company. Except for Mr. David S. Lim, all other children are also directors of the Company. Joseph Jonathan C.C. Lim, a director of the Company is the son of David S. Lim. Ms. Lita Joaquin, treasurer of the Company, is the niece of Mr. Joseph Lim. Other than the ones disclosed, there are no other family relationships known to the Company.

Significant Employees

There is no significant employee that is not part of the Company directors and executive officers.

Involvement in Certain Legal Proceedings

Ms. Elena S. Lim is included as co-defendant in a case filed by a certain bank against AA Export and Import Corporation for the collection of unsecured business loans granted to that company. In another collection case filed by another bank against AA Export and Import Corporation, Ms. Elena S. Lim, Mr. Joseph Lim, Ms. Susan L. Tan, Mr. David S. Lim, Mr. Jason Lim and Mr. Vincent S. Lim are impleaded as co-defendants. The second case was dismissed by the court on February 24, 2014. Except by above, none of the directors and officers was involved in the past five years up to the date of this Information Statement in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding, nor been subject to any

order, judgment or decree of competent jurisdiction, permanently enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

Material Pending Legal Proceedings Involving the Company or its Subsidiaries

Certain subsidiaries of the Company are involved in litigation or other proceedings affecting their respective titles to real estate property and certain other litigation in relation to property:

1. Solid Corporation owns a parcel of land in Bgys. Talipapa and Pamaldan, Cabanatuan City, Nueva Ecija with an area of 1,914,180 square meters. This property is the subject of a case filed by Solid Corporation on October 17, 1995 with the Department of Agrarian Reform Regional Adjudication Board (RARAB) to declare the emancipation patents issued to several tenant farmers of the said property and any patents that may subsequently be issued covering the same, null and void on the ground that the requirements of Presidential Decree No. 27 have not been complied with. The portion of the property that may be subject to litigation consists of 47,211 square meters. On February 6, 1997, the case was submitted for resolution. On June 26, 1997, the RARAB ordered the processing of the Certificate of Land Transfer for issuance to the tenants. On July 31, 1997, Solid Corporation appealed the RARAB decision to the DAR's Central Adjudication Board (DARAB). The appeal was resolved adverse to Solid Corporation on January 31, 2002. Solid Corporation appealed the DARAB decision to the Court of Appeals on February 11, 2002. The Court of Appeals dismissed the petition of Solid Corp. on March 1, 2002. In November 2002, Solid Corporation withdrew its appeal at the Court of Appeals preparatory to negotiating with DAR and Landbank, which the Court of Appeals granted last June 28, 2004. No amicable settlement was however reached. Thus, Solid Corporation filed for a Petition for Higher Valuation of Land before the Provincial Agrarian Reform Adjudication Board of the Department of Agrarian Reform in Cabanatuan City on November 18, 2007. The Department of Agrarian Reform granted Solid Corporation's petition and ordered Land Bank to re-evaluate the land valuation based only on Republic Act No. 6657 (The Comprehensive Agrarian Reform Program) on September 28, 2012. Land Bank amended the valuation and tendered an Amended Offer of P14.97 million to Solid Corporation (or Solid Manila Corporation, the surviving company after the merger of Solid Manila Corporation and Solid Corporation). Solid Manila Corporation has applied for an amended valuation for Php 16.4 Million Pesos. Solid Manila Corporation is complying the documentation requirements as of April 2018.
2. Solid Manila Corporation also owns a property in Pililla, Rizal with a land area of 645,193 square meters. The Department of Agrarian Reform has informed Solid Manila Corporation that this property is within the coverage of the Comprehensive Agrarian Reform Law which may result in future litigation. Portion of the property that may be subject to future litigation consists of 210,000 square meters. Solid Manila Corporation has filed its opposition with the Provincial Agrarian Reform Adjudication Board (PARAB) on the coverage of the land under agrarian reform. On August 13, 1997, Solid Manila Corporation obtained a certification from the Office of the Municipal Planning and Development Coordinator (Pililla, Rizal) stating that the subject properties belonging to Solid Manila Corporation was reclassified for Agro-industrial & Industrial use as per Sangguniang Bayan Resolution No. 5 dated March 6, 1980 and duly ratified by the government's Housing & Land Use Regulatory Board (HLURB) under their Resolution No. R-42-A-3 series of 1981, which was adopted on February 11, 1981. Thus, according to

company's legal counsel, the said properties are exempt from CARP coverage under the provisions of Department of Justice opinion No. 44. The Company's legal counsel believes that the Board will declare the CARP coverage of the subject properties void since Solid Manila Corporation was clearly denied due process of law. In the meantime, Solid Manila Corporation filed for exemption in January 14, 1999 and said application has been indorsed to Center for Land Use Policy Planning Implementation (CLUPPI) -2 DAR Bureau of Agrarian Legal Affairs on March 8, 1999. Solid Manila Corporation's application for exemption was however subsequently withdrawn. In lieu of the withdrawal, Solid Manila Corporation filed a Protest before the Department of Agrarian Reforms on the Notice of Coverage for TCT Nos. 25264, 25265, 25267, 26578 and 25268. It likewise filed a Petition for Higher Valuation before the Provincial Agrarian Reform Adjudication Board last June 24, 2009 on the lot covered by TCT 25264 which is pending resolution as of April 2016. Solid Manila Corporation did not pursue the petition in 2016. Solid Manila Corp. was able to secure a retention on the Pillilia lot covered by TCT No. 25265 while the remaining area of around 3 hectares more or less was subjected to the Voluntary Land Transfer Program of the Dept. of Agrarian Reform to the Solid Manila Corporation's recognized farmers-beneficiaries. The Pillilia lots covered by TCT Nos. 25267, 25264 and TCT No. 25268 were likewise subjected to the Voluntary Land Transfer Program by the Dept. of Agrarian Reforms and distributed to the recognized farmer-beneficiaries of Solid Manila Corp. On the Pillilia lot covered by TCT No. 26578, the Regional Director of the Department of Agrarian Reform granted our petition for exemption for TCT No. 26578 on January 30, 2012.

The Company believes that the outcome of these cases, individually or taken as a whole, will not adversely affect the financial results, operations or prospects of the Company. The Company does not believe any such litigation will have a significant impact on the financial results, operations or prospects of the Company.

Certain Relationships and Related Transactions

Solid Video Corporation (SVC) earns commission from sales of Solid Trading Limited (STL), a company owned by SGI's majority stockholders, to customers in the Philippines. SVC also collects the receivables related to the sales of STL which are payable immediately upon receipt.

My Solid Technologies Device Corp. (MySolid) purchases mobile phones from STL. My Solid also made advance payments to STL for its future purchase of mobile phones.

SVC purchases electronic devices from Avid Sales Corporation, a related party under common ownership.

MySolid and SVC sells mobile phones, tablets and accessories to Avid.

Solid Manila Finance Inc. grants interest-bearing business and other loans to its related parties.

Solid Manila Corporation leases out certain land and buildings to Avid Sales Corporation. Also, Solid Electronics Corp. leases out its office space to CPD and Avid.

Solid Electronics Corp. purchases parts and supplies from CPD, a company also owned by the Company's ultimate majority stockholders.

Omni Solid Services Inc. provides assembly, repair, warehouse and distribution services to Avid.

Revenue from sale of goods and services are recorded as part of revenues and the related outstanding receivables are recorded as part of Trade and Other Receivables

Advances to and from Related Parties

Certain subsidiaries of the Company grants to and obtains unsecured, non-interest bearing cash advances to and from related parties companies owned by Group's ultimate majority stockholders for working capital requirements and other purposes.

Brilliant Reach Limited granted an unsecured, interest-bearing loan denominated in Chinese Yuan Renminbi to Solid Company Limited amounting to P120.8 million in 2008 which will mature on March 1, 2011. The loan bears an annual interest of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in US dollars. In 2011, the parties agreed to increase the annual rate to 5% and extend the maturity date for another date. In 2014, the parties agreed to further extend the term of the loan to March 31, 2015. Interest rate was maintained at 5%. In 2015, all of the loan receivable has been collected which has been used to partially pay the loan obtained from Bank of Singapore.

In 2011, Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon) obtained loans from companies that are owned by Solid Company Limited (Hongkong). The liability is unsecured and payable on demand. In 2016, these loans were included as part of the consideration transferred upon disposal of the investment in PNCL.

On August 10, 2016, the Company's Board of Directors approved the sale of its 100% shares in PNCL, consisting of 96,000 common shares, to SCL for a consideration of P296.3 million. The sale covered the assignment of advances granted to Precos to PNCL, amounting to P146.9 million.

Other than the foregoing, there were no transactions during the past two fiscal years to which the Company was a party, in which a director, executive officer, nominee for director, stockholder owning more than 10% of the outstanding shares of the Company had a direct interest.

2. The Company has no transactions involving related parties where the service fees or rates are fixed by law or government authority, nor acts as bank depository of funds, transfer agent, registrar or trustee under a trust indenture nor has any other interest except for those arising from the ownership of securities of the registrant recorded as treasury shares nor received extra or special benefit that was not shared equally by all holders of the registrant.

3. The Company has no parent company holding or controlling more than 50% of its outstanding capital stock. However, AA Commercial Inc. and AV Value Holdings Corporation separately own and control 32.03% and 27.45%, respectively, of the Company's outstanding shares.

4. There are no transactions with promoters or assets acquired by the Company from any promoters.

Resignation of Directors

To date, no director has resigned or declined to stand for re-election to the Board of Directors since the date of the last annual meeting due to any disagreement with the Company relative to the Company's operations, policies and practices.

ITEM 6. Compensation of Directors and Executive Officer

The following table summarizes certain information regarding compensation paid or accrued during the last two fiscal years and paid in the ensuing fiscal year to the Company's Chairman Emeritus and each of the Company's four most highly compensated executive officers.

w(a)	(b)	Annual Compensation		
		(c)	(d)	(e)
<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (P)</u>	<u>Bonus (P)</u>	<u>Other Annual Compensation Income (P)</u>
Chairman and four most highly compensated executive officers				
Jason S. Lim	Chairman of the Board			
Susan L. Tan	Director, President and Chief Executive Officer			
David S. Lim	Director, Senior Vice President			
Vincent S. Lim	Director, Senior VP and Chief Financial Officer			
Lita Joaquin	VP and Treasurer			
	2018 (Est.)	20,000,000	4,000,000	1,500,000
	2017	16,980,000	3,336,932	1,362,917
	2016	16,860,000	2,965,429	1,354,482
All officers and directors as a group unnamed				
	2018 (Est.)	10,000,000	2,000,000	1,800,000
	2017	8,584,807	1,636,014	1,560,797
	2016	5,598,000	954,138	1,196,934

Matters of compensation of directors and executive officers are reviewed by the Company's Corporate Governance, Compensation & Nomination Committee. The members of the Corporate Governance, Compensation & Nomination Committee are the following:

Chairman:	Maria G. Goolsby
Vice Chairman:	Vincent S. Lim
Members:	Quintin W. Chua (Ind. Director)
	Susan L. Tan
	Mellina T. Corpuz

Standard Arrangements, Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

There are no employment contracts between the registrant and executive officers/directors nor any compensatory plan or arrangement, including payments to be received from the Registrant, except that directors receive a per diem of Php 30,000 for each meeting actually attended.

There is also no existing plan or arrangement as a result of the resignation, retirement or any other termination of an executive officer or director's employment with the Registrant and its subsidiaries or from a change-in-control of the Registrant or a change in the executive officer or directors' responsibilities following a change-in-control.

Warrants and Options Outstanding; Repricing

The Company has no outstanding warrants and options.

ITEM 7. Independent Public Accountants

The independent public accountant recommended for re-appointment for the current year is Punongbayan & Araullo ("P&A"). P&A was the auditor for the previous fiscal year ended 2017. There were no disagreements with P&A on any matter of accounting principle or practice, or financial disclosure.

Representatives of P&A shall be present at the meeting, will have the opportunity to make a statement if they choose to do so, and will be available to respond to appropriate questions.

The 2017 audit of the Company by P&A is in compliance with SRC Rule 68(3)(b)(iv) which provides that the audit partner-in-charge of the external auditor should be rotated every five (5) years or earlier. Beginning audit year 2016, the new audit partner-in-charge is Ms. Sheryl G. Llovido. A two-year cooling off period shall be observed in the re-engagement of the same signing partner or individual after the expiration of the 5 year term.

The annual audited financial statements are approved by the Company's Audit Committee consisting of the following members:

Chairman:	Quintin W. Chua (Independent Director)
Vice Chairman:	Susan L. Tan
Members:	Vincent S. Lim
	Mellina T. Corpuz (non-director)
	Maria G. Goolsby (Independent Director)

Audited Financial Statements

Attached as Exhibit 2 is a copy of the Company's audited financial statements for the year ended December 31, 2017.

Interim Financial Statements

Attached as Exhibit 3 is a copy of the Company's SEC Form 17-Q for the first quarter of 2018 ended March 31, 2018. The Company's SEC Form 17-Q contains the Company's financial statements for the first quarter of 2018 ended March 31, 2018.

D. OTHER MATTERS

Action with Respect to Reports:

The 2017 Audited Financial Statements, as set forth in the accompanying Management Report, and the Minutes of the Annual Stockholders' Meeting will be submitted for stockholder's approval. Copies of the Management Report are attached to this Information Statement.

Approval of the Minutes of the Annual Stockholders' Meeting held on June 29, 2017 constitutes a ratification of the accuracy and faithfulness of the Minutes to the events which transpired during the meeting which includes the following: (i) approval of minutes of the previous meeting; (ii) approval of the annual report and 2016 audited financial statements; (iii) ratification of management's acts; (iv) election of directors; and (vi) appointment of external auditors. This does

not constitute a second approval of the same matters taken up at the previous annual stockholders' meeting which had already been approved.

The acts and resolutions of the Board and Management for ratification by the stockholders include the following:

Date of Board Meeting	Resolutions Passed/Matters Approved
June 29, 2017	<p>Election of the following officers:</p> <ol style="list-style-type: none"> 1. Elena S. Lim – Chairman Emeritus; 2. Jason S. Lim – Chairman; 3. Susan L. Tan – President and Chief Executive Officer; 4. David S. Lim – Senior Vice President; 5. Vincent S. Lim – Senior Vice President & Chief Finance Officer; 6. Lita L. Joaquin – Vice President & Treasurer; 7. Roberto V. San Jose – Corporate Secretary; 8. Ana Maria A. Katigbak – Assistance Corporate Secretary; 9. Mellina T. Corpuz – Senior Vice President & Chief Accounting Officer; 10. Beda T. Mañalac – Vice President for Business Development; 11. Josephine T. Santiago – Chief Information Officer 12. Ericson B. Salvador- Chief Audit Executive <p>Designation of Mellina T. Corpuz, Josephine T. Santiago and Annabella Orbe as the Corporation's Corporate Information Officers</p> <p>Appointment of the following members of Committees:</p> <ol style="list-style-type: none"> A. Audit Committee <ol style="list-style-type: none"> 1. Quintin W. Chua – Chairman (Independent Director) 2. Susan L. Tan – Vice Chairman 3. Vincent S. Lim – Member 4. Mellina T. Corpuz – Member 5. Maria Goolsby – Member (Independent Director) B. Corporate Governance, Compensation & Nomination Committee <ol style="list-style-type: none"> 1. Maria G. Goolsby – Chairman 2. Vincent S. Lim – Vice Chairman 3. Quintin Chua – Member (Independent Director) 4. Susan L. Tan – Member 5. Mellina T. Corpuz- Member C. Risk Management and Related Party Transaction Committee <ol style="list-style-type: none"> 1. Vincent S. Lim – Chairman 2. Jason S. Lim – Vice Chairman 3. Quintin W. Chua – Member (Independent Director) 4. Maria G. Goolsby – Member (Independent Director) 5. Beda T. Mañalac - Member <p>• Presentation and approval of financial report as of June</p>
August 11, 2017	

- 30, 2017.
- Declaration of cash dividends.
- Approval of Additional Investment in Solid Electronics Corporation
- Appointment of Data Protection Officer
- November 9, 2017 • Presentation and approval of financial report as of September 30, 2017
- April 3, 2018 • Incorporation of a new subsidiary
- Presentation and approval of financial report as of December 31, 2017.
- Annual Stockholders Meeting.

Voting Procedure:

For the election of directors, the nine (9) nominees receiving the most number of votes will be elected to the Board of Directors. Cumulative voting will apply.

For all other matters to be taken up, the approval of stockholders owning/representing at least a majority of the outstanding capital stock shall be sufficient.

Voting shall be done *viva voce* or by raising of hands and the votes for or against the matter submitted shall be tallied by the Corporate Secretary in case of a division of the house.

UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY WILL PROVIDE, FREE OF CHARGE, A COPY OF THE COMPANY'S SEC FORM 17-A (ANNUAL REPORT) DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.

ALL REQUESTS MAY BE SENT TO THE FOLLOWING ADDRESS:

Solid Group, Inc.
2285 Don Chino Roces Avenue
Makati City, Metro Manila

Attention: Ms. Meline Corpuz

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on May 25, 2018.

Solid Group, Inc.

By:


Ana Maria A. Katigbak
Asst. Corporate Secretary

Exhibit 1

Certification on the connections of the Company's directors and officers with any government agencies or instrumentalities

Exhibit 2

The Company's audited financial statements for the year ended December 31, 2017

Exhibit 3

The Company's SEC Form 17-Q

SOLID GROUP INC.

**MANAGEMENT REPORT
Pursuant to SRC Rule 20(4)(A)**

For the 2018 Annual Stockholders' Meeting

A. Audited Financial Statements for Fiscal Year Ended December 31, 2017

Please refer to the accompanying audited financial statements for year ended December 31, 2017 and first quarter report on SEC Form 17Q for the quarter ended March 31, 2018.

B. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company has no disagreements with the external auditor on accounting and financial disclosure.

On June 29, 2017, the Company reappointed Punongbayan and Araullo as its external auditors for the year 2017.

There was no change in our existing auditor for the years 2016 and 2017. The Company is in compliance with the Code of Corporate Governance and SEC Memorandum Circular No. 2, series of 2002 requiring the rotation every five (5) years of the audit partner-in-charge of the external auditor.

C. Management's Discussion and Analysis or Plan of Operations.

Full Fiscal Years

A. Management's Discussion and Analysis or Plan of Operation

(1) Plan of Operation

Not applicable. The Company has revenues from operations in each of the last two fiscal years.

(2) Management's Discussion and Analysis

a. Full Fiscal Years

Key Performance Indicators

The following key performance indicators were identified by the Company: revenue growth, asset turnover, operating expense ratio, earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share, current ratio and debt to equity ratio.

Revenue growth was determined as follows: revenues for the current year less revenues for last year or change in revenues divided by the revenues of the previous year.

Asset turnover was computed based on the revenues earned during the year divided by the average total assets.

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

EBITDA was determined by adding back interest expense, depreciation and amortization charges to income before tax on continuing operations for the year.

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

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

Debt to equity ratio was computed by dividing the total liabilities (excluding amounts due to related parties) as of end of the year by the total equity as of end of the year.

Key performance indicators for 2017, 2016 and 2015 are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Revenue growth	(22%)	(2%)	29%
Asset turnover	43%	54%	50%
Operating expense ratio	14%	12%	14%
EBITDA	P650 million	P558 million	P967 million
Earnings (loss) / share	P0.22	P0.19	P0.27
Current ratio	8.40:1	9.05:1	4.34:1
Debt to equity ratio	0.14:1	0.13:1	0.22:1

2017

Revenues of P4,942 million declined by 22% in 2017 from P6,365 million in 2016 principally from lower revenues of the digital mobile devices segment, offset by improved revenues of the property and related services and technical support and solutions segments.

Asset turnover was lower at 43% in 2017 from 54% in 2016 mainly as a result of lower revenues of the digital mobile devices segment on the digital product sales.

Despite lower operating expense in 2017, operating expense ratio stood higher at 14% in 2017 from 12% in 2016 principally due to lower revenues of the digital mobile devices segment.

EBITDA amounted to P650 million in 2017 compared with P555 million in 2016 mainly due to higher profit from the property and related services and technical support solutions segments.

Earnings per share stood at P0.22 in 2017 versus P0.19 in 2016 principally from higher net income in 2017.

Current ratio was at 8.40:1 as of December 31, 2017 and 9.05:1 as of December 31, 2016 primarily due to increase in current liabilities of the property and building services segment

Debt to equity ratio stood at 0.14:1 as of December 31, 2017 from 0.13: 1 as of December 31, 2016 primarily due to higher liabilities.

2016

Revenues of P6,362 million declined by 2% in 2016 from P6,460 million in 2015 principally from lower revenues of the property and building services segment in 2016, offset by improved revenues of the digital mobile devices and technical support and solutions segments. The Company sold its investment in PNCI in 2016, which led to the decline in revenues of the property and building services segment.

Asset turnover was higher at 54% in 2016 from 50% in 2015 mainly due to lower total assets employed by the Company to generate almost the same level of revenues last year.

Operating expense ratio improved to 12% in 2016 from 14% in 2015 principally due to lower operating expenses for the year.

EBITDA amounted to P558 million in 2016 compared with P967 million in 2015. The Company sold its investment in PNCI in 2016. Despite the improved performance of the digital mobile devices and technical support solutions segment in 2016, EBITDA was still lower due to the divestment in PNCI in 2016 and the one-time gain after tax on property sale of P240 million in 2015 (none in 2016).

Earnings per share stood at P0.19 in 2016 versus P0.27 in 2015 principally from lower net income in 2016.

Current ratio significantly improved at 9.05:1 as of December 31, 2016 and 4.34:1 as of December 31, 2015 primarily due to decrease in current liabilities of the property and building services segment. The Company sold its investment in PNCI in 2016, contributing to improved liquidity.

Debt to equity ratio stood at 0.13:1 as of December 31, 2016 from 0.22: 1 as of December 31, 2015 primarily due to lower liabilities.

2015

Revenues grew by 29% in 2015 vs 18% in 2014. The increase was contributed by the property and building services, technical support and solutions and investment and other business segments. The Company's Golden Hill project in China realized the real estate sales in 2015 which included the customers' deposit in prior years after the property ownership certificate was issued to buyers in 2015.

Asset turnover stood higher at 50% in 2015 from 37% in 2014 mainly as a result of higher revenues of the property & building services, technical support and solutions and investment and others segments.

Operating expense ratio stood at 14% and 19% for 2015 and 2014, respectively due to lower operating expenses of the digital mobile devices and property and building services segments.

EBITDA amounted to P967 million in 2015 against negative P105.61 million in 2014. The increase was mainly due to income of the property & building services segment from the earnings of the Golden Hill project in China and sale of the Balintawak property.

Earnings per share amounted to P0.27 in 2015 versus loss per share of P0.07 in 2014 mainly due to net income for the period mainly from the property & building services segment.

Current ratio stood at 4.34:1 as of December 31, 2015 and 2.31:1 as of December 31, 2014 mainly due to lower current liabilities.

Debt to equity ratio stood at 0.22:1 as of December 31, 2015 from 0.44: 1 as of December 31, 2014 primarily due to lower liabilities and higher equity.

Results of Operations 2017

Revenues stood at P4,942 million, down by 22% in 2017 compared with P6,365 million in 2016 principally from lower revenues of the digital mobile devices segment, offset by improved revenues of the property and related services and technical support and solutions segments.

Sale of goods reached P3,450 million in 2017, down by 36% from P5,393 million in 2016 mainly due to lower sales volume of sales of digital products of the digital mobile devices segment.

Rendering of services went up to P1,192 million in 2017, increasing by 62% from P736 million in 2016 mainly due to higher revenues of the technical support and solutions segment.

Rental income amounted to P233 million in 2017, higher by 26% from P184 million in 2016 due to higher occupancy of the property and building services segment.

Interest income amounted to P44 million in 2017, an increase of 18% from P38 million in 2016 mainly from higher investible funds of the investments and other segment.

Sale of real estate amounted to P22 million in 2017, up by 83% from P12 million in 2016 due to sale of condominium units.

Cost of sales, services, real estate sold and rentals amounted to P3,977 million in 2017, or a decrease of 26% from P5,361 million in 2016 as discussed below.

Cost of sales amounted to P2,970 million in 2016, down by 37% from P4,706 million in 2016 in relation to decrease in sales.

Cost of services amounted to P915 million in 2016 from P595 million for the same period of 2016, up by 54% mainly in support to higher service revenue.

Cost of rentals amounted to P77 million in 2017, an increase of 48% from P52 million in 2016 mainly in relation to higher rental income.

Cost of real estate sold amounted to P14 million in 2017 compared with P8 million in 2016 corresponding to the cost of units sold.

Gross profit amounted to P965 million in 2017 from P1,003 million in 2016, down by 4% due to lower revenues.

Other operating expenses amounted to P447 million in 2017 from P589 million in 2016 as explained below.

Selling and distribution costs amounted to P330 million in 2017, or lower by 12% from P376 million in 2016 mainly due to the decrease in warranty charges, commissions and delivery expenses of the digital mobile devices segment.

General and administrative expenses amounted to P367 million in 2017, up by 5% from P358 million in 2016. There was no material variance for this account.

Other operating income - net went up to P251 million in 2017 from P16 million income in 2016, up by 1406% mainly from fair value gains on investment property.

Gain on sale of subsidiary amounted to P127 million in 2016 (nil in 2017). This was a consequence of the sale of investment in PNCI in 2016.

Operating profit amounted to P518 million in 2017 from P413 million in 2016, an increase of 25% from higher other operating income of the property and related services and profits of technical support and solutions segments from ASEAN projects.

Other income (charges) – net amounted to P43 million income in 2017 against P51 million income in 2016 mainly from the following:

Finance income stood lower at P39 million in 2017 compared with P57 million in 2016 principally due to lower foreign currency exchange gains.

Finance costs was favorable at P14 million in 2017 from P17 million in 2016 primarily due to decrease in interest expense from lower bank loans as a result of the sale of its investment in PNCL in 2016 where the Company transferred the bank loans of this subsidiary as part of the sale.

Other gains – net amounted to P17 million in 2017 compared with P12 million in 2016, higher by 40% primarily from refund of deposits of electricity of the property and related services segment.

Profit before tax was P561 million in 2017, up by 21% from P465 million in 2016 mainly due to higher operating profit of the property and related services and technical support and solutions segments.

Tax expense of P157 million in 2017 was higher from P124 million in 2016 due to higher pre-tax income.

Net profit of P403 million in 2017 improved by 19% from P340 million in 2016 mainly due to higher operating profit of the property and related services and technical and support solutions segments.

Net profit attributable to equity holders of the parent amounted to P397 million in 2017 versus P343 million in 2016 as discussed above.

Net profit attributable to non-controlling interest amounted to P6 million in 2017 compared with P2.7 million loss in 2016 primarily due to reported income from Starworld.

Financial Position 2017

Cash and cash equivalents amounted to P3,490 million as of December 31, 2017 higher by 54 % from P2,259 million as of December 31, 2016. Cash was mainly provided from operating activities from decrease in merchandise inventories and supplies and from investing activities due to redemption of financial assets at FVTPL.

Financial assets at fair value through profit or loss amounted to nil as of December 31, 2017 from P741 million as of December 31, 2016 from redemption of unit investments in trust fund.

Trade and other receivables reached P1,214 million as of December 31, 2017 against P1,380 million as of December 31, 2016, or a decrease of 12% mainly from collection of receivables of the digital mobile devices segment. 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 amounted to P9.2 million as of December 31, 2017 and P9.1 million as of December 31, 2016. There was no material change for this account.

Merchandise inventories and supplies - net amounted to P538 million as of December 31, 2017, compared with P802 million as of December 31, 2016 mainly from lower merchandise inventory for digital products of the digital mobile devices segment.

Real estate inventories amounted to P440 million as of December 31, 2017 and P451 million as of December 31, 2016. There was no material change for this account.

Other current assets amounted to P301 million as of December 31, 2017 compared with P215 million as of December 31, 2016, an increase of 40% mainly from higher deferred costs and short term-placements with maturity of more than 180 days but less than one year.

Total current assets reached P5,995 million as of December 31, 2017 from P5,860 million as of December 31, 2016 mainly from higher cash and cash equivalents and other current assets as discussed above.

Non-current trade and other receivables reached to P692 million as of December 31, 2017 from P663 million as of December 31, 2016 mainly from increase in cash surrender value of investment in life insurance.

Non-current available-for-sale financial assets went up to P20 million as of December 31, 2017 from P18 million as December 31, 2016 from fair value gains in club shares.

Property and equipment amounted to P1,909 million as of December 31, 2017 from P1,874 million as of December 31, 2016 primarily from additions during the year.

Investment property amounted to P2,903 million as of December 31, 2017 from P2,678 million as of December 31, 2016 mainly due to fair value gains and additions in the property and building services segment.

Post-employment benefit assets stood at P 105 million as of December 31, 2017 and P102 million as of December 31, 2016 as a result of lower present value of obligation.

Deferred tax assets - net amounted to P110 million as of December 31, 2017 and P119 million as of December 31, 2016, down by 7% due to application of MCIT of certain subsidiaries.

Other non-current assets amounted to P23 million as of December 31, 2017 or higher by 17% from P20 million as of December 31, 2016 primarily due to higher other investment and non-current assets

Total non-current assets amounted to P5,766 million as of December 31, 2017 from P5,475 million as of December 31, 2016 as discussed above.

Total assets reached P11,761 million as of December 31, 2017 from P11,336 million as of December 31, 2016 as discussed above.

Interest-bearing loans amounted to P115 million as of December 31, 2017, or an increase of 3% from P112 million as of December 31, 2016. There was no material change for this account.

Trade and other payables amounted to P475 million as of December 31, 2017 against P438 million as of December 31, 2016, an increase of 8% principally due to higher trade and other payables.

Customers' deposits amounted to P16 million as of December 31, 2017 compared with P10 million as of December 31, 2016. The increase was due to additional deposits.

Advances from related parties amounted to P3.7 million as of December 31, 2017, an increase of 102% from P1.8 million as of December 31, 2016 due to additional advances.

Estimated liability for land and land development costs stood at P 68 million as of December 31, 2017 and December 31, 2016.

Income tax payable of P33 million as of December 31, 2017 versus P15 million as of December 31, 2016 was higher by 120% principally due to higher tax expense for the year.

Total current liabilities stood at P713 million as of December 31, 2017 from P647 million as of December 31, 2016 as a result of higher trade and other payables.

Non-current refundable deposits amounted to P27 million as of December 31, 2017 from P21 million as of December 31, 2016 from additional customers' deposits.

Postemployment benefit obligation stood at P37 million as of December 31, 2017 and P33 million as of December 31, 2016 due to additional unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities -net amounted to P697 million as of December 31, 2017 and P636 million as of December 31, 2016. The increase was attributable to fair value gain on investment property for the year.

Total non-current liabilities amounted to P762 million as of December 31, 2017 and P691 million as of December 31, 2016.

Total liabilities amounted to P1,475 million as of December 31, 2017 from P1,338 million as of December 31, 2016.

Capital stock stood at P2,030 million as of December 31, 2017 and December 31, 2016.

Additional paid-in capital amounted to P4,641 million as of December 31, 2017 and December 31, 2016.

Treasury shares amounted to P115 million as of December 31, 2017 and December 31, 2016.

Revaluation reserves amounted to P15 million loss as of December 31, 2017 from P27 million loss as of December 31, 2016 mainly from other comprehensive income for the period from remeasurement of post-employment benefit plan.

Retained earnings amounted to P3,398 million as of December 31, 2017 from P3,129 million as of December 31, 2016 due to net income for the year offset by dividends declared.

Total equity attributable to Equity holders of Parent amounted to P9,939 million as of December 31, 2017 from P9,658 million as of December 31, 2016 primarily due to higher retained earnings.

Non-controlling interests went up to P345 million as of December 31, 2017 from P339 million as of December 31, 2015. There was no material change for this account.

Total equity amounted to P10,285 million as of December 31, 2017 from P9,998 million as of December 31, 2016.

Results of Operations 2016

Revenues stood at P6,365 million, down by 2% in 2016 compared with P6,460 million in 2015 principally from lower revenues of the property and building services in 2016, offset by improved revenues of the digital mobile devices and technical support and solutions segments. The Company sold its investment in PNCI in 2016, which led to the decline in revenues of the property and building services segment.

Sale of goods reached P5,393 million in 2016 achieving growth of 36% from P3,952 million in 2015 mainly due to higher sales volume of sales of digital products of the digital mobile devices segment.

Rendering of services went up to P733 million in 2016, increasing by 38% from P532 million in 2015 mainly due to higher revenues of the technical support and solutions segment.

Rental income amounted to P184 million in 2016, up by 27% from P146 million in 2015 due to higher occupancy as the property and building services rented out the Laguna properties.

Interest income amounted to P38 million in 2016 a decrease of 9% from P41 million in 2015 mainly from lower investible funds.

Sale of real estate amounted to P12 million in 2016, down by 99% from P1,788 million in 2015 since the Company sold its investment in PNCI in 2016. This resulted to decrease in real estate sales for the year.

Cost of sales, services, real estate sold and rentals amounted to P5,361 million in 2016, or an increase of 7% from P5,020 million in 2015 as discussed below.

Cost of sales amounted to P4,706 million in 2016, an increase of 32% from P3,577 million in 2015 in relation to increase in sales.

Cost of services amounted to P595 million in 2016 from P460 million for the same period of 2015, up by 29% mainly to support the higher service revenue.

Cost of rentals amounted to P52 million in 2016, a decrease of 9% from P57 million in 2015 mainly due to other charges incurred related to the property sale last year (none in 2016).

Cost of real estate sold amounted to P8 million in 2016 compared with P925 million in 2015 corresponding to the cost of unit sold. The Company sold its investment in PNCI in 2016, resulting to lower cost of real estate of the property and building services segment.

Gross profit amounted to P1,003 million in 2016 from P1,440 million in 2015. Gross profit stood lower in 2016 as the margins from real estate sales in 2015 was higher.

Other operating expenses amounted to P589 million in 2016 from P633 million in 2015 as explained below.

Selling and distribution costs amounted to P376 million in 2016, or lower by 33% from P559 million in 2015. The Company sold its investment in PNCI in 2016. Hence, the costs of these subsidiaries were excluded in operating results after the divestment.

Gain on sale of subsidiary amounted to P127 million in 2016 (nil in 2015). This was a consequence of the sale of investment in PNCI in 2016.

General and administrative expenses amounted to P358 million in 2016, up by 6% from P336 million in 2015 mainly from higher warranty claims and materials, supplies and consumables.

Other operating income - net was down to P16 million in 2016 from P263 million income in 2015 mainly from fair value losses on investment property of P52 million reported in 2016 (fair value gains of P87 million in 2015). The Company also posted gain on sale of investment property in Balintawak of P138 million in 2015 (none in 2016).

Operating profit amounted to P413 million in 2016 from P806 million in 2015, lower by 49%. The Company sold its investment in PNCI in 2016. Despite the improved performance of the digital mobile devices and technical support solutions segments in 2016, profit was still down due to the divestment in PNCI. Moreover, the Company reported gains from property sale of P138 million in 2015 (none in 2016).

Other income (charges) – net amounted to P51 million income in 2016 against P25 million income in 2015 mainly from the following:

Finance income stood lower at P57 million in 2016 compared with P89 million in 2015 principally due to lower interest income from time deposit in 2016 and gain on settlement of receivables in 2015 (none in 2016).

Finance costs was favorable at P17 million in 2016 from P77 million in 2015 primarily due to decrease in interest expense from lower bank loans. The Company sold its investment in PNCI in 2016. The Company transferred the bank loans of these subsidiaries as part of the sale.

Share in net loss of an associate amounted to P3.3 million in 2015 (none in 2016). The Company sold its investment in Creative Hothouse Manila, Inc. in 2016.

Other gains – net amounted to P12.6 million in 2016 compared with P16 million in 2015, higher by 5% primarily from excess of standard over actual input VAT and gain on discounting of refundable deposit.

Profit before tax was P465 million in 2016, down by 44% from P832 million in 2015 mainly due to lower operating profit as explained above.

Tax expense of P124 million in 2016 was lower from P159 million in 2015 principally due to application of previous year's NOLCO to current year's tax. There was also no tax expense for Nanning, China operation due to the disposal of the investment in PNCI.

Net profit of P340 million in 2016 compared with P672 million in 2015 was mainly due to lower operating profit as explained above.

Net profit attributable to equity holders of the parent amounted to P343 million in 2016 versus P486 million in 2015 as discussed above.

Net loss attributable to non-controlling interest amounted to P2.7 million in 2016 compared with P186 million income in 2015 primarily due to reported losses of the Golden Hill project in Nanning, China for the short period in 2016. Share in NCI related to the Golden Hill was included in the consolidated report until the date of disposal on August 10, 2016.

Financial Position 2016

Cash and cash equivalents amounted to P2,259 million as of December 31, 2016 lower by 12 % from P2,576 million as of December 31, 2015. Cash was used for investing activities mainly for acquisition of financial assets at FVTPL. It was also used for financing activities mainly for the payment of cash dividends.

Financial assets at fair value through profit or loss amounted to P741 million as of December 31, 2016, higher by 503% from P123 million as of December 31, 2015 from acquisition of unit investments in trust funds.

Trade and other receivables reached P1,380 million as of December 31, 2016 against P1,278 million as of December 31, 2015, or an increase of _8% due to higher advances to suppliers of the digital mobile devices segment. 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 amounted to P9.1 million as of December 31, 2016 and P1.6 million as of December 31, 2015 due to additional advances made.

Merchandise inventories and supplies - net amounted to P802 million as of December 31, 2016, compared with P866 million as of December 31, 2015 mainly from lower merchandise and finished goods for digital products and impairment loss.

Real estate inventories amounted to P451 million as of December 31, 2016 and P1,647 million as of December 31, 2015, a decrease of 73% principally due to disposal of the investment in PNCI. As a result, the financial position of PNCI was not included in the consolidated report.

Other current assets amounted to P215 million as of December 31, 2016 compared with P471 million as of December 31, 2015, a decrease of 54% due to lower prepayments.

Total current assets reached P5,860 million as of December 31, 2016 from P6,964 million as of December 31, 2015 mainly from lower real estate and merchandise inventories and supplies as discussed above.

Non-current trade and other receivables reached to P663 million as of December 31, 2016 from P601 million as of December 31, 2015 from increase in cash surrender value of life insurance.

Non-current available-for-sale financial assets went up to P18 million as of December 31, 2016 from P13 million as December 31, 2015 from fair value gains on club shares.

Property and equipment amounted to P1,874 million as of December 31, 2016 from P1,815 million as of December 31, 2015 primarily from additions during the year.

Investment property amounted to P2,678 million as of December 31, 2016 from P2,653 million as of December 31, 2015 mainly due to additions of the property and building services segment.

Post-employment benefit assets stood at P 102 million as of December 31, 2016 and P117 December 31, 2015 as a result of higher present value of obligation.

Deferred tax assets - net amounted to P119 million as of December 31, 2016 and P166 million as of December 31, 2015, down by 28% due to application of NOLCO.

Other non-current assets amounted to P20 million as of December 31, 2016 or lower by 32% from P29 million as of December 31, 2015 primarily due to lower deferred input VAT and disposal of investment in associate.

Total non-current assets amounted to P5,475 million as of December 31, 2016 from P5,396 million as of December 31, 2015 as discussed above.

Total assets reached P11,336 million as of December 31, 2016 from P12,361 million as of December 31, 2015 as discussed above.

Interest-bearing loans amounted to P112 million as of December 31, 2016, or a decrease of 56% from P257 million as of December 31, 2015 mainly due to disposal of the investment in PNCI. Hence, the financial position of PNCI was not included in the consolidated report.

Trade and other payables amounted to P438 million as of December 31, 2016 against P636 million as of December 31, 2015, a decrease of 31% principally due to lower trade payables of the digital mobile devices segment and the disposal of the investment in PNCI. Hence, the financial position of PNCI was not included in the consolidated report.

Customers' deposits amounted to P10 million as of December 31, 2016 compared with P550 million as of December 31, 2015. The decrease was due to the disposal of the investment in PNCI. As a result, the financial position of PNCI was not included in the consolidated report.

Advances from related parties amounted to P1.88 million as of December 31, 2016, a decrease of 97% from P73 million as of December 31, 2015 due to payment of advances.

Estimated liability for land and land development costs stood at P 68 million as of December 31, 2016 and December 31, 2015.

Income tax payable stood at P15 million as of December 31, 2016 versus P19 million as of December 31, 2015 principally due to lower tax expense for the year.

Total current liabilities stood at P647 million as of December 31, 2016 from P1,606 million as of December 31, 2015 as a result of lower customers' deposits and trade and other payables.

Non-current refundable deposits amounted to P21 million as of December 31, 2016 from P19 million as of December 31, 2015 from additional customers' deposits.

Post-employment benefit obligation stood at P33 million as of December 31, 2016 and P19 million as of December 31, 2015 due to additional unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities -net amounted to P636 million as of December 31, 2016 and P647 million as of December 31, 2015. The decrease was attributable to fair value losses on investment property for the year.

Total non-current liabilities amounted to P691 million as of December 31, 2016 and P686 million as of December 31, 2015.

Total liabilities amounted to P1,338 million as of December 31, 2016 from P2,292 million as of December 31, 2015.

Capital stock stood at P2,030 million as of December 31, 2016 and December 31, 2015.

Additional paid-in capital amounted to P4,641 million as of December 31, 2016 and December 31, 2015.

Treasury shares amounted to P115 million as of December 31, 2016 and December 31, 2015.

Revaluation reserves amounted to P27 million loss as of December 31, 2016 from P35 million gain as of December 31, 2015 as a result of reclassification adjustment for gains recognized in P&L from disposal of investment in foreign operations.

Retained earnings amounted to P3,129 million as of December 31, 2016 from P2,967 million as of December 31, 2015 due to net income for the year offset by dividends declared.

Total equity attributable to Equity holders of Parent amounted to P9,658 million as of December 31, 2016 from P9,559 million as of December 31, 2015 primarily due to higher retained earnings.

Non-controlling interests went down to P339 million as of December 31, 2016 from P508 million as of December 31, 2015 due to disposal of the investment in PNCI in August 2016.

Total equity amounted to P9,998 million as of December 31, 2016 from P10,068 million as of December 31, 2015.

Results of Operations 2015

Revenues grew by 29% in 2015 reaching P6,460 million from P4,997 million in 2014. The increase was contributed by the property and building services, technical support and solutions and investment and other business segments. The Company's Golden Hill project in China realized the real estate sales in 2015 which included the customers' deposit in prior years after the property ownership certificate was issued to buyers in 2015.

Sale of goods amounted to P3,952 million in 2015 was lower by 9% from P4,337 million in 2014 due to lower revenues of the digital mobile devices segment on digital product sales. Units sold on digital mobile devices were higher by 10%. However, average selling price was lower as it sold its old stocks.

Rendering of services amounted to P532 million in 2015 from P453 million in 2014 due to higher revenues from hotel and various events of Green Sun of the property and building services segment and higher revenues from warehousing and distribution and product testing of the technical support and solutions business segment.

Rental income amounted to P146 million in 2015 from P150 million in 2014 due to lower occupancy.

Sale of real estate amounted to P1,788 million in 2015, up by 6,213% from P28 million in 2014 principally due to sale of completed properties of the Golden Hill project in China. The Company realized the real estate sales in 2015 which included the customers' deposit in prior years after the property ownership certificate was issued to buyers in 2015.

Interest income amounted to P41 million in 2015, higher by 54% from P27 million in 2014 mainly from higher yield on placements.

Cost of sales, services, real estate sold and rentals amounted to P5,020 million for 2015, or an increase of 17% from P4,287 million in 2014 as discussed below.

Cost of sales amounted to P3,577 million for 2015, lower by 7%, from P3,854 million for 2014 in relation to decrease in sales.

Cost of services amounted to P460 million for 2015 from P374 million for 2014, up by 23% mainly in relation to higher service revenue.

Cost of rentals amounted to P57 million for 2015 from P35 million in 2014, higher by 59% in relation to higher taxes and licenses.

Cost of real estate sales amounted to P925 million for 2015 from P22 million for 2014 mainly in relation to higher sale of real estate.

Gross profit amounted to P1,440 million for 2015 from P710 million in 2014. Gross profit improved mainly from higher real estate sales.

Other operating expenses (income) amounted to P633 million for 2015 from P846 million in 2014 as explained below.

Selling and distribution costs amounted to P559 million in 2015 from P552 million in 2014. There was no material change for this account.

General and administrative expenses amounted to P336 million for 2015 from P379 million in 2014 primarily due to recognition of penalties for late delivery of property document for the Golden Hill project in 2014 (none in 2015).

Other operating income - net amounted to P263 million income in 2015, up by 205% from P86 million income in 2014 principally from gain on sale of investment property and fair value gains on investment property of the property and building services segment.

Operating profit (loss) amounted to P806 million operating profit for 2015 from P135 million operating loss in 2014, a significant improvement of 694% mainly from income of the property and building services segment.

Other income (charges) amounted to P25 million other income for 2015 against P75 million loss in 2014 mainly from the following:

Finance costs decreased to P77 million for 2015 compared with P112 million in 2014 mainly from lower impairment losses on trade and other receivables and foreign exchange losses.

Finance income amounted to P89 million for 2015 compared with P33 million in 2014 mainly due to higher yield on placements and higher principal investment; higher foreign currency gains of the digital mobile devices and investment and other business segments and, gain on settlement or receivables of the property and building services segment.

Share in net loss of an associate of P3 million in 2015 from nil in 2014 due to net loss of Creative Hothouse Manila for the period.

Other gains – net was P16 million for 2015, improved by 404% from P3 million charges in 2014 principally from gain on sale of property and equipment and net interest income on retirement benefit asset.

Profit before tax was P832 million for 2015, an increase of 493% from P211 million loss before tax in 2014 as discussed above.

Tax expense (income) amounted to P159 million income for 2015 from P22 million income in 2014 mainly due higher provision of current tax expense from Balintawak property sale and tax expense for real estate sale in China.

Net income amounted to P672 million for 2015 against P188 million net loss in 2014 due to the factors as discussed above.

Net income attributable to equity holders of the parent amounted to P486 million for 2015 against P121 million net loss to 2014 as discussed above. Net income improved mainly due to share in net income in Golden Hill project in China and gain on sale of Balintawak property.

Net income attributable to minority interest amounted to P186 million for 2015 from P67 million net loss in 2014, an increase of 375% primarily due to reported income from sale of property of the Golden Hill project in Nanning, China.

Financial Position 2015

Cash and cash equivalents amounted to P2,576 million as of December 31, 2015, up by 58% from P1,623 million as of December 31, 2014. Cash was from investing activities mainly from the sale of investment property and redemption of FAFVTPL; and, mainly used for financing activities for payment of interest bearing loans.

Financial assets at fair value through profit or loss amounted to P123 million as of December 31, 2015, down by 83% from P746 million as of December 31, 2014 from termination of certain unit investments in trust funds.

Trade and other receivables reached P1,278 million as of December 31, 2015 against P1,438 million as of December 31, 2014. Overall, there was no material change for this account. Loans receivables went down to P45 million from P195 million from collection of loans. On the other hand, trade receivables was higher by 24% mostly from higher receivable of the digital mobile devices and property and building services segments. Trade customers are generally established and stable companies with reasonable assurance of collectability 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 amounted to P1 million as of December 31, 2015 and P28 million as of December 31, 2014, a decrease of 94% due to collection of advances.

Merchandise inventories and supplies - net amounted to P866 million as of December 31, 2015, compared with P594 million as of December 31, 2014 % mainly due to buildup of inventories of the my|phone business.

Real estate inventories amounted to P1,647 million as of December 31, 2015 and P2,371 million as of December 31, 2014. The decrease was mainly due to real estate sold by Fil-Dragon and Starworld.

Other current assets amounted to P471 million as of December 31, 2015 compared with P574 million as of December 31, 2014, a decrease of 18% due to lower prepayments and creditable withholding taxes which was applied to the provision for current taxes.

Total current assets reached P6,964 million as of December 31, 2015 from P7,377 million as of December 31, 2014 mainly from lower real estate inventories as a result of the real estate sale.

Non-current trade and other receivables amounted to P601 million as of December 31, 2015 from P582 million as of December 31, 2014 from increase in cash surrender value of investment in life insurance and offset by collection of loan receivables.

Non-current available-for-sale financial assets amounted to P13 million as of December 31, 2015 from P9 million as of December 31, 2014 due to increase in club shares.

Property, plant and equipment amounted to P1,815 million as of December 31, 2015 from P1,739 million as of December 31, 2014. There was no material change for this account.

Investment property decreased to P2,653 million as of December 31, 2015 from P3,653 as of December 31, 2014 mainly due to sale of Balintawak property.

Retirement benefit assets amounted to P117 million as of December 31, 2015 and P 123 million as of December 31, 2014. There was no material change for this account.

Deferred tax assets - net amounted to P166 million as of December 31, 2015 and P127 million as of December 31, 2014, an increase of 30% principally due to recognition of deferred tax assets on NOLCO and MCIT offset by allowance for inventory obsolescence.

Other non-current assets amounted to P29 million as of December 31, 2015, or a decrease of 33% from P44 million as of December 31, 2014 primarily due to lower deferred input VAT.

Total non-current assets amounted to P5,396 million as of December 31, 2015 from P6,279 million as of December 31, 2014 as discussed above mainly from lower investment property.

Total assets reached P 12,361 million as of December 31, 2015 from P13,657 million as of December 31, 2014 as discussed above.

Interest-bearing loans amounted to P257 million as of December 31, 2015 from P844 million as of December 31, 2014, lower by 69% due to loan repayment for the period.

Trade and other payables amounted to P636 million as of December 31, 2015 against P732 million as of December 31, 2014, lower by 13% mainly due to lower trade payables, accrued expenses and advances from customers.

Customers' deposits amounted to P550 million as of December 31, 2015 versus P1,502 million as of December 31, 2014. The decrease was due to recognition of revenue by Fil-Dragon.

Advances from related parties amounted to P73 million as of December 31, 2015, an increase of 98% from P36 million as of December 31, 2014 due to additional advances.

Estimated liability for land and land development costs amounted to P 68 million as of December 31, 2015 and December 31, 2014.

Income tax payable amounted to P19 million as of December 31, 2015 from P9 million as of December 31, 2014, mainly due to higher provision for income taxes of certain subsidiaries.

Total current liabilities stood at P1,606 million as of December 31, 2015 from P3,193 million as of December 31, 2014 as explained above.

Non-current refundable deposits amounted to P19 million as of December 31, 2015 from P13 million as of December 31, 2014 from additional deposits received.

Retirement benefit obligation amounted to P19 million as of December 31, 2015 and P20 as of December 31, 2014. . This represents the unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities - net amounted to P647 million as of December 31, 2015 and P938 million as of December 31, 2014, a decrease of 30% due to reversal of deferred tax liabilities as certain properties were sold.

Total non-current liabilities amounted to P686 million as of December 31, 2015 from P972 million as of December 31, 2014 as explained above.

Total liabilities amounted to P2,292 million as of December 31, 2015 from P4,166 million as of December 31, 2014.

Capital stock stood at P2,030 million as of December 31, 2015 and December 31, 2014.

Additional paid-in capital amounted to P4,641 million as of December 31, 2015 and December 31, 2014.

Treasury shares amounted to P115 million as of December 31, 2015 and December 31, 2014.

Revaluation reserves amounted to P35 million gain as of December 31, 2015 from P21 million gain as of December 31, 2014 due to currency differences in translating financial statements of foreign operation.

Retained earnings amounted to P2,967 million as of December 31, 2015 from P2,590 million as of December 31, 2014 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P9,559 million as of December 31, 2015 from P9,168 million as of December 31, 2014 mainly due to higher retained earnings.

Minority interest amounted to P508 million as of December 31, 2015 and P322 million as of December 31, 2014 primarily due to reported income reported by Golden Hill project in Nanning, China.

Total equity amounted to P10,068 million as of December 31, 2015 from P9,491 million as of December 31, 2014.

Past and future financial condition and results of operations, with particular emphasis on the prospects for the future.

The Philippines reported a record-high 7.1% economic growth in 2017 brought about by the rise in food manufacturing sector, fueled by increase in private investments to construction and increased public infrastructure spending. We expect 7.5 % growth of the Philippine economy in 2018 with series of economic stimulus measures with all engines of growth up and running at a faster pace. The country's economy will remain as one of the best performing in ASEAN, with the continued push to consumption expenditure. It is projected that annual growth in retail sales will accelerate, expecting private consumption to continue to lead growth, to be supported by a strong labor market, rising remittances and a sustained expansion in consumer credit. Household is expected to benefit from increased disposable income from the income tax cuts contained in the Tax Reform for Acceleration and Inclusion (TRAIN).

This year's sales performance of the Company figuratively did not match the reported economic growth of the country in 2017 as it reported a decline in revenue of P4,942 million from P6,365 million in 2016 and P6,460 million in 2015. The decrease of 22% came from the digital mobile devices segment. The Company's underperformance during the year was brought about by lower myphone handset sales, a decrease by P1.8 billion to P3,293 million in 2017 from P5,162 million in 2016 due to strong mobile market competition. However, with the combined higher revenues of technical support and solutions segment by P401 million and property and building services segment by P44 million, the Company ably achieved the P5 billion revenue mark.

Notwithstanding its revenue performance, the Company still reported an increase of 19% in its consolidated net income of P403 million from the reported net income of P340 million in 2016 (P672 million in 2015). It was achieved in 2017 due to higher fair value gains on investment property of the property and related services segment and profit from ASEAN projects of the technical support and solutions segment.

The reported net income translates to earnings per share of P0.22 in 2017, P0.19 in 2016 and P0.27 in 2015.

The Company maintained its liquidity with its total assets of P11.7 billion in 2017, P11.3 billion in 2016 and P12.3 billion in 2015. It has maintained a low debt to equity ratio of 0.14:1 in 2017, 0.13:1 in 2016 and 0.22:1 in 2015 and even a lower gearing percentage (computed as financial debt divided by total equity) of 1% in 2017 and 2016 and 3% in 2015 resulting from low financial borrowings thereby reducing its credit risk (the risk of default in payment of loans) to minimal level. The Company maintained its liquidity such that its current ratio had always exceeded the conservative rule of thumb of 2:1 by achieving a current ratio of 8.41:1 in 2017, 9.05:1 in 2016 and 4.34:1 in 2015.

My|phone business under the digital mobile segment reported a drop in sales revenue by 36% to P3.3 billion from P5.2 billion in 2016 (P3.5 billion in 2015). Despite this, the digital mobile segment's result of operation remained buoyant with the reported net income of P27 million in 2017 (including impairment loss of P51 million) from P114 million net income in 2016 and net loss of P69 million in 2015.

The Company, focusing on maintaining the status and position of the myphone brand in the industry because of maturing market, unveiled in June 2017 its new business that aims to provide a unique platform for millennials, Filipino entrepreneurs and artists. Dubbed as the “Brown and Proud Movement,” the Company harnessed its years of experience in the smartphone industry and leaning towards new business models, Brown and Proud is tapping on multi-level marketing system envisioned to help distribute the newest lines of smart devices, while providing income-generating opportunities for Filipinos. The Company is gearing up to be transformational as it is expected to pick up in terms of sales in 2018 to hit P6 billion in revenue including P1.4 billion from the Brown and Proud Movement.

Property and building services segment remains strong and stable as it continues to generate constant revenue streams from its leasing operations with over 90% occupancy contributing P365 million in revenue in 2017, an increase by 13% from P320 million in 2016 (P2 billion in 2015). Net income for the year improved by 83% to P218 million as a result of fair value gains on investment property and improved rental occupancy from net income of P119 million in 2016 (P690 million in 2015). It is expected to contribute about P200 million in 2018.

With an eye toward future growth and higher revenues, the Company will continue its real estate development projects in its pipeline consisting of dormitory projects. A five-building complex in Quezon City is set to open at the end of the second quarter of 2018. SMC has also plans to invest developing its properties in Baguio, Dagupan and Cebu. These 3 projects are set to start construction in 2018. The Company pursues this kind of capital expenditures as the management is optimistic about its earning potential proven by the constant revenue streams in property and building services business operations.

The Company will continue to steer the hotel and events operations in 2018 which contributed P144 million in 2017 from P145 million in 2016 (P100 million in 2015) from the combined revenues of Green Sun, a business hotel and event center in Makati and Casa Bocobo, a boutique hotel in Manila. Now on its fourth year of operation, Green Sun, consisting of 144 hotel rooms, an 80-seater restaurant, 2 large event venues and 7 function rooms generated P107 million, P94 million and P60 million revenues in 2017, 2016 and 2015, respectively. Casa Bocobo will shift its market focus from online and offline travel trade to the corporate market and direct to property bookings from local and foreign travelers to increase its overall revenues and improve margins. Hotel business is projected to generate revenues of P165 million in 2018.

MyHouse revenue in 2017 stood at P53 million (including P36 million of sales within our group) from P23 million in 2016 mainly from its services rendered to Ms. Universe 2017 pageant, SONA 2017 and other projects to support Solid Video Corporation. It was able to turn-around from a losing company since it started operation in 2011 to a profitable company in 2017 with a net income of P13.8 million, up by 257%, from P8.8 million net loss in 2016 as a result of the above projects and from gain on forfeited customer deposits. MyHouse is projecting P94 million in revenues with new prospective customers and bigger projects at the same time gaining its momentum to maintain a profitable operation in 2018.

The strength in the diversity of business was once again at play in the financial performance of the technical support and services segment for making 2017 its banner year as it sustained its strength through its substantial contribution to the overall positive performance of the Company. In 2017, this segment generated P1.1 billion in revenue, a significant increase of 51% from P782 million in 2016 and P727 million in 2015 principally from 3 ASEAN projects rendered by SVC. Net income was a record high of P152 million, a substantial increase of 72% from P88 million in 2016 and 292% higher from P38 million in 2015. In 2018, combined revenue of this segment is expected to be at P800 million.

The Company remained focused on sustaining delivery of notable customer service and continued diversification of earnings, to take advantage of growth opportunities in the markets and business segments it operates as it remains optimistic about the growth prospects. It is the

Company's plan for the rest of the year to improve on cost efficiency while growing market share in its areas of operation.

- 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%

In May 2015, Solid Manila Corporation sold its property located in Balintawak, Quezon City. As a result, the Company expects its rental revenues to decline by about 15%.

- 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

Based on the appraisal reports obtained in 2017, the Company reported fair value gains on investment property of P136 million during the year.

In August 2016, Precos Inc., a wholly-owned subsidiary of the Company, sold its investment in Phil-Nanning Consortium, Inc. (PNCI). The disposal of this investment resulted to a gain on sale

of shares of P128 million. The divestment also resulted to significant changes in the results of operations and financial position of the consolidated report.

In May 2015, Solid Manila Corporation, a wholly-owned subsidiary of the Company, sold its property located at Balintawak, Quezon City, for P1.2 billion. The sale contributed to a gains of P138 million and tax income of P102 million or a total of P240 million in 2015 (none in 2016 and 2014).

2017

Balance Sheet Items (2017 vs. 2016)

(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents –54% increase to P3,490 million from P2,259 million

Cash was used was mainly provided from operating activities from decrease in merchandise inventories and supplies and from operating activities due to redemption of financial assets at FVTPL. This account stood at 30% and 20% as a percentage of total assets for 2017 and 2016.

Financial assets at fair value through profit or loss – nil in 2017 from P741 million

Mainly from redemption of unit investments in trust fund. This account was nil in 2017 and 7% as a percentage of total assets for years 2017 and 2016.

Trade and other receivables – 12 % decrease to P1,214 million from P1,380 million

The decrease was mainly from collection of receivables of the digital mobile devices segment. This account stood at 10% and 12% as a percentage of total assets in 2017 and 2016, respectively.

Advances to related parties –1% increase to P9.2 million from P9.1 million

There was no material change for this account. This account stood at 0.08% as a percentage of total assets in 2017 and 2016.

Merchandise inventories and supplies –33 % decrease to P538 million from P802 million

Mainly from lower merchandise inventory for digital products of the digital mobile devices segment. This account represented 5% and 7% as a percentage of total assets for years 2017 and 2016, respectively.

Real estate inventories – 3% decrease to P440 million from P451 million

There was no material change for this account. This account stood at 4% as a percentage of total assets in 2017 and 2016.

Other current assets – 40% increase to P301 million from P215 million

Mainly from higher deferred costs and short-term placements with maturity of more than 80 days but less than one year. This account stood at 3% and 2% as a percentage of total assets in 2017 and 2016, respectively.

Non-current trade and other receivables –4% increase to P692 million from P663 million

Mainly due to higher cash surrender value of investment in life insurance. This account stood at 6% as a percentage of the total assets in both years.

Non-current available-for-sale financial assets – 16% increase in 2017 to P20 million from P18 million in 2016

The increase was from fair value gains in club shares. This account stood at 0.17% and 0.16% as a percentage of total assets for 2017 and 2016.

Property, plant and equipment – 2% increase to P1,909 million from P1,874 million

Primarily from additions during the year. This represented 16 % and 17% as a percentage of total assets in 2017 and 2016, respectively.

Investment property – 8% increase to P2,903 million from P2,678 million

Mainly due to fair value gains and additions in the property and building services segment. This account stood at 25% and 24% as a percentage of total assets in 2017 and 2016, respectively.

Post-employment benefit asset – amounted to P105 million from P102 million

Primarily as a result of lower present value of obligation. This represented 0.90% and 0.91% of total assets in 2017 and 2016, respectively.

Deferred tax assets – net - 7% decrease to P110 million from P119 million

Principally due to application of MCIT of certain subsidiaries. This account stood at 0.94% and 1.05% of total assets in 2017 and 2016, respectively.

Other non-current assets – 17% increase to P23 million from P20 million

Mainly due to higher other investment and non-current assets. This represented 0.20% and 0.18% as percentage to total assets in 2017 and 2016 respectively.

Interest-bearing loans – 3% increase to P115 million from P112 million

There was no material change for this account. This account stood at 1% as a percentage of total liabilities and equity in both years.

Trade and other payables – 8% increase to P475 million from P438 million

Principally due to higher trade and other payables. This account stood at 4% as a percentage of total liabilities and equity in 2017 and 2016.

Customers' deposits – 55% increase to P16 million from P10 million

The increase was due to additional deposits. This account represented 0.14% in 2017 and .10% as a percentage of total liabilities and equity in 2017 and 2016, respectively.

Advances from related parties – 102% increase to P3.7 million from P1.8 million

The increase was due to additional advances during the year. This account stood at 0.03% in 2017 and 0.02% in 2016 as a percentage of total liabilities and equity.

Estimated liability for land and land development cost – no change

There was no movement during the period. This account represented 0.58% and .60% as a percentage of total liabilities and equity in 2017 and 2016, respectively.

Income tax payable – 120% increase to P33 million from P15 million

Mainly due to higher tax income for the year. This account was pegged at 0.28% and 0.13% of the total liabilities and equity in 2017 and 2016, respectively.

Non-current refundable deposits – 27% increase to P27 million from P21 million

Principally from additional customers' deposits during the year. This represented 0.23% and 0.19% of the total liabilities and equity in 2017 and 2016, respectively.

Post-employment benefit obligation – 15% increase to P37 million from P33 million

The increase was mainly due to additional unfunded retirement obligation of certain subsidiaries. This account stood at 0.32% and 0.29% of the total liabilities and equity in 2017 and 2016, respectively.

Deferred tax liabilities –9% increase to P697 million from P636 million

The increase was attributable to fair gain on investment property for the year. This account stood at 6% as a percentage of total liabilities and equity in both years.

Capital stock – no change

This account stood at 17% and 18% of total liabilities and equity for 2017 and 2016, respectively.

Additional Paid-In-Capital – no change

This account represented 39 % and 41% of total liabilities and equity for 2017 and 2016, respectively.

Treasury Shares – no change

This account represented 0.98% and 1% of total liabilities and equity for 2017 and 2016, respectively.

Revaluation reserves – 43% decrease to P15 million loss from P27 million loss

Principally due to other comprehensive income for the period from remeasurement of post-employment benefit plan. It stood at 0.13% and 0.24% total liabilities and equity in 2017 and 2016, respectively.

Retained earnings – 9% increase to P3,398 million from P3,129 million

Increase was a result of net income for the year offset by dividends declared. This account stood at 29% and 28% of total liabilities and equity in 2017 and 2016, respectively.

Income Statement Items (2017 vs. 2016)

(Increase or decrease of 5% or more in the financial statements)

Sale of goods – 36% increase to P3,450 million from P5,393 million

Mainly due to lower volume of sales of the digital products of the digital mobile devices segment. As a percentage of total revenues, this account represents 70% and 85% in 2017 and 2016, respectively.

Service revenue –62% increase to P1,192 million from P736 million

Principally due to higher revenues of the technical support and solutions segment. As a percentage of total revenues, this account represents 24% and 12% in 2017 and 2016, respectively.

Rental income – 26% increase to P233 million from P184 million

The increase was due to higher occupancy as the property and building services. As a percentage of total revenues, this account represents 5% and 3% for years 2017 and 2016, respectively.

Interest income – 18% increase to P44 million from P38 million

Mainly from higher investible funds. As a percentage of total revenues, this account represents 0.91% in 2017 and 0.60% in 2016.

Sale of real estate – 83% increase to P22 million from P12 million

The increase was principally due to sale of condominium units. As a percentage of total revenues, this account stood at 0.45% in 2017 and 19% in 2016.

Cost of sales - 37% decrease to P2,970 million from P4,706 million

Mainly in relation to decrease in sales. As a percentage of total sales, this account represented 60% and 74% in 2017 and 2016 respectively.

Cost of services - 54% increase to P915 million from P595 million

Mainly in support to higher service revenue. This account stood at 19% in 2017 and 9% in 2016 as a percentage of total revenues.

Cost of rentals – 48% increase to P77 million from P52 million

The increase was mainly due to higher rental income of the property and related services segment. This account represents 2% in 2017 and 1% in 2016 as a percentage of total revenues.

Cost of real estate sales – 72% increase to P14 million from P8 million

The increase was due to the cost of units sold of the property and building services segment. As a percentage of total revenues, this account represents 0.29% in 2017 and .13% in 2016.

Gross profit – 4% decrease to P965 million from P1,003 million

There was no material change for this account. As a percentage of total revenues, this account stood at 20% in 2017 and 16% in 2016.

Selling and distribution costs – 12% decrease to P330 million from P376 million

Mainly due lower warranty charges, commissions and manpower delivery. This account represents 7% of total revenues for 2017 and 6% in 2016.

General and administrative expenses – 3% increase to P367 million from P358 million

There was no material change for this account. As a percentage of total revenues, this account stood at 7% in 2017 and 6% in 2016.

Other operating income –net - 1406% increase to P251 million from P16 million

Principally from fair value gains on investment property. As a percentage to total revenues, this account represents 5% in 2017 and 0.26% in 2016.

Gain on sale of subsidiary – nil in 2017, P127 million in 2016

This was a consequence of the sale of investment in PNCI in 2016.

Operating profit - 25% increase to P518 million from P413 million

Increase was primarily from higher other operating income. This account represented 10% and 6% of total revenues for 2017 and 2016, respectively.

Finance income – 30% decrease to P39 million from P57 million

It went down principally due to lower foreign currency exchange gains. This account represents 0.81% and 0.90% of total revenues for 2017 and 2016, respectively.

Finance costs 20% decrease to P14 million from P17 million

Primarily due to decrease in interest expense from lower bank loans as a result of the sale of its investment in PNCI in 2016 where the Company transferred the bank loans of this subsidiary as part of the sale. This account represents 0.29% of total revenues in 2017 from 0.28% in 2016.

Other gains - net – 40% increase to P17 million from P12 million

Primarily from refund of deposits of electricity of the property and related services segment. This account stood at 0.36% in 2017 from 0.20% in 2016 as a percentage of total revenues.

Profit before tax – 21% increase to P561 million from P465 million in 2016

Mainly due to higher operating profit of the property and related services and technical support and solutions segments. This account stood at 11% in 2017 from 7% in 2016 as a percentage of total revenues.

Tax expense – 26% increase to P157 million from P124 million

Due to higher pre-tax income. This account stood at 3% in 2017 2% in 2016 as a percentage of total revenues.

2016

Balance Sheet Items (2016 vs. 2015)

(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents – 12% decrease to P2,259 million from P2,576 million

Cash was used for investing activities mainly for acquisition of financial assets at FVTPL. It was also used for financing activities mainly for payment of cash dividends. This account stood at 20% and 21% as a percentage of total assets for 2016 and 2015.

Financial assets at fair value through profit or loss – 503% increase to P741 million from P123 million

Mainly from acquisition of unit investment in trust funds. This account stood at 7% and 1% as a percentage of total assets for years 2016 and 2015.

Trade and other receivables – 8 % increase to P1,380 million from P1,278 million

The increase was mainly due to higher advances to suppliers of the digital mobile devices segment. This account stood at 12% and 10% as a percentage of total assets in 2016 and 2015, respectively.

Advances to related parties – 451% increase to P9.1 million from P1.6 million

Principally due to additional advances made. This account stood at 0.08% and 0.01% as a percentage of total assets in 2016 and 2015, respectively.

Merchandise inventories and supplies – 7 % decrease to P802 million from P866 million

Mainly from lower merchandise and finished goods for digital products and impairment loss of the digital mobile devices segment. This account represented 7% as a percentage of total assets for years 2016 and 2015.

Real estate inventories – 73% decrease to P451 million from P1,647 million

Principally due to disposal of investment in PNCI. This account stood at 4% and 13% as a percentage of total assets in 2016 and 2015, respectively.

Other current assets – 54% decrease to P215 million from P471 million

Mainly due to lower prepayments. This account stood at 2% and 4% as a percentage of total assets in 2016 and 2015, respectively.

Non-current trade and other receivables – 10% increase to P663 million from P601million

Mainly due higher cash surrender value of investment in life insurance. This account stood at 6% and 5% as a percentage of the total assets in 2016 and 2015, respectively.

Non-current available-for-sale financial assets – 31% increase in 2016 to P18 million from P13 million in 2015

The increase was from fair value gains on club shares. This account stood at 0.16% and 0.11% as a percentage of total assets for 2016 and 2015.

Property, plant and equipment – 3% increase to P1,874 million from P1,815 million

Primarily from additions during the year. This represented 17 %% and 15% as a percentage of total assets in 2016 and 2015, respectively.

Investment property – amounted to P2,678 million from P2,653 million

Mainly due to additions of the property and building services segment. This account stood at 24% and 21% as a percentage of total assets in 2016 and 2015, respectively.

Post-employment benefit asset - 12% decrease to P102 million from P117 million

Primarily as a result of higher present value of obligation. This represented 0.91% and 0.95% of total assets in 2016 and 2015, respectively.

Deferred tax assets –net - 28% decrease to P119 million from P166 million

Principally due to application of NOLCO. This account stood at 1.05% and 1.34% of total assets in 2016 and 2015, respectively.

Other non-current assets – 32% decrease to P20 million from P29 million

Mainly due to lower deferred input VAT and disposal of investment in associate. This represented 0.18% and 0.24% as percentage to total assets in 2016 and 2015 respectively.

Interest-bearing loans – 56% decrease to P112 million from P257 million

Mainly due to disposal of investment in PNCl. This account stood at 1% and 2% as a percentage of total liabilities and equity in 2016 and 2015, respectively.

Trade and other payables – 31% decrease to P438 million from P636 million

Principally due to lower payables of the digital mobile devices segment and the disposal of the investment in PNCl. This account stood at 4% and 5% as a percentage of total liabilities and equity in 2016 and 2015.

Customers' deposits – 98% decrease to P10 million from P550 million

The decrease was due to the disposal of the investment in PNCl. This account represented 0.10% in 2016 and 4% in 2015 as a percentage of total liabilities and equity in 2016 and 2015, respectively.

Advances from related parties – 97% decrease to P1 million from P73 million

The decrease was due to payment of advances during the year. This account stood at 0.02% in 2016 and 0.59% in 2015 as a percentage of total liabilities and equity.

Estimated liability for land and land development cost – no change

There was no movement during the period. This account represented 0.60% and .55% as a percentage of total liabilities and equity in 2016 and 2015, respectively.

Income tax payable – 23% decrease to P15 million from P19 million as

Mainly due to lower tax expense for the year. This account was pegged at 0.13% and 0.16% of the total liabilities and equity in 2016 and 2015, respectively.

Non-current refundable deposits – 12% increase to P21 million from P19 million

Principally from additional customers' deposits during the year. This represented 0.19% and 0.15% of the total liabilities and equity in 2016 and 2015, respectively.

Post-employment benefit obligation – 67% increase to P33 million from P19 million

The increase was mainly due to additional unfunded retirement obligation of certain subsidiaries. This account stood at 0.29% and 0.16% of the total liabilities and equity in 2016 and 2015, respectively.

Deferred tax liabilities – 2% decrease to P636 million from P647 million

The decrease was attributable to fair value losses on investment property for the year. This account stood at 6% and 5% as a percentage of total liabilities and equity for 2016 and 2015, respectively.

Capital stock – no change

This account stood at 18% and 16% of total liabilities and equity for 2016 and 2015, respectively.

Additional Paid-In-Capital – no change

This account represented 41 % and 38% of total liabilities and equity for 2016 and 2015, respectively.

Treasury Shares – no change

This account represented 1% and 0.94% of total liabilities and equity for 2016 and 2015, respectively.

Revaluation reserves –amounted to P27 million loss from P35 million gain

Principally due to reclassification adjustment for gains recognized in profit and loss from disposal of investment in foreign operations. It stood at 0.24% and 0.28% total liabilities and equity in 2016 and 2015, respectively.

Retained earnings – 5% increase to P3,129 million from P2,967 million

Increase was a result of net income for the year offset by dividends declared. This account stood at 28% and 24% of total liabilities and equity in 2016 and 2015, respectively.

Income Statement Items (2016 vs. 2015)

(Increase or decrease of 5% or more in the financial statements)

Sale of goods – 36% increase to P5,393million from P3,952 million

Mainly due to higher volume of sales of the digital products of the digital mobile devices segment. As a percentage of total revenues, this account represents 85% and 61% in 2016 and 2015, respectively.

Service revenue –37% increase to P731 million from P532 million

Principally due to higher revenues of the technical support and solutions segment. As a percentage of total revenues, this account represents 11% and 8% in 2016 and 2015, respectively.

Rental income – 27% increase to P184 million from P146 million

The increase was due to higher occupancy as the property and building services rented out the Laguna properties. As a percentage of total revenues, this account represents 3% and 2% for years 2016 and 2015, respectively.

Interest income – 9% decrease to P38 million from P41 million

Mainly from lower investible funds. As a percentage of total revenues, this account represents 0.60% in 2016 and 0.65% in 2015.

Sale of real estate – 99% decrease to P12 million from P1,788 million

The decrease was principally due to sale of investment in PNCI in 2016. As a percentage of total revenues, this account stood at 0.19% in 2016 and 28% in 2015.

Cost of sales - 32% increase in P4,706 million from P3,577 million

Mainly in relation to increase in sales. As a percentage of total sales, this account represented 74% and 55% in 2016 and 2015 respectively.

Cost of services - 29% increase to P595 million from P460 million

Principally to support the higher service revenue. This account stood at 9% in 2016 and 7% in 2015 as a percentage of total revenues.

Cost of rentals – 9% decrease to P52 million from P57 million

The decrease was mainly due to other charges incurred related to the property sale last year, none in 2016. This account represents 0.82% in 2016 and 0.89% in 2015 as a percentage of total revenues.

Cost of real estate sold – 99% decrease to P8 million from P925 million

The decrease was mainly due to the sale of its investment in PNCI in 2016 resulting to lower cost of real estate of the property and building services segment. As a percentage of total revenues, this account represents 0.13% in 2016 and 14% in 2015.

Gross profit – 31% decrease to P997 million from P1,440 million

It stood lower in 2016 as the margins from real estate sales in 2015 was higher. As a percentage of total revenues, this account stood at 16% in 2016 and 22% in 2015.

Selling and distribution costs –33% decrease to P376 million from P559 million

Decrease was mainly due to the sale of investment in PNCI in 2016 where costs of these subsidiaries were no longer included in operating results after the divestment. This account represents 6% of total revenues for 2016 and 9% in 2015.

General and administrative expenses – 6% increase to P358 million from P336 million

Increase was mainly from higher warranty claims and materials, supplies and consumables. As a percentage of total revenues, this account stood at 6% in 2016 and 5% in 2015.

Gain on sale of subsidiary –P127 million in 2016, nil in 2015

This was a consequence of the sale of investment in PNCI in 2016.

Other operating income –net - 93% decrease to P18 million from P263 million

Principally from fair value losses on investment property of P52 million in 2016 (fair value gains of P87 million in 2015) and gain on sale of investment property in 2015, nil in 2016. As a percentage to total revenues, this account represents 0.28% in 2016 and 4% in 2015.

Operating profit –net - 49% decrease to P409 million from P806 million

Decrease was primarily due to divestment in PNCI and reported gains from property sale of P128 million in 2015, none in 2016. This account represents 6% and 12% of total revenues for 2016 and 2015, respectively.

Finance income – 36% decrease to P57 million from P89 million

It went down principally due to lower interest income from time deposit in 2016 and gain on settlement of receivables in 2015 (none in 2016). This account represents 0.90% and 1.39% of total revenues for 2016 and 2015, respectively.

Finance costs – 77% decrease to P17 million from P77 million

Primarily due to decrease in interest expense from lower bank loans. This account represents 0.28% of total revenues in 2016 from 1% in 2015.

Share in net loss of an associate – nil in 2016 from P3 million in 2015

Due to sale of investment in Creative Hothouse Manila in 2016. This account stood at 0.05% in 2015, nil in 2016 as a percentage of total revenues.

Other gains - net – 5% increase to P16.9 million from P16 million

Primarily from excess of standard over actual input VAT and gain on discounting of refundable deposit. This account stood at 0.27% in 2016 from 0.25% in 2015 as a percentage of total revenues.

Tax expense – 22% decrease to P124 million from P159 million tax

Mainly due to application of previous year's NOLCO to current year's tax. This account stood at 1.96% in 2016 from 2.47% in 2015 as a percentage of total revenues.

2015

Balance Sheet Items (2015 vs. 2014)

(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents – 58% increase to P2,576 million from P1,623 million

Cash was mostly provided from investing activities mainly from the sale of investment property and redemption of FAFVTPL and from operating activities mainly from sale of real estate inventories offset by decrease in customers' deposits. This account stood at 20% and 11% as a percentage of total assets for 2015 and 2014.

Financial assets at fair value through profit or loss – P123 million as of December 31, 2015 from P746 million as of December 31, 2014.

Mainly from redemption of unit investment in trust funds. This account stood at 1% and 5% as a percentage of total assets for years 2015 and 2014.

Trade and other receivables – 11 % decrease to P1,278 million from P1,438 million

No material change. This account stood at 10% as a percentage of total assets in 2015 and 2014, respectively.

Advances to related parties – 94% decrease to P1.6 million from P28 million

Principally from collection of advances. This account stood at 0.01% and 0.21% as a percentage of total assets in 2015 and 2014, respectively.

Merchandise inventories and supplies – 45 % increase to P866 million from P594 million

Mainly from higher merchandise and finished goods for digital products of the digital mobile devices segment. This account represented 7% and 4% as a percentage of total assets in 2015 and 2014, respectively.

Real estate inventories – 30% decrease to P1,647 million from P2,371 million

Mainly from sale of real estate inventories. This account stood at 13% and 17% as a percentage of total assets in 2015 and 2014, respectively.

Other current assets – 18% decrease to P471 million from P574 million

Mainly due to lower prepayments and creditable withholding taxes. This account stood at 4% as a percentage of total assets for years 2015 and 2014.

Non-current trade and other receivables – amounted to P601 million as of December 31, 2015, increased by 3% from P582 million as of December 31, 2014

Mainly due higher cash surrender value of investment in life insurance. This account stood at 4% as a percentage of the total assets in both years.

Non-current available-for-sale financial assets – 46% increase in 2015 to P13 million from P9 million in 2014

The increase was due to higher club shares. This account stood at 0.11% and 0.07% as a percentage of total assets for 2015 and 2014.

Property, plant and equipment – 4% increase to P1,815 million from P1,739 million

No material change. This represented 14 % and 12% as a percentage of total assets in 2015 and 2014, respectively.

Investment property –27% decrease to P2,653 million from P3,653 million

Mainly due to sale of Balintawak property. This account stood at 21% and 26% as a percentage of total assets in 2015 and 2014, respectively.

Retirement benefit assets - 4% decrease to P117 million from P123 million

No material change. This represented 0.95% and 0.90% of total assets in 2015 and 2014, respectively.

Deferred tax assets –net - 30% increase to P166 million from P127 million

Principally due to future tax benefits on net operating loss carryover and MCIT of the digital mobile devices segment. This account stood at 1.34% and 0.93% of total assets in 2015 and 2014, respectively.

Other non-current assets – 33% decrease to P29 million from P44 million

Mainly due to lower deferred input VAT. This represented 0.24% and 0.32% as percentage to total assets in 2015 and 2014 respectively.

Interest-bearing loans – 69% decrease to P257 million from P844 million

Mainly due to payment of loans. This account stood at 2% and 6% as a percentage of total liabilities and equity in 2015 and 2014, respectively.

Trade and other payable – 13% decrease to P637 million from P732 million

Principally due to lower accrued expenses and trade payables and advances from customers. This account stood at 5% as a percentage of total liabilities and equity in 2015 and 2014.

Customers' Deposit – 63% decrease to P550 million from P1,502 million

Principally due to recognition of revenue by Fil-Dragon. This account represented 4% in 2015 and 11% in 2014 as a percentage of total liabilities and equity in 2015 and 2014, respectively.

Advances from related parties – 98 % increase to P73 million from P36 million

The increase was due to additional advances made during the year. This account stood at 0.59% in 2015 and 0.27% in 2014 as a percentage of total liabilities and equity.

Estimated liability for land and land development costs – no change

There was no movement during the period. This account represented 0.55 and .50% as a percentage of total liabilities and equity in 2015 and 2014, respectively.

Income tax payable – 111% increase to P19 million as of December 31, 2015 from P9 million as of December 31, 2014.

Mainly due to provision for income tax of certain subsidiaries. This account was pegged at 0.16% and 0.07% of the total liabilities and equity in 2015 and 2014, respectively.

Non-current refundable deposits – 42% increase to P19 million from P13 million

Principally due to additional deposits during the year. This represented 0.15% and 0.10% of the total liabilities and equity in 2015 and 2014, respectively.

Retirement benefit obligation – 4% decrease to P19 million from P20 million

No material change for this account. This account stood at 0.16% and 0.15% of the total liabilities and equity in 2015 and 2014, respectively.

Deferred tax liabilities – 30% decrease to P647 million from P938 million

Mainly due to reversal of deferred tax liabilities as certain properties are sold. This account stood at 5 % and 6% as a percentage of total liabilities and equity for 2015 and 2014, respectively.

Capital stock – no change

This account stood at 16% and 14% of total liabilities and equity for 2015 and 2014, respectively.

Additional Paid-In-Capital – no change

This account represented 37 % and 33% of total liabilities and equity for 2015 and 2014, respectively.

Treasury Shares – no change

This account represented 0.94% and 0.85% of total liabilities and equity for 2015 and 2014, respectively.

Revaluation reserves – amounted to P35 million from P21 million

Principally due to other comprehensive income for the period consisting of currency exchange differences on translating financial statements of foreign operations. It stood at 0.28% and 0.15% total liabilities and equity in 2015 and 2014, respectively.

Retained earnings – 14% increase to P2,967 million from P2,590 million

Increase was a result of net income during the period. This account stood at 24% and 18% of total liabilities and equity in 2015 and 2014, respectively.

Income Statement Items (2015 vs. 2014)

(Increase or decrease of 5% or more in the financial statements)

Sale of goods – 9% decrease to P3,952 million from P4,337 million

Principally from lower volume of sales of the digital product. As a percentage of total revenues, this account represents 61% and 86% in 2015 and 2014, respectively.

Sale of real estate – 6,213% increase to P1,788 million from P28 million

Principally due to recognition of sale of Golden Hill Project in China. The Company realized the real estate sales in 2015 which included Customer's Deposits in prior years when the property ownership certificate were issued to the buyers in 2015. As a percentage of total revenues, this account stood at 27% in 2015 and 0.57% in 2014.

Service revenue – 17% increase to P532 million from P453 million

Mainly due to higher warranty income and tolling fees of the technical support and solutions segment and higher hotel and events revenue of Green Sun Hotel. As a percentage of total revenues, this account represents 8% and 9% in 2015 and 2014, respectively.

Rental income – P146 million from P150 million

No material change. As a percentage of total revenues, this account represents 2% and 3% for years 2015 and 2014, respectively.

Interest income – 54% increase to P41 million from P27 million

Mainly from higher yield on placements. As a percentage of total revenues, this account represents 0.65% in 2015 and 0.54% in 2014.

Cost of sales - 7% decrease in P3,577 million from P3,854 million

Mainly in relation to decrease in sales. As a percentage of total sales, this account represented 55% and 77% in 2015 and 2014 respectively.

Cost of real estate sold – 4,071% increase to P925 million from P22 million

The increase was mainly in relation to significant increase in the sale of real estate. As a percentage of total revenues, this account represents 14% in 2015 and 0.44% in 2014.

Cost of services - 4,071% increase to P460 million from P374 million

Principally in relation to higher service revenue. This account stood at 7% in 2015 and 2014 as a percentage of total revenues.

Cost of rentals – 59% increase to P57 million from P35 million

The increase was mainly due to higher taxes and licenses. This account represents 0.89% in 2015 and 0.72% in 2014 as a percentage of total revenues.

Gross profit – 102% increase to P1,440 million from P710 million

The increase was principally due to higher margins of the property and building segment. As a percentage of total revenues, this account stood at 22% in 2015 and 14% in 2014.

Selling and distribution costs – P559 million from P552 million

No material change. This account represents 8% of total revenues for 2015 and 11% in 2014.

General and administrative expenses – 11% decrease to P336 million from P379 million

Decrease was mainly due to recognition of penalties for late delivery of property documents for the China project in 2014 (none in 2015). As a percentage of total revenues, this account stood at 6% in 2015 and 7% in 2014.

Other operating income – net - 205% increase to P263 million from P86 million

Principally from higher fair value gains and gain on sale of investment property. As a percentage to total revenues, this account represents 4% in 2015 and 1% in 2014.

Finance income – 169% increase to P89 million from P33 million

It went up due to higher interest income from bank placements as a result of higher interest rates and higher principal, higher foreign currency exchange gains and gain on settlement of receivables. This account represents 1% and 0.66% of total revenues for 2015 and 2014, respectively.

Finance costs – 31% decrease to P77 million from P112 million

Primarily due to lower impairment losses on trade and other receivables and foreign currency losses. This account represents 1% of total revenues in 2015 from 2% in 2014.

Share in net loss of an associate – P3 million in 2015 from nil in 2014

Due to net loss of Creative Hothouse Manila for the period. This account stood at 0.05% in 2015, nil in 2014 as a percentage of total revenues.

Other gains - net – 404% increase to P16 million from P3 million

Primarily due to gain on sale of property and equipment and higher net interest income on retirement benefit asset. This account stood at 0.25% in 2015 from 0.06% in 2014 as a percentage of total revenues.

Tax expense – 802% increase to P159 million from P22 million tax

Mainly due to higher provision for current tax expense income from Balintawak property sale and tax expense for real estate sale in China.

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

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

D. Brief Description and General Nature and Scope of the Business
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Item 1. Business

(A) Description of Business

1. Business Development

The Company, formerly United Paracale Mining Company, was incorporated on October 9, 1933 as a mining company.

On May 31, 1996, the Company's new set of stockholders executed deeds of assignment transferring to the Company their investments in shares of stock of certain companies as full payment for their subscriptions to 1.5 billion shares of the Company's capital stock. On June 18, 1996, the Securities and Exchange Commission approved the assignment of shares and the following amendments to the Company's Articles of Incorporation: (a) change in the Company's corporate name to Solid Group Inc.; (b) change in its primary purpose to that of a holding company; (c) change of the par value of its shares from P.01 to P1.00; (d) the declassification of its class A and class B capital stock; and (e) the increase in its authorized capital stock from P20 million (divided into P1.2 billion Class A shares and 0.8 billion Class B shares at P0.01 par value) to P5 billion divided into 5 billion shares at P1.00 par value, all of one class.

On September 4, 1996, an additional 524,475,000 of Company's shares of stock were offered to the public and listed in the Philippine Stock Exchange.

The Company was engaged in the manufacture of color television for both domestic and export sales as well as the distribution and marketing of various consumer audio and video products involving two major brands Sony and Aiwa. Two other manufacturing operations involved plastic molding factories. Due to dramatic changes in the business environment including the 1997 Asian crisis, market liberalization (AFTA duty reduction) and severe competition from both overseas and local sources, the Company eventually phased out its manufacturing operations in television production in 2002 and in plastics molding in 2009.

On the November 21, 2002 special stockholders' meeting, the stockholders approved the acquisition of the shares and/or economic interests in the Destiny Group (consisting of Destiny, Inc. and subsidiaries (DI) and Destiny Cable, Inc. and subsidiaries) from the Elena Lim family in exchange for 1.026 billion shares of the Company with par value of P1.00 per share.

In May 2003, the Company completed the acquisition of the entire issued and outstanding shares of DI, which is in the business of broadband multimedia services. The acquisition was approved by the Bureau of Internal Revenue (BIR) on May 15, 2003. A notice of exemption for the issuance of shares under the Revised Securities Act was filed with the Securities and Exchange Commission on November 6, 2003. Company shares totaling 224,461,752 was proposed to be issued in payment for the DI acquisition upon approval of the listing of these shares with the Philippine Stock Exchange. However, in 2004, upon further review of the assets and liabilities of DI, certain receivables from and payables to related parties were removed from the valuation of DI's net assets. The re-valuation resulted in a change in its financial position from a net asset to a net liability of P23,201,010. The Company and DCI agreed that the Company would no longer issue shares of stock to DCI as payment for its acquisition of DI, but instead assume the DI's net liability which represents fair value of the ongoing business of DI including its existing cable internet subscriber base which, in accordance with the pooling of interest accounting applied to this transaction, was charged to additional paid-in capital. In 2012, Solid Broadband Corporation (SBC), the surviving company after the merger with DI, sold its broadband cable infrastructure and broadband internet subscriber base to Skycable Corporation.

The Company ventured into a 26-storey high rise condominium project Zen Towers located in the heart of Manila in 2007. This project was expanded in 2010 with the completion of a 11-storey building composed of offices for sale and lease in the same premise. Also part of the real estate business is a 75-room budget hotel Casa Bocobo in Manila which started in 2008.

The Company reinvented itself by realigning its resources to market its own Filipino brand of mobile phone, 'mylphone', which was launched as the country's first dual SIM phone in 2007. This business has grown to become the Company's flagship business in terms of revenues and strong market presence.

The Company has fourteen (14) wholly-owned subsidiaries as of December 31, 2017, as follows:

My Solid Technologies & Devices Corporation (MySolid) was incorporated on April 21, 2009 to engage in the manufacture, sale, distribution, importation of any type of digital communication devices, communication technology, broadband and audio-video equipment, gadgets and accessories as well as undertake product research and development. MySolid merged with MyTel Mobility Solutions Inc. (MyTel), another wholly subsidiary of the Company with similar business, with MySolid as the surviving company effective June 1, 2012.

SolidGroup Technologies Corporation (SGTC) was incorporated on November 17, 1989 to engage in the development and implementation of information technology systems and applications. On February 22, 2011, the Board of Directors and stockholders approved the amendment of the SGTC's articles of incorporation to change its primary purpose. This was approved by the Securities and Exchange Commission on March 22, 2011 and starting that date, SGTC's primary purpose is to engage in, operate, conduct and maintain business of designing, manufacturing, installing, importing, exporting, marketing, distributing or otherwise dealing in at wholesale and retail prefabricated modular house and office units. SGTC was formerly a wholly-owned subsidiary of SC. In 2007, SGTC became a wholly-owned subsidiary of the Company when SC declared property dividend to the Company in the form of its investment in SGTC.

Solid Video Corporation (SVC) was incorporated on October 12, 1984. SVC distributes professional video equipment, accessories and supplies to broadcast networks and other companies.

Solid Manila Corporation (SMC) was incorporated on June 13, 1983. SMC is engaged in the lease and development of the Company's real estate properties. SMC merged with Solid Distributors, Inc. (SDI), another wholly-owned subsidiary of the Company, on December 23, 2003, with SMC as the surviving company. Effective January 1, 2012, SMC merged with Solid Corporation, also another wholly owned subsidiary of the Company engaged in the same business of leasing real estate properties, with the SMC as the surviving company. SMC merged with Solid Corporation (SC), another wholly owned subsidiary of the Company, effective January 1, 2012, with SMC as the surviving company. In 2014, SMC operated the Green Sun Hotel.

Zen Towers Corporation (Zen) was incorporated on July 6, 2005. Zen is engaged in the development and sale of real estate properties. It developed the Zen Tri-Tower condominium located in Ermita, Manila.

Precos Corporation (Precos) was incorporated on October 31, 1989 to engage in real estate and related businesses. Prior to 2004, Precos was 60% owned by Solid Corporation (SC) and 40% owned by Sony International (Singapore) Ltd. (SONIS). In 2004, Precos reacquired as treasury stock the shares held by SONIS, thereby making the Company a wholly owned subsidiary of SC. In 2007, Precos became a wholly-owned subsidiary of the Company when SC declared property dividend to the Company in the form of its investment in Precos. In February 2008, Precos acquired Phil-Nanning Consortium, Inc. (PNCI), a domestic company engaged in real estate business. PNCI has a subsidiary organized and operating in Guangxi, China engaged in property development. In August 2016, Precos sold its 100% ownership in PNCI to Solid Company Limited.

Kita Corporation (Kita) was incorporated on October 1, 1994. Kita produced color TV sets under the AIWA brand at its factory located inside the Clark Special Economic Zone. Kita ceased its manufacturing operations effective April 15, 2001 after its agreement with Aiwa expired in April 1, 2000 and was no longer renewed. Kita merged with Clark Plastics Manufacturing Corporation (CPMC), a wholly owned subsidiary of SC, on April 2004, with Kita as the surviving company. After its merger with CPMC, Kita resumed operations to continue the business of CPMC, which is injected plastics manufacturing as well as the lease of its property. In December 2010, Kita ceased the operations of its injected plastics manufacturing business. Henceforth, Kita's revenues principally come from the lease of its properties.

Omni Solid Services Inc. (OSSI) (formerly Solid Laguna Corporation SLC) was incorporated on May 15, 1995. SLC merged with Solid City Industrial and Commercial Corporation (SCICC), a wholly-owned subsidiary of Solid Corporation, on December 28, 2001 with SLC as the surviving company. SLC ceased its consumer electronics manufacturing operations in December 2002 after its manufacturing agreement with SPH expired in September 2002 and was not renewed. Subsequently, SLC's business is injected plastics manufacturing which was the business of SCICC prior to their merger. SLC ceased the operations of the plastic injection manufacturing business at the end of 2009 and operated as lessor of real estate. SLC merged with Omni Logistics Corporation (OLC), another wholly owned subsidiary of the Company, effective January 1, 2012, with SLC as the surviving company. After the merger, SLC resumed the business of OLC of providing warehousing and logistics services to third parties. On March 19, 2012, SLC changed its corporate name to Omni Solid Services, Inc.

Solid Electronics Corporation (SEC) was incorporated on August 9, 1982. SEC operates the repair and service centers for SONY brands of audio and video consumer electronics equipment and MyPhone digital devices. SEC merged with AA Electronics Corporation (AAEC), another wholly-owned subsidiary of the Company and Solid Electronics Services Inc. (SESI), a wholly owned subsidiary of SC on April 12, 2004 with SEC as the surviving company.

Brilliant Reach Limited (BRL) was incorporated on March 12, 2003 in the British Virgin Islands and acquired by the Company on July 31, 2003. BRL handles and manages the placement of the Company's investible funds in foreign currency fixed income financial assets and other investments.

Solid Manila Finance Inc. (SMFI) was incorporated on September 9, 1999. SMFI is engaged in the financing and extension of business, appliance and other loans.

Solid Broadband Corporation (SBC) was incorporated on September 22, 2000 to offer broadband services. SBC obtained a congressional franchise to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 15, 2001. It has been granted provisional authority to use its franchise by the National Telecommunications Commission on April 15, 2002. SBC was merged with Destiny Inc. (DI) as approved by the Securities and Exchange Commission on August 26, 2005, with SBC as the surviving entity. Henceforth, SBC assumed the operations of DI of broadband cable infrastructure and provides transport services to an affiliate engaged in cable television operations. It also provides integrated multimedia services, among which are, VSAT, broadcast uplink and leased line services. In 2007, SBC started the marketing and distribution of mobile phones. In 2010, My Solid Technologies & Devices Corporation assumed the importation of the mobile phones from SBC while MyTel Mobility Solutions Inc. took over the distribution of mobile phones from SBC. On May 11, 2012, SBC entered into an agreement with Skycable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

MyApp Corporation (MC) was incorporated on October 23, 2014 as a holding company. MC holds 50% ownership of Creative Hothouse Manila, Inc. which is engaged to design and develop mobile applications. In October 2016, MC sold its ownership in Creative Hothouse Manila, Inc. to Creative Hothouse Philippines PTE., LTD.

Green Sun Hotel Management Inc. was incorporated on December 19, 2016 to engage in the hotel and its related business.

Henceforth, the term "Company" would mean the Parent Company and/or any of its subsidiaries.

2. Business of Issuer

Principal Products and Services

The consumer electronics business of the Company as of December 31, 2017 are:

(1) sale of mobile phones which generated sales of P3,293 million in 2017 (for 3,172,124 units) or 95% of sales in 2017, P5,164 in 2016 (for 5,000,036 units) or 96% of sales and P3,594 million (for 3,369, 941 units) or 91% of sales in 2015; and (2) after-sales service for principally SONY brands of consumer electronic products and My|Phone with its 39 company-owned service centers throughout the Philippines as of end of 2017 which generated service income of P187 million or 16% of service revenues in 2017, P172 million or 24% of service revenues in 2016 and P178 million or 33% of service revenues in 2015; and (3) warehousing, distribution and product testing of consumer electronic products with service revenue of P111 million or 9% of service revenues in 2017, P142 million or 19% of service revenues in 2016 and P164 million or 31% of service revenues and (4) subcontract or toll manufacturing of color TV sets for other brand owner (i.e. TCL, Haier, Panasonic) which generated tolling fee of P64 million in 2017 (for 298,083 units) or 5% of service revenues in 2017, P54 million in (for 272,713 units) or 7% of service revenues in 2016 and P29 million in 2015 (for 159,697 units) or 5% of service revenues in 2015.

As mentioned above, Solid Broadband Corporation (SBC) sold its wired and satellite assets and broadband/internet subscriber base on May 11, 2012. After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable Corporation until the SBC's clients are transferred to the latter. Revenues arising from this activity amounted to P73 million in 2017 or 6% of service revenues in 2017, P69 million in 2016 or 9% of service revenues in 2016 and P60 million in 2015 or 11% of service revenues in 2015.

The Company's other business activities are: the development and sale of industrial estates in joint venture with Samsung Corporation of Korea, the development of residential condominium for sale and the development and lease of other real estate properties and hotel operations, sale of prefabricated modular houses, sale of broadcast/professional equipment and accessories and services from project integration.

The Company's products and services are sold in the Philippines. Revenues for the last 3 years, are as follows: broadcast/professional equipment and accessories of P109 million or 3% of sales in 2017, P178 million or 33% of sales in 2016 and P282 million or 7% of sales in 2015; prefabricated modular houses of P13 million or 0.4% of sales in 2017, P24 million or 0.1% of sales in 2016 and P53 million or 0.1% of sales in 2015. Real estate sales amounted to P22 million or 0.4% of revenues in 2017, P12 million or 0.2% of revenues in 2016 and P 1,788 million or 28% of revenues in 2015. Revenues from hotel operations amounted to P143 million in 2017 or 12% of service revenues for 2017, P145 million in 2016 or 20% of service revenues in 2016 and P100 million in 2015 or 19% of service revenues in 2015. Service fee from project integration of P608 million or 51% of service revenues in 2017, P169 million or 23% of service revenues in 2016, P20 million or 4% of service revenues in 2015.

Distribution

The broadcast/professional equipment and accessories is also sold directly to its corporate clients such as broadcast stations.

The Company distributes through its subsidiaries consumer electronic products and devices in the Philippines. The MyPhone brand is distributed by MySolid Technologies and Devices Corporation. As of December 31, 2017, MySolid supplied approximately 100 dealer accounts and 1,800 retail outlets.

Status of any-publicly announced new product or service

None.

Competition

The MyPhone brand cellphones distributed by MySolid Technologies and Devices Corporation competed with other brands in the Philippine market mainly Samsung, Sony Ericsson, Cherry Mobile, Star Mobile, Oppo, Huawei and other grey market phones.

The broadcast/professional equipment and accessories that the Company sells competes with other brands like Panasonic and Sharp.

The prefabricated modular houses that the Company markets are standardized in design, modular assembled, easy to assemble and disassemble and relocate and can also be stored easily. Its main products are designed and manufactured using light steel frames and sandwich wall panels that covers a wide range of applications such as temporary offices, dormitories for construction sites, municipal offices, residential settlements, school classrooms shops, temporary housing for disaster relief and military camps, temporary buildings for exhibitions. It competes with Indigo and Smarthouse.

The Company provides warehousing, and logistics services mostly to electronics companies. It competes with Fast Cargo, Yusen and Agility Logistics among others.

The Company operates a hotel through Casa Bocobo Hotel (CBH) and The Hotel at Green Sun. CBH competes with other budget hotels within the Manila area and Makati area, respectively.

Raw Materials, Parts and Components

The Company through its subsidiaries procures raw materials for manufacture of its products and finished products from a number of sources in the Philippines and foreign suppliers. It has an existing contract through its subsidiary SolidGroup Technologies Corporation, with a foreign supplier, for the supply of prefabricated modular houses (See Agreements).

Dependency of the business upon a single or few customers

The Company is not dependent on any single or few customers. There are no major existing sales contracts.

Service

The Company provides through its subsidiaries, after-sales service for all the consumer electronic products it manufactures. As at December 31, 2017, it has 39 service centers throughout the Philippines and 39 authorized service centers.

Related Party Transactions

The Company provides non-interest bearing cash advances to its subsidiaries for their working capital requirements. Subsidiaries of the Company generally depend on one another for supply of services and lease of properties. (See Item 12- Certain Relationships and Related Transactions of form 17-A)

Principal Terms and Expiration Dates of all Licenses and Agreements

- Memorandum of Understanding with Sony Philippines, Inc. (Sony)

On July 1, 2003, Solid Electronics Corporation (SEC) entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony products. Under the MOU, Sony authorized the Company to perform in-warranty and out-of warranty services to customers in the Philippines for a fee calculated as a percentage of Sony'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 Sony. Network support fees shall be at a fixed rate per month. The Agreement is effective unless revoked by any of the parties.

- *Distributorship Agreement with Sony Corporation*

Solid Video Corporation has a non-exclusive Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under 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.

- *Distribution Agreement for Modular Housing products*

SolidGroup Technologies Corporation (SGTC) has an exclusive Distribution Agreement with Yahgee Modular House Co., Ltd., a corporation organized and existing under the laws of the People's Republic of China (PRC) on June 10, 2011. Under the agreement, SGTC is designated as the exclusive distributor of its products under the MyHouse brand in the Philippines. The agreement is valid for three years up to June 2017. This was not renewed in 2017. SGTC is currently purchasing its materials and supplies with Zengom Modular House Engineering Co. Ltd based in Shenzhen, PRC.

- *Agreement with Sky Cable Corporation*

On May 11, 2012, the Solid Broadband Corporation (SBC) entered into an agreement with Sky Cable Corporation covering the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base of SBC used in the operation of its broadband business. SBC received the amount of P1 billion as consideration for this transaction.

In addition, Sky Cable Corporation assumes to pay SBC all cost and expenses in connection with use and operation of the assets, until the Company's operation is transferred to Sky Cable Corporation.

- *Operating agreement*

Pursuant to the above agreement and pending the issuance of the National Telecommunications Commission (NTC) approval of the transfer of assets, SBC entered into an operating agreement with Sky Cable Corporation on June 2, 2015 for the accommodation of the VSAT transactions of Sky Cable Corporation wherein the said transactions will be sold and collected through SBC for a fee of P1.79 million. Effective 2017, the service fee amounted to P2 million. The agreement is effective unless revoked by either parties.

- *Franchise*

Solid Broadband Corporation (SBC) obtained a congressional franchise for 25 years to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 14, 2001. On May 11, 2012, SBC entered into an agreement with Sky Cable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

Need for any government approval

The transfer of the assets of SBC to Sky Cable Corporation pursuant to its Agreement on May 11, 2012 is still pending the approval of the National Telecommunications Commission.

Effect of existing and probable governmental regulations on the business

None.

Research and development activities

The Company has not spent any significant amount for research and development activities in the last three years.

Costs and effects of compliance with environmental laws

The Company has complied with environmental laws at minimal costs.

Employees

The Company and its subsidiaries have 376 regular employees as at December 31, 2017 as shown in the table below. It estimates to have 450 employees by the end of December 31, 2018. There is no existing union as of December 31, 2018. There are no employees who would be on strike nor have been on strike in the past three (3) years, nor are threatening to strike. The Company has no supplemental benefits and incentive arrangements with its employees other than the regular Christmas bonus, thirteenth month pay, performance incentives and leave conversions.

	<u>Number of employees</u>
Management	15
Sales and Distribution	64
Operation	57
Service	104
Administration	86
Finance	<u>50</u>
Total	<u>376</u>

Major Risks involved in the Businesses of the Company

The Company and its subsidiaries identify the major risks of the businesses by assessing the business environment in which they operate. Major risks and threats are addressed through the corporate planning process, which defines appropriate strategic directions and actions to be taken. These directions and actions are managed by regular audit and management review of the operations and financial results of the Company and its subsidiaries. Significant issues, which may arise as a result of the management review, are then presented to the Executive Committee and the Board of Directors for resolution.

The Company's business is continuously subject to rapid technology changes which may cause inventory obsolescence. The Company monitors developments in technology advances that could affect its business.

Item 2. Properties

(B) Description of Property

Certain properties owned by the Company through its subsidiaries are as follows:

Land Area	Current and Intended
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Location	(in sq. m.)	Use
Laguna International Industrial Park, Biñan, Laguna	73,532	Building and warehouse for lease
La Huerta, Bicutan, Paranaque	18,490	Office building & warehouses for lease
San Dionisio, Paranaque	6,690	Warehouses for lease
San Antonio, Paranaque	4,056	Warehouse for lease
Valenzuela, Marulas, Bulacan	10,493	Factory and warehouses; Building for lease
Laguna International Industrial Park, Biñan, Laguna	5,141	Building and warehouse for lease
Don Chino Roces Ave, Makati City	5,000	Hotel and office building
Natividad St., Ermita, Manila	4,506	Condominium tower (for sale)
Osmena Blvd., Cebu City	3,859	Service center & office building for lease
Outlook Drive, Baguio City	3,846	Land (Intended for sale)
Brgy. Tabuco, Naga City	3,059	Land for lease
Tandang Sora, Quezon City	2,511	Modular residential building for dormitory type leasing
Barrio Pantal, Dagupan City	1,918	Land (Intended for sale)
Barrio San Rafael, Iloilo City	1,750	Service Center and Office building for lease
J. Bocobo St., Ermita, Manila	1,724	Office building and Hotel
Brgy. San Roque, San Pablo City	1,714	Service center and office building for lease
Oliveros, Balintawak, Quezon City	1,400	Land (Intended for sale)
Bacoar, Cavite	1,334	Office building for lease
Cabanatuan City, Nueva Ecija	1,212	Service center and building for lease
Brgy. San Rafael, Tarlac, Tarlac	1,000	Building (Intended for lease)
Calamba Premiere Industrial Park	4,176	Commercial lots for sale
Araneta, Quezon City	1,000	Commercial and Office Building
Brgy. Parian, Prinza and Barandal, Calamba	132,929	Raw Land

Solid Corporation also owns a parcel of land in Bgys. Talipapa and Pamaldan, Cabanatuan City, Nueva Ecija with an area of 1,914,180 square meters. This property is the subject of a case filed by Solid Corporation on October 17, 1995 with the Department of Agrarian Reform Regional Adjudication Board (RARAB) to declare the emancipation patents issued to several tenant farmers of the said property and any patents that may subsequently be issued covering the same, null and void on the ground that the requirements of Presidential Decree No. 27 have not been complied with. The portion of the property that may be subject to litigation consists of 47,211 square meters. On February 6, 1997, the case was submitted for resolution. On June 26, 1997, the RARAB ordered the processing of the Certificate of Land Transfer for issuance to the tenants. On July 31, 1997, Solid Corporation appealed the RARAB decision to the DAR's Central Adjudication Board (DARAB). The appeal was resolved adverse to Solid Corporation on January 31, 2002. Solid Corporation appealed the DARAB decision to the Court of Appeals on February 11, 2002. The Court of Appeals dismissed the petition of Solid Corp. on March 1, 2002. In November 2002, Solid Corporation withdrew its appeal at the Court of Appeals preparatory to negotiating with DAR and Landbank, which the Court of Appeals granted last June 28, 2004. No amicable settlement was however reached. Thus, Solid Corporation filed for a Petition for Higher Valuation of Land before the Provincial Agrarian Reform Adjudication Board of the Department of Agrarian Reform in Cabanatuan City on November 18, 2007. The Department of Agrarian Reform granted Solid Corporation's petition and ordered Land Bank to re-evaluate the land valuation based only on Republic Act No. 6657 (The Comprehensive Agrarian Reform Program) on September 28, 2012. Land Bank amended the valuation and tendered an Amended Offer of P14.97 million to Solid Corporation (or Solid Manila Corporation, the surviving company after the

merger of Solid Manila Corporation and Solid Corporation). Solid Manila Corporation has applied for an amended valuation for Php 16.4 Million Pesos. Solid Manila Corporation is complying the documentation requirements as of April 2018.

Solid Manila Corporation also owns a property in Pililla, Rizal with a land area of 645,193 square meters. The Department of Agrarian Reform has informed Solid Manila Corporation that this property is within the coverage of the Comprehensive Agrarian Reform Law which may result in future litigation. Portion of the property that may be subject to future litigation consists of 210,000 square meters. Solid Manila Corporation has filed its opposition with the Provincial Agrarian Reform Adjudication Board (PARAB) on the coverage of the land under agrarian reform. On August 13, 1997, Solid Manila Corporation obtained a certification from the Office of the Municipal Planning and Development Coordinator (Pililla, Rizal) stating that the subject properties belonging to Solid Manila Corporation was reclassified for Agro-industrial & Industrial use as per Sangguniang Bayan Resolution No. 5 dated March 6, 1980 and duly ratified by the government's Housing & Land Use Regulatory Board (HLURB) under their Resolution No. R-42-A-3 series of 1981, which was adopted on February 11, 1981. Thus, according to company's legal counsel, the said properties are exempt from CARP coverage under the provisions of Department of Justice opinion No. 44. The Company's legal counsel believes that the Board will declare the CARP coverage of the subject properties void since Solid Manila Corporation was clearly denied due process of law. In the meantime, Solid Manila Corporation filed for exemption in January 14, 1999 and said application has been indorsed to Center for Land Use Policy Planning Implementation (CLUPPI) -2 DAR Bureau of Agrarian Legal Affairs on March 8, 1999. Solid Manila Corporation's application for exemption was however subsequently withdrawn. In lieu of the withdrawal, Solid Manila Corporation filed a Protest before the Department of Agrarian Reforms on the Notice of Coverage for TCT Nos. 25264, 25265, 25267, 26578 and 25268. It likewise filed a Petition for Higher Valuation before the Provincial Agrarian Reform Adjudication Board last June 24, 2009 on the lot covered by TCT 25264. Solid Manila Corporation did not pursue the petition in 2016. Solid Manila Corp. was able to secure a retention on the Pillilia lot covered by TCT No. 25265 while the remaining area of around 3 hectares more or less was subjected to the Voluntary Land Transfer Program of the Dept. of Agrarian Reform to the Solid Manila Corporation's recognized farmers-beneficiaries. The Pillilia lots covered by TCT Nos. 25267, 25264 and TCT No. 25268 were likewise subjected to the Voluntary Land Transfer Program by the Dept. of Agrarian Reforms and distributed to the recognized farmer-beneficiaries of Solid Manila Corp. On the Pillilia lot covered by TCT No. 26578, the Regional Director of the Department of Agrarian Reform granted our petition for exemption for TCT No. 26578 on January 30, 2012.

There are two other cases involving certain properties of Solid Manila Corporation. Its titles to the Balintawak, Quezon City property with land area of 31,423 square meters, currently used as a service center and office building, are sought to be annulled in a civil action filed on 25th September, 1990, with the Regional Trial Court Branch 120 on the ground that another title covers the same area claimed by Lilia Sevilla et.al. On July 14, 1995, the in-house counsel assumed the case. On January 20, 2003, the RTC Branch 120 rendered a decision in favor of Lilia Sevilla annulling seven titles of Solid Manila Corporation to wit-- TCT Nos. 12729 up to 12736. SMC filed an appeal with the Court of Appeals. The Company's legal counsel believes that the titles of Solid Manila Corporation will prevail over those of the claimants on the grounds that the titles of the claimants are being sought to be nullified and voided by the government itself. The government's case filed by the Land Registration Authority (which is represented by the Office of the Solicitor General) before the Regional Trial Court (RTC) Branch 122 was for the annulment of claimant's title. Solid Manila Corporation filed an intervention in the government's case despite opposition by Lilia Sevilla et.al. The Court allowed Solid Manila Corporation to intervene in the government's case. Pending the incident of other third party intervenors, the Department of Justice recommended the dismissal of the Register of Deeds (ROD) and Deputy ROD of Calocan based on inquiry of the antecedent facts of the case. In November 2000, the RTC Branch 122 rendered a decision in favor of the government, thus nullifying the land titles of Lilia Sevilla et. al., who subsequently appealed the decision of RTC Branch 122 to the Court of Appeals. SMC consolidated these cases as of February 2004. Lilia Sevilla et. al. filed a motion for

reconsideration to the Court of Appeals' order consolidating these cases. The Court of Appeals had received the memoranda of the respective parties of Lilia Sevilla, the Government and Solid Manila Corp. and had raffled the case to another division for the promulgation of the decision. On May 5, 2014, a Decision was rendered by the Court of Appeals in Lilia Sevilla vs, Solid Manila Corp. in CA-GR No. 77750 granting Solid Manila Corp.'s appeal, nullifying TCT No. 30374 registered in the name of Lilia Sevilla and validating Solid Manila Corp. titles specifically TCT Nos. 172729, 12730, 12731, 12731, 12733, 12734, 12735 and 12736. The Decision of the Court of Appeals had become final and executory on October 9, 2014 pursuant to an Entry of Judgment issued by the Court of Appeals. In May 2015, Solid Manila Corporation sold the Balintawak property.

Franchise

A Company's subsidiary, Solid Broadband Corporation (SBC), obtained a congressional franchise to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 15, 2001. On May 11, 2012, SBC entered into an agreement with Skycable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

Mortgage, lien or encumbrance and limitation on ownership or usage on the properties

Except for the above third party claims filed against the Company's subsidiaries as disclosed above, there are no other mortgage, lien or encumbrance and limitation on the ownership or usage on the properties.

Lease agreements

The Company through its subsidiaries, Kita Corporation and Solid Electronics Corporation, has entered into lease contracts with Clark Development Corporation

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Clark, Pampanga	7,353*	March, April and August 2019
Balintawak, Quezon City	7,987	December 31, 2017

* With increase after every five years on the lease of land and 10% annual increase on lease of the improvements after the first five years.

The lease contract are renewable upon mutual agreement of the parties.

Solid Video Corporation (SVC) leased broadcast and other equipment for P158,921 thousand from various suppliers for the period from April to November 2017. These equipments were needed for the ASEAN projects entered into by SVC.

Also, the Company through its subsidiaries, primarily Solid Manila Corporation and Kita Corporation, leases out to tenants certain real estate properties as summarized below. These leases are renewable on terms mutually acceptable to the parties.

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Bacoar, Cavite	3,544	July 31, 2019

Cagayan de Oro	1,948	Various up to November 16, 2018
Clark, Pampanga	46,536	Various up to December 15, 2018
Iloilo	3,648	Various up to October 14, 2018
Laguna International Industrial Park, Biñan, Laguna	76,220	Various up to July 31, 2021
Laguna International Industrial Park, Biñan, Laguna	7,100	December 31, 2019
La Huerta, Bicutan, Paranaque	11,393	Various up to October 31, 2012
Ermita, Manila	33,689	Various up to March 31, 2022
Ermita, Manila	4,853	Various up to September 30, 2022
San Dionisio, Paranaque City	13,788	December 31, 2017
Valenzuela, Bulacan	8,013	Various up to March 31, 2019
Halang, Calamba	1,035	October 31, 2020
Quezon City	1,253	Various up to September 30, 2027
Magallanes, Makati	11,851	Various up to December 31, 2021

Properties the Company intends to acquire in the next twelve months

The Company estimates capital expenditures for the year 2018 amounting 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.

Item 3. Legal Proceedings

(C) Legal Proceedings

Solid Manila Corporation owns a parcel of land with improvements consisting of warehouses, canteen and parking/ open area located at Laguna International Industrial Park, Mamlasan, Biñan, Laguna. Solid Manila Corporation entered into a contract of lease with Carina Apparel, Inc. on June 2, 2010 whereby Solid Manila Corporation leased to Carina Apparel, Inc. the said property. On February 20, 2014, Carina Apparel Inc. failed to pay the monthly rentals for the period April 2013, October 2013 to December 2013, January 2014 to February 2014 for a total amount of P10.43 million. Solid Manila Corporation filed a special civil action for ejectment against Carina Apparel, Inc. under Civil Case No. 110157 with the Metropolitan Trial Court, Makati City, Branch 62. The Court rendered judgment in favor of Solid Manila Corporation on September 26, 2014 and ordered Carina Apparel, Inc. to vacate the property and peacefully surrender possession to Solid Manila Corporation, pay Solid Manila Corporation the amount of P12.51 million representing rentals in arrears as of March 10, 2014 and P2.07 million as monthly rental starting April 2014 and every month thereafter as reasonable rent or compensation for continued use and occupancy of property until the property is completely restituted to Solid Manila Corporation. With the foregoing Decision becoming final and executory on December 19, 2014, the Metropolitan Trial Court, Makati City Branch 62 issued a notice of levy and sale on all of the personal and office properties of Carina Apparel, Inc. in the premises of the Laguna property.

On January 26, 2015, after a sale by public auction was concluded by the Sheriff, a Certificate of Sale was issued by the Branch Sheriff of the Metropolitan Trial Court, Makati City Branch 62 in favour of Solid Manila Corporation as the highest bidder.

As discussed in Item 2 (See Properties), certain subsidiaries of the Company are involved in litigation or other proceedings affecting their respective titles to real estate property and certain other litigation in relation to property, the outcome of which could individually or taken as a whole, not adversely affect the financial results, operations or prospects of the Company. The Company does not believe any such litigation will have a significant impact on the financial results, operations or prospects of the Company.

E. Directors and Executive Officers

Please see the accompanying Information Statement for a brief summary of the business experience of each director and officer in the last five years.

F. Market Price of and Dividend on the Registrant's Common Equity

Principal Market

The principal market for the registrant's common equity is the Philippine Stock Exchange.

Common Equity

(i) The registrant's common equity is listed and traded only at the Philippine Stock Exchange. The high and low sales prices for each quarter within the last two years are as follows:

Stock Prices

	High (P)	Low (P)
2018		
First quarter	1.92	1.55
2017		
First quarter	1.59	1.23
Second quarter	1.68	1.37
Third quarter	1.82	1.41
Fourth quarter	2.10	1.32
2016		
First quarter	1.22	0.97
Second quarter	1.34	1.11
Third quarter	1.47	1.16
Fourth quarter	1.26	1.15

(ii) Not applicable. The principal market is the Philippine Stock Exchange.

(b) The Company share was trading at P1.73 as of April 12, 2018 (the latest practicable trading date).

(c) Not applicable. This report is not filed in relation to registration of securities.

Holders

The number of shareholders of record as of April 30, 2018 was 4,257 Common shares outstanding as of April 30, 2018 were 1,821,542,000 shares. Total issued shares as of April 30, 2018 were 2,030,975,000.

Top 20 stockholders of the Company's common stock as of April 30, 2018:

	Name of Stockholder	No. of Shares Held	% to Total Outstanding
1.	AA Commercial, Inc.	583,377,817	32.03
2.	AV Value Holdings Corporation	499,999,999	27.45
3.	PCD Nominee Corporation (F)	351,702,725	19.31
4.	Lim, David S.	179,488,591	9.85
5.	Lim, Vincent S.	71,887,187	3.95
6.	Lim, Jason S.	65,176,160	3.58
7.	PCD Nominee Corporation (NF)	25,101,599	1.38
8.	Chua, Willington Chua &/or Constantino	11,610,000	0.64
9.	Chua, Constantino &/or Willington &/or George	1,750,000	0.10
10.	Hottick Development Corporation	1,408,000	0.08
11.	Chua, Willington	1,110,000	0.06
12.	Paz, Venson	1,065,000	0.06
13.	Lucio W. Yan &/or Clara Yan	1,000,000	0.05
	Columbian Motors Corporation	1,000,000	0.05
14.	Juan Go Yu &/or Grace Chu Yu	940,000	0.05
15.	Juan G. Yu &/or John Philip Yu	785,000	0.04
16.	Ong, Victoria	632,000	0.03
17.	Lim, Julia	590,000	0.03
18.	Castillo Laman Tan Pantaleon & San Jose Law Offices	536,000	0.03
19.	GMA Farms, Inc.	500,000	0.03
	Jacinto, Ray Sy	500,000	0.03
	Suntay, Isabel C.	500,000	0.03
20.	Duca, Elpidio	450,000	0.02

b. Not applicable. This report is not filed in relation to registration of securities or any acquisition, business combination or other reorganization.

c. Not applicable. This report is not filed in relation to any acquisition, business combination or other reorganization.

d. Not applicable. This report is not filed in relation to registration of securities

Dividends

a. In 2017, cash dividend of P0.07 per share, to stockholders of record as of August 31, 2017 and payable on September 25, 2017. In 2016, cash dividend of P0.10 per share payable to shareholders of record as of August 31, 2016 and payable on September 26, 2016.

b. The Company's retained earnings as of December 31, 2017 included undistributed earnings of subsidiaries and unconsolidated investees, which are not currently available for dividend declaration until such time that the subsidiaries have distributed them. The Company's retained earnings is also restricted for the cost of 209,433,000 treasury shares amounting to P115.6 million as of December 31, 2017.

Recent Sales of Unregistered Securities in the Past Three Years

There was no sale of unregistered or exempt securities in 2015 to 2017.

a. Securities Sold.

No securities were sold by the Company from 2015 to 2017.

b. Underwriters and Other Purchases

Not applicable. There were no securities were sold by the Company from 2015 to 2017.

c. Consideration

Not applicable. There were no securities were sold by the Company from 2015 to 2017.

d. Exemption from Registration Claimed

Not applicable. There were no securities were sold by the Company from 2015 to 2017.

G. Interim Periods: Comparable discussion to assess material changes

Item 1. Financial Statements

The unaudited consolidated financial statements of the Company and its subsidiaries for the three (3) months period ended March 31, 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)	(22%)	(34%)
Asset turnover	26%	35%
Operating expense ratio	20%	16%
EBITDA	P97 million	P93 million
EPS	P0.03	P0.03
Current ratio	10.09:1	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 22% for the first quarter of 2018 vs. 34% decrease for the same period in 2017 principally due to lower revenues of the digital mobile devices segment.

Asset turnover stood lower at 26% for the first quarter of 2018 from 35% for the same period in 2017 as a result of lower revenues for the period.

Operating expense ratio was 20% and 16% for the first quarter of 2018 and 2017, respectively, principally due to lower revenues for the period.

EBITDA amounted to P97 million for the first quarter of 2018 against P93 million for the same period in 2017. The increase was mainly contributed by investment and others segment. The Company also realized deferred profits from project completed in the first quarter of 2018.

Earnings per share stood to P0.03 for the first quarter of 2018 and 2017 mainly from net income for the period.

Current ratio improved to 10.09:1 as of March 31, 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 March 31, 2018 from 0.14: 1 as of December 31, 2017 primarily due to lower liabilities.

Results of Operations

Revenues decreased by 22% in the first quarter of 2018 reaching P768 million from P982 million for the same period in 2017 principally from lower revenues of the digital mobile devices segment.

Sale of goods amounted to P529 million for the first quarter of 2018, lower by 33% from P788 million for the same period in 2017 mainly due to lower volume of sales of the digital products.

Service revenue went up to P151 million for the first quarter of 2018, an increase of 20% for the same period in 2017 of P126 million mainly due to higher revenues of the technical support and solutions segment.

Rental income amounted to P60 million for the first quarter of 2018, higher by 6% from P57 million for the same period in 2017 due to higher occupancy.

Interest income increased to P17 million for the first quarter of 2018, up by 63% from P10 million for the same period in 2017 due to higher investible funds and higher yields.

Sale of real estate amounted to P9 million for the first quarter of 2018 from sale of condominium units, nil for the same period in 2017.

Cost of sales, services, real estate sold and rentals amounted to P578 million for the first quarter of 2018, or a decrease of 28% from P806 million for the same period in 2017 as discussed below.

Cost of sales amounted to P417 million for the first quarter of 2018, lower by 38%, from P675 million for the same period of last year in relation to decrease in sales.

Cost of services amounted to P124 million for the first quarter of 2018 from P114 million for the same period of 2017, up by 9% mainly in relation to higher service revenue.

Cost of rentals amounted to P30 million for the first quarter of 2018, up by 91% from P16 million for the same period of 2017 mainly due to higher depreciation and taxes and licenses of the property and related services segment.

Gross profit amounted to P189 million for the first quarter of 2018 from P176 million for the same period in 2017. The increase of 7% was principally due to higher gross profit rate of mobile device segment, profit from sale of condominium and improved interest income.

Other operating expenses (income) amounted to P150 million for the first quarter of 2018 from P121 million for the same period of 2017 as explained below.

General and administrative expenses amounted to P93 million for the first quarter of 2018 from P83 million for the same period of 2017. The increase was due to higher communication, light and water, rental expense, security and janitorial services and trainings and seminar offset by lower taxes and licenses expenses.

Selling and distribution costs amounted to P62 million for the first quarter of 2018 from P73 million for the same period of 2017 mainly from lower commissions and manpower and other outside services of the digital mobile devices segment.

Other operating income – net amounted to P5.7 million for the first quarter of 2018, down by 84% from P35 million operating income –net for the same period in 2017 principally due to gain on sale of investment property of the property and building services segment in 2017, nil in 2018.

Despite higher gross profit, operating profit amounted to P39 million for the first quarter of 2018 from P55 million for the same period in 2017, a decline of 29% mainly from lower profit of the mobile devices and property and related services segments. (In 2017, the company reported gain on sale of investment property, none in 2018).

Other income (charges) amounted to P35 million income for the first quarter of 2018 against P15 million income for the same period in 2017 mainly from the following:

Finance costs decreased to P0.9 million for the first quarter of 2018 compared with P6.7 million in 2017 primarily due to lower foreign currency exchange loss.

Finance income was higher at P33 million for the first quarter of 2018 compared with P20 million for the same period of last year mainly due to higher foreign exchange currency gains of the digital mobile and investment and others segments.

Other gains - net amounted to P2.6 million in the first quarter of 2018 compared with P1.3 million of the previous year mainly from excess standard over actual input VAT and others gains.

Profit before tax was P74 million for the first quarter of 2018, an increase of 5 % from P71 million for the same period in 2017 mainly due to higher finance income as explained above.

Tax expense amounted to P21 million for the first quarter of 2018 from P14 million in 2017 due to higher pre-tax income in 2018.

Net profit amounted to P53 million for the first quarter of 2018 against P56 million net profit for the same period in 2017 due to the factors discussed above.

Net profit attributable to equity holders of the parent amounted to P50 million for the first quarter of 2018 against P53 million net profit in for the same period of 2017 as discussed above.

Net profit attributable to non-controlling interest (NCI) amounted to P3.02 million for the first quarter of 2018 compared with P2.9 million in 2017 primarily due to minority share in net income for the period

Financial Position

Cash and cash equivalents amounted to P3,706 million as of March 31, 2018 up by 6% from P3,490 million as of December 31, 2017. Cash was primarily provided from operating activities mainly from decrease in trade and other receivables.

Trade and other receivables reached P635 million as of March 31, 2018 against P1,214 million as of December 31, 2017, or a decrease of 48% 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 amounted to P12 million as of March 31, 2018 and P9 million as of December 31, 2017, an increase of 31% due to additional advances.

Merchandise inventories and supplies - net amounted to P787 million as of March 31, 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 March 31, 2018 and P440 million as of December 31, 2017. There was no material change for this account.

Other current assets amounted to P329 million as of March 31, 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 equivalent.

Total current assets reached P5,906 million as of March 31, 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 P733 million as of March 31, 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 P21 million as of March 31, 2018 and P20 million as December 31, 2017. There was no material change for this account.

Property and equipment amounted to P1,905 million as of March 31, 2018 from P1,909 million as of December 31, 2017. There was no material change for this account.

Investment property decreased to P2,894 million as of March 31, 2018 from P2,903 as of December 31, 2017. There was no material change for this account.

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

Deferred tax assets - net amounted to P99 million as of March 31, 2018 and P110 million as of December 31, 2017 mainly due to deferred tax expense on release of reserve for commission.

Other non-current assets amounted to P33 million as of March 31, 2018 or an increase of 42% from P23 million as of December 31, 2017 primarily due to higher deposits.

Total non-current assets amounted to P5,792 million as of March 31, 2018 from P5,766 million as of December 31, 2017 as discussed above.

Total assets reached P11,699 million as of March 31, 2018 from P11,761 million as of December 31, 2017 as discussed above.

Interest-bearing loans amounted to P122 million as of March 31, 2018 from P115 million as of December 31, 2017. The increase of 6% was due to application of unpaid interest expense to principal loan balances.

Trade and other payables amounted to P340 million as of March 31, 2018 against P475 million as of December 31, 2017, lower by 28% due to lower trade payable and accrued dealers' incentives.

Customers' deposits amounted to P11.7 million as of March 31, 2018 versus P16.7 million as of December 31, 2017 from refund of deposits.

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

Estimated liability for land and land development costs amounted to P 68 million as of March 31, 2018 and December 31, 2017.

Income tax payable amounted to P40 million as of March 31, 2018 from P33 million as of December 31, 2017 mainly from tax expense for the period.

Total current liabilities amounted to P585 million as of March 31, 2018 from P713 million as of December 31, 2017 as a result of lower trade and other payables.

Non-current refundable deposits amounted to P25 million as of March 31, 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 March 31, 2018 and as of December 31, 2017. This represents the unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities -net amounted to P692 million as of March 31, 2018 and P697 million as of December 31, 2017. There was no material change for this account.

Total non-current liabilities amounted to P756 million as of March 31, 2018 from P762 million as of December 31, 2017.

Total liabilities amounted to P1,341 million as of March 31, 2018 from P1,475 million as of December 31, 2017.

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

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

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

Revaluation reserves amounted to P2.5 million as of March 31, 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 P3,448 million as of March 31, 2018 from P3,398 million as of December 31, 2017 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P10,008 million as of March 31, 2018 from P9,939 million as of December 31, 2017 mainly due to higher retained earnings.

Non-controlling interests amounted to P349 million as of March 31, 2018 from P345 million as of December 31, 2017 primarily due to minority share in net income for the period.

Total equity amounted to P10,357 million as of March 31, 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.

vi. 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.

- vii. 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.

- viii. 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 2017 the Company reported fair value gains on investment property of P136 million during the year.

- ix. 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.

<i>H. Compliance with Corporate Governance Practices</i>

The Company adopted a Manual on Corporate Governance to institutionalize the rules and principles of good corporate governance in accordance with the Code of Corporate Governance promulgated by Securities and Exchange Commission (SEC). Its Manual on Corporate Governance was submitted to the SEC on September 2, 2002 in accordance with SEC Memorandum Circular No. 2 Series of 2002.

Pursuant to the Manual, three Board Committees – Audit, Nomination and Compensation and Remuneration Committees were created in 2003 to aid in complying with principles of good corporate governance. In 2003, the Company increased the number of independent directors from one (1) to two (2). In 2004, in compliance with SEC Memorandum Circular No. 6, the Company increased the number of independent directors in its Audit Committee, from one independent director to two (2) independent directors, and appointed an independent director to head the Audit Committee. The company has reelected Mr. Quintin Chua and Ms. Maria G. Goolsby as Independent Directors during the Annual Stockholders' meeting on June 29, 2017. In 2008, the company created another committee, the Risk Management Committee in addition to the 3 existing committees composed of four (4) members chaired by an independent director.

In 2016, the Company, while retaining the services of Punongbayan & Araullo as external auditor, designated a new engagement partner for the audit of the financial statements of the Company beginning the year ending December 31, 2016 in compliance with its Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the handling partner changed every five (5) years or earlier.

A Compliance Officer was appointed in 2002, directly reporting to the Chairman of the Board to monitor compliance with the provisions and requirements of the Manual. The Compliance Officer has established an evaluation system to measure or determine the level of compliance of the Company with its Manual.

The Board of Directors approved the Company's Revised Manual of Corporate Governance in compliance with SEC Memorandum Circular No. 6, Series of 2009 on September 30, 2010. The Company adopted the Revised Manual of Corporate Governance and submitted it to the SEC on September 30, 2010. Also, the Company adopted the Amended Manual on Corporate Governance which was submitted to the SEC on July 25, 2014.

In June 13, 2013, the Board of Directors approved the Audit Committee Charter.

On April 2, 2014, the Board of Directors approved the Revised Code of Business Conduct of the Company.

On August 12, 2014, the Company's Board of Directors approved the following charters: Corporate Governance and Nominations Committee Charter, Compensation or Remuneration Committee Charter and Risk Management Committee Charter.

On April 1, 2009, the Board of Directors approved the Whistle Blowing Policy. On November 11, 2014, the Board of Directors approved the policies on: Enterprise Risk Management Policy, Conflict of Interest Policy, Related Party Transaction Policy and Insider Trading Policy.

The Board of Directors approved the Amended Manual on Corporate Governance in compliance with SEC Memorandum Circular 19, Series of 2016 on May 29, 2017 and submitted it to the SEC on the same date, with an amendment submitted to the SEC on June 8, 2017.

Under the amended manual, the Company created the Related Party Transaction Committee and combined the other Board Committees. The Company has the following Board Committees: Audit Committee, Corporate Governance, Compensation and Nomination Committee and Risk Management and Related Party Transaction Committee.

The Company reappointed Punongbayan and Araullo, CPA's as its independent accountant for the year 2017 during the Annual Stockholders' meeting on June 29, 2017.

The Company, its Directors, Officers and Employees complied with all the leading practices and principles on Good Governance as embodied in the Company's Manual. All members of the Board of Directors as well as Senior Management officers completed and were duly certified to have attended a 2- day special seminar on Corporate Governance conducted by Institute of Corporate Directors and a 1-day SEC Revised Code of Corporate Governance conducted by Center for Global Best Practices. On August 11, 2017, the Company's Directors and Officers attended a 1/2 -day special seminar on Corporate Governance with Risk Opportunities Assessment and Management (ROAM), Inc, an SEC accredited training provider in compliance with SEC Memorandum Circular No. 20, Series of 2013.

On June 28, 2013, the Company accomplished and submitted the Annual Corporate Governance Report (ACGR) for the year 2012 in compliance with SEC Memorandum Circular No. 5, Series of 2013. There are no major deviations from the adopted Revised Manual on Corporate Governance. The Company also accomplished the ACGR for the year 2015 which was attached as part of the 2015 Annual Report in SEC Form 17_A. The Company submitted the 2016 ACGR on May 19, 2017 in compliance with SEC Memorandum Circular No. 20, Series of 2016. For the 2017 Integrated Annual Corporate Governance Report (I-ACGR), the Company will submit the same before its due date of May 30, 2018.

I. External Audit Fees and Services
--

(a) Under the caption Audit and Audit-Related Fees, the aggregate fees billed for each of the last two fiscal years for professional services rendered by the external auditor for:

1. The audit of the registrant's annual financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for those fiscal years:

The audit fees of our present external auditor, Punongbayan and Araullo for the examination of our annual audited financial statements, including those of our subsidiaries for the years ended December 31, 2017 and 2016 amounted to P5.96 million and P5.407 million, respectively.

2. Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements.

None for 2017 and 2016

(b) Under the caption "Tax Fees", the aggregate fees billed in each of the last two (2) fiscal years for professional services rendered by the external auditor for tax accounting, compliance, advice, planning and any other form of tax services. Registrant shall describe the nature of the services comprising the fees disclosed under this category.

The tax fees paid to the Tax Division of Punongbayan and Araullo for tax consultation and advisory services of our Company and those of our subsidiaries for the year ended December 31, 2017 and 2016 amounted to P240 thousand for both years.

(c) Under the caption "All Other Fees", the aggregate fees billed in each of the last two (2) fiscal years for products and services provided by the external auditor, other than the services reported under items (a) & (b) above. Registrants shall describe the nature of the services comprising the fees disclosed under this category.

There were no other fees paid for the years 2017 and 2016.

(d) The audit committee's approval policies and procedures for the above services.

The overall scope of the audit was reviewed and approved by the Audit Committee. The terms of engagement of the audit were also reviewed and approved by the Audit Committee.

The scope and terms of engagement of the tax consultation and advisory services were also reviewed and approved by the Audit Committee.

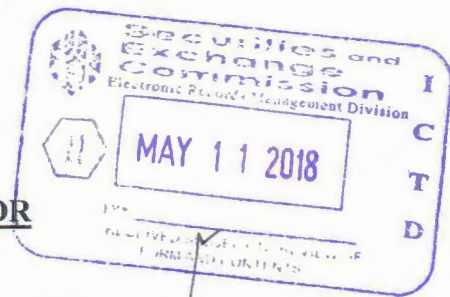
Upon the favorable endorsement by the Audit Committee, the proposed terms of engagement of services are submitted for approval to the Board of Directors. All of the above services were approved by the Board of Directors.

<p>J. Request for Annual Report on SEC Form 17-A</p>

UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY WILL PROVIDE, FREE OF CHARGE, A COPY OF THE COMPANY'S SEC FORM 17-A (ANNUAL REPORT) DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.

ALL REQUESTS MAY BE SENT TO THE FOLLOWING ADDRESS:

**Solid Group, Inc.
2285 Don Chino Roces Avenue,
Makati City, Metro Manila
Attention: Ms. Meline Corpuz**



CERTIFICATION OF INDEPENDENT DIRECTOR

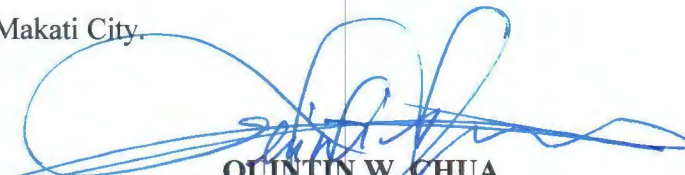
I, **Quintin W. Chua**, Australian, of legal age and a resident of Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Solid Group Inc. and have been its independent director since March 2003.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Quantum Capital Management, Inc.	Chairman and Managing Director	1995 to Present
Nature's Harvest Corp.	Chairman and President	1985 to Present
Hexagon Financing Corp.	Director	2002 to Present

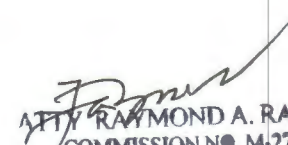
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Solid Group Inc. as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any director/officer/substantial shareholder of Solid Group Inc. and its subsidiaries and affiliates as provided under Rule 38.2.3 of the Securities Regulation Code.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. To the best of my knowledge, I am neither an officer nor an employee of any government agency or government-owned and controlled corporation.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of Solid Group Inc. of any changes in the abovementioned information within five (5) days from its occurrence.

Done this MAY 10 2018 day of _____ 2018 at Makati City.

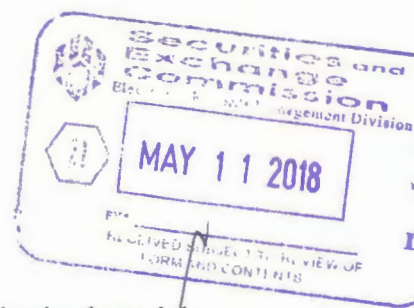

QUINTIN W. CHUA
Independent Director

SUBSCRIBED AND SWORN to before me this MAY 10 2018 day of _____ 2018 at Makati City, affiant personally appeared before me and exhibited to me his Passport No. E4108507 issued at Australia on July 5, 2013.

Doc. No. 388 :
Page No. 79 :
Book No. JJ :
Series of 2018


ATTY. RAYMOND A. RAMOS
COMMISSION NO. M-277
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2018
NO. 15 J.P. RIZAL EXTN. COR. TANGUILE ST
COMEMBO, MAKATI CITY
SC Roll No. 62179/04-26-2013
IBP NO. 022957/01-04-2018/Pasig City
PTR NO MKT-6614630, 01-03-2018/MAKATI CITY
MCLF Compliance No. V-0004514/10-31-2014

CERTIFICATION OF INDEPENDENT DIRECTOR




I, **Maria G. Goolsby**, Filipino, of legal age and a resident of Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Solid Group Inc. and have been its independent director since June 2015.
2. I was affiliated with the following companies or organizations.

Company/Organization	Position/Relationship	Period of Service
Union Bank of the Philippines	Executive Director, Corporate Philanthropy and Social Responsibility	2003 to 2014
Union Bank of the Philippines	Special Assistant to the Chairman/CEO	1993 to 2014
Union Bank of the Philippines	Senior Vice President, Head of Human Resource and Administration Group	1993 to 2003

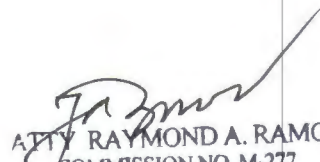
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Solid Group Inc. as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any director/officer/substantial shareholder of Solid Group Inc. and its subsidiaries and affiliates as provided under Rule 38.2.3 of the Securities Regulation Code.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. To the best of my knowledge, I am neither an officer nor an employee of any government agency or government-owned and controlled corporation.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of Solid Group Inc. of any changes in the abovementioned information within five (5) days from its occurrence.

Done this **MAY 10 2018** day of _____ 2018 at Makati City.


MARIA G. GOOLSBY
Independent Director

SUBSCRIBED AND SWORN to before me this **MAY 10 2018** day of _____ 2018 at Makati City, affiant personally appeared before me and exhibited to me her Passport No. EC1374276 issued at Manila on June 11, 2014.

Doc. No. 589 :
Page No. 79 :
Book No. 75 :
Series of 2018


ATTY. RAYMOND A. RAMOS
COMMISSION NO. M-277
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2018
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COMEMBO, MAKATI CITY
SC Roll No. 62179/04-26-2013
IBP NO. 022957/01-04-2018/Pasig City
PTR NO MK1-6614630, 01-03-2018/MAKATI CITY
MCLF: Compliance No. V-0004514/10-31-2014

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY)S.S.

SECRETARY'S CERTIFICATE

I, **ANA MARIA A. KATIGBAK**, of legal age, Filipino, with office address at the 3rd Floor, The Valero Tower, 122 Valero Street, Salcedo Village, Makati City, after having been duly sworn to in accordance with law, do hereby depose and state that:

1. I am the duly elected and qualified Asst. Corporate Secretary of **SOLID GROUP INC.** (the "Corporation"), a corporation duly organized and existing under the laws of the Philippines with principal office address at 2285 Don Chino Roces Avenue, Makati City, Philippines.
2. I hereby certify that none of the Corporation's Regular Directors, Independent Directors and Officers are appointed or employed in any government agency.

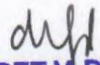
MAY 24 2018 IN WITNESS WHEREOF, this Certificate was signed and issued this _____ day of May 2018 at Makati City, Philippines.


ANA MARIA A. KATIGBAK
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this **MAY 24 2018** at Makati City by affiant whose identity I have confirmed through her Passport No. P1893381A issued on February 7, 2017 in Manila, bearing the affiant's photograph and signature.

Doc. No. 246;
Page No. 5;
Book No. IV;
Series of 2018.




DAISY MARGARET V. DUCEPEC
Appointment No. M-532
Notary Public for Makati City
Until December 31, 2018
Castillo Laman Tan Pantaleon
& San Jose Law Firm
The Valero Tower, 122 Valero Street
Salcedo Village, Makati City
PTR No. 00180089;01-04-2018;Makati City
IBP No. 022622;01-04-2018;Makati Chapter
Roll No. 70138



SOLID GROUP INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Solid Group Inc. and Subsidiaries** is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.


JASON S. LIM

Chairman of the Board
Passport No. EC1478590
Date/Place Issued:
June 26, 2014, Manila


SUSAN L. TAN

President & Chief Executive Officer
Passport No. EC2411790
Date/Place Issued:
October 14, 2014, Manila

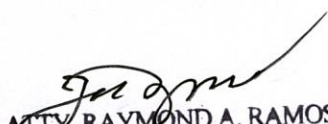

VINCENT S. LIM

SVP & Chief Financial Officer
Passport No. PO757030A
Date/Place Issued:
October 26, 2016, Manila

Signed this **APR 18 2018** day of _____, 2018.

SUBSCRIBED AND SWORN to before me this **APR 18 2018** day of _____, affiants exhibiting to me their passport with details shown above.

Doc No. 13 ;
Page No. 4 ;
Book No. 82 ;
Series of 2018


ATTY. RAYMOND A. RAMOS
COMMISSION NO. M-277
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2018
NO. 15 J.P. RIZAL EXTN. COR. TANGUILE ST
COMEMBO, MAKATI CITY
SC Roll No. 62179/04-26-2013
IBP NO. 022957/01-04-2018/Pasig City
PTR NO. MKT-6614630, 01-03-2018/MAKATI CITY
MCLF Compliance No. V-0004514/10-31-2014

**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION
OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL
STATEMENTS**

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with Philippine Financial Reporting Standards (PFRS) and reports as required by accounting and auditing standards for **Solid Group Inc. and Subsidiaries** for the period ended December 31, 2017.

In discharging this responsibility, I hereby declare that I am the SVP & Chief Accounting Officer of Solid Group Inc.

Furthermore, in my compilation services for the preparation of the financial statements and notes to the financial statements, I was not assisted by or did not avail of the services of Punongbayan & Araullo which is the external auditor who rendered the audit opinion for the said financial statements and notes to the financial statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.

Intercomz

Mellina T. Tan-Corpuz

CPA Certificate No. 0073993

Valid Until: August 14, 2019

CPA Accreditation No. 3257

Valid Until: August 14, 2020

April 3, 2018

SUBSCRIBED AND SWORN TO BEFORE ME
THIS DAY OF APR 05 2018
OFFICANT EXHIBITED HIS/HER

NO. _____ ISSUED ON _____

NOTARY PUBLIC

AT _____

Doc. No. 127
Page No. 27
Book No. JO
Series of 2018 18

[Signature]
ATTY. RAMONDA A. RAMOS
COMMISSION NO. M-277
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2018
NO. 15 J.P. RIZAL EXTN. COR. TANGUILE ST
COMEMBO, MAKATI CITY
SC Roll No. 62179/04-26-2013
IBP NO. 022957/01-04-2018/Pasig City
PTR NO MK1-6614630, 01-03-2018/MAKATI CITY
MCLB Compliance No. V-0004514/10-31-2014



P&A
Grant Thornton

An instinct for growth™

Punongbayan & Araullo

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288

Report of Independent Auditors

The Board of Directors and Stockholders
Solid Group Inc. and Subsidiaries
2285 Don Chino Roces Avenue
Makati City

Opinion

We have audited the consolidated financial statements of Solid Group Inc. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and the notes to consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

(a) Revenue Recognition for Sale of Goods

Description of the Matter

The Group recognizes revenue from sale of goods 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. For the year ended December 31, 2017, revenue from sale of goods amounted to P3,450.2 million representing 69.8% of the total revenue of the Group. On the other hand, the related trade receivables amounting to P780.2 million as at December 31, 2017, accounted for the 6.6% of total assets of the Group. Since the revenue from sale of goods and the related receivables are both significant and susceptible to fraud or error that could cause material misstatements to the consolidated financial statements, we consider this as key audit matter.

The Group's disclosures about its revenue from sale of goods and the related trade receivables and revenue recognition policies are included in Notes 2 and 7, respectively.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to revenue recognition for sale of goods included:

- testing of design effectiveness of activities-level internal controls related to the process of recording sale and receipts, which include inquiry and observation, and performing walkthrough of controls of indicating processing marked on source documents and comparing details of amounts entered to source documents;
- confirming sample receivable items using positive confirmations to ascertain the existence and validity of recognized revenues and the related trade receivables;
- performing alternative audit procedures for non-responding customers, such as, examining evidence of subsequent receipts, and corresponding delivery orders and commercial invoices;
- performing sales cut-off test, including, among others, examining sales transactions near period end, and analyzing and reviewing delivery orders, commercial invoices, sales returns, credit memos and other receivable adjustments subsequent to the end of the reporting period to determine whether revenues are appropriately recognized in the proper period; and,
- performing detailed analysis of revenue components on a per month and per product basis and financial key ratio analysis related to revenues such as, but not limited to, comparing the current year's revenue as a percentage of total revenues, receivable turnover and average collection period.

(b) Measurement of Merchandise Inventories at Net Realizable Value

Description of the Matter

As at December 31, 2017, the Group's merchandise inventories amounted to P538.6 million, which accounts for the 9.0% and 4.6% of the Group's total current assets and total assets, respectively. Merchandise inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Management uses estimates such as estimated cost to sell in determining the net realizable value of its merchandise inventories. These management's processes are based on judgment and certain assumptions. This factor, together with the significant share of merchandise inventories in the consolidated statements of financial position of the Group, made us conclude that the measurement of merchandise inventories at the lower of cost and net realizable value is a key audit matter.

The Group's disclosures about merchandise inventories and the related inventory valuation policies are included in Notes 9 and 2, respectively.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the measurement of merchandise inventories at the lower of cost and net realizable value, which was considered to be a significant risk, included:

- determining whether the method of inventory costing and the application of the measurement at the lower of cost and net realizable value is appropriate and consistent with prior periods;
- performing test on inventory costing on sample basis by recomputing the unit cost, examining movements affecting the average unit cost and reviewing the supporting documents to validate the components of inventory costs;
- determining whether inventory is stated at lower of cost and net realizable value by obtaining and testing the reasonableness of the Group's computation of the net realizable value; and,
- performing a price test, on a sample basis, of inventory items by examining supporting documents.

(c) Valuation of Investment Properties at Fair Value

Description of the Matter

The Group's investment properties consist mainly of land and improvements, and buildings and improvements held for lease under operating lease arrangements. The Group's investment properties are accounted for under the fair value model. As at December 31, 2017, the Group's investment properties amounted to P2,903.9 million representing 24.7% of the total assets. In determining the fair value of investment properties, management engaged the services of professional and independent appraiser, with sufficient experience with respect to both the location and the nature of the investment properties, which uses relevant valuation methodologies.

The valuation of investment properties was considered as key audit matter as the amount is material to the consolidated financial statements and that the processes of determining the fair value involves significant estimates and assumptions which involves the utilization of the work of an expert.

The Group's disclosures about investment properties and the related fair value disclosures are included in Notes 12 and 30, respectively.

How the Matter was Addressed in our Audit

Our audit procedures to address the risk of material misstatement relating to valuation of investment properties included:

- determining whether the independent appraiser engaged by the Group has the necessary professional competency, reputation, experience and objectivity;
- evaluating the results of the work of independent appraiser by understanding the methods and data used in determining the fair value of investment properties; and,
- assessing the appropriateness and reasonableness of assumptions used such as the selection of comparable properties and determination of price adjustments due to size and features, among others.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

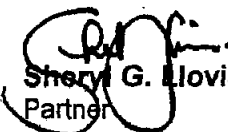
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audits resulting in this independent auditors' report is Sheryl G. Llovido.

PUNONGBAYAN & ARAULLO

By:  **Sheryl G. Llovido**
Partner

CPA Reg. No. 0108392
TIN 221-750-103
PTR No. 6616012, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1554-A (until Apr. 14, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-36-2015 (until Nov. 1, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 3, 2018

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	5	P 3,490,600,099	P 2,259,894,549
Financial assets at fair value through profit or loss	6	-	741,732,076
Trade and other receivables - net	7	1,214,427,626	1,380,006,645
Advances to related parties	25	9,223,071	9,105,994
Merchandise inventories and supplies - net	9	538,620,487	802,961,531
Real estate inventories - net	10	440,454,110	451,885,998
Other current assets	13	301,822,764	215,170,360
Total Current Assets		<u>5,995,148,157</u>	<u>5,860,757,153</u>
NON-CURRENT ASSETS			
Trade and other receivables	7	692,864,376	663,099,702
Available-for-sale financial assets - net	8	20,997,265	18,076,450
Property and equipment - net	11	1,909,014,819	1,874,098,566
Investment properties - net	12	2,903,917,472	2,678,036,738
Post-employment benefit asset	21	105,764,094	102,973,736
Deferred tax assets - net	22	110,772,335	119,545,793
Other non-current assets	13	23,451,965	20,101,090
Total Non-current Assets		<u>5,766,782,326</u>	<u>5,475,932,075</u>
TOTAL ASSETS		<u><u>P 11,761,930,483</u></u>	<u><u>P 11,336,689,228</u></u>

	Notes	2017	2016
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Interest-bearing loans	14	P 115,748,223	P 112,643,382
Trade and other payables	15	475,688,544	438,512,255
Customers' deposits	2	16,755,990	10,818,247
Advances from related parties	25	3,793,105	1,881,549
Estimated liability for land and land development costs	2	68,304,647	68,304,647
Income tax payable		<u>33,477,152</u>	<u>15,248,773</u>
Total Current Liabilities		<u>713,767,661</u>	<u>647,408,853</u>
NON-CURRENT LIABILITIES			
Refundable deposits	16	27,098,123	21,368,341
Post-employment benefit obligation	21	37,865,673	33,005,305
Deferred tax liabilities - net	22	<u>697,238,194</u>	<u>636,814,539</u>
Total Non-current Liabilities		<u>762,201,990</u>	<u>691,188,185</u>
Total Liabilities		<u>1,475,969,651</u>	<u>1,338,597,038</u>
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	(15,778,108)	(27,542,667)
Retained earnings	23	<u>3,398,699,549</u>	<u>3,129,157,242</u>
Total equity attributable to the Parent Company's stockholders		9,939,983,983	9,658,677,117
Non-controlling interests	2	<u>345,976,849</u>	<u>339,415,073</u>
Total Equity		<u>10,285,960,832</u>	<u>9,998,092,190</u>
TOTAL LIABILITIES AND EQUITY		<u>P 11,761,930,483</u>	<u>P 11,336,689,228</u>

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
REVENUES				
Sale of goods	2	P 3,450,152,476	P 5,393,488,265	P 3,952,750,577
Rendering of services	25, 26	1,192,371,205	736,887,361	532,077,613
Rentals	12, 25, 27	233,294,441	184,863,639	146,091,062
Interest	7, 20, 25	44,795,183	38,054,114	41,920,757
Sale of real estate	2	22,123,780	12,065,150	1,788,006,760
		<u>4,942,737,085</u>	<u>6,365,358,529</u>	<u>6,460,846,769</u>
COSTS OF SALES, SERVICES, RENTALS AND REAL ESTATE SALES				
Cost of sales	17	2,970,049,060	4,706,591,200	3,577,153,783
Cost of services	17	915,753,933	595,047,557	460,303,202
Cost of rentals	12, 17	77,115,991	52,137,047	57,325,823
Cost of real estate sales	17	14,148,749	8,224,118	925,220,490
		<u>3,977,067,733</u>	<u>5,361,999,922</u>	<u>5,020,003,298</u>
GROSS PROFIT		<u>965,669,352</u>	<u>1,003,358,607</u>	<u>1,440,843,471</u>
OTHER OPERATING EXPENSES (INCOME)				
Selling and distribution costs	18	330,955,769	376,046,004	559,990,238
General and administrative expenses	18	367,737,348	358,350,005	336,954,164
Other operating income - net	19	(251,374,352)	(16,695,835)	(263,024,203)
Gain on sale of subsidiary	1, 25	-	(127,963,343)	-
		<u>447,318,765</u>	<u>589,736,831</u>	<u>633,920,199</u>
OPERATING PROFIT		<u>518,350,587</u>	<u>413,621,776</u>	<u>806,923,272</u>
OTHER INCOME (CHARGES) - Net				
Finance income	20	39,837,895	57,256,998	89,517,766
Finance costs	20	(14,453,757)	(17,998,210)	(77,005,570)
Other gains - net	20	17,726,255	12,691,553	16,058,807
Share in net loss of an associate	13	-	-	(3,305,718)
		<u>43,110,393</u>	<u>51,950,341</u>	<u>25,265,285</u>
PROFIT BEFORE TAX		<u>561,460,980</u>	<u>465,572,117</u>	<u>832,188,557</u>
TAX EXPENSE	22	<u>157,848,957</u>	<u>124,862,296</u>	<u>159,283,615</u>
NET PROFIT		<u>P 403,612,023</u>	<u>P 340,709,821</u>	<u>P 672,904,942</u>
Net profit (loss) attributable to the:				
Parent Company's stockholders	24	P 397,050,247	P 343,429,551	P 486,807,389
Non-controlling interests		<u>6,561,776</u>	<u>(2,719,730)</u>	<u>186,097,553</u>
		<u>P 403,612,023</u>	<u>P 340,709,821</u>	<u>P 672,904,942</u>
Earnings per share attributable to the				
Parent Company's stockholders	24	<u>P 0.22</u>	<u>P 0.19</u>	<u>P 0.27</u>

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
NET PROFIT		P 403,612,023	P 340,709,821	P 672,904,942
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be reclassified subsequently to profit or loss:				
Fair value gains on available-for-sale financial assets - net	8, 23	2,920,815	3,267,665	1,380,000
Currency exchange differences on translating financial statements of foreign operations	2, 23	319,859	12,035,355	14,380,981
Deferred tax expense on changes in fair value of available-for-sale financial assets	22, 23	(210,000)	(630,000)	(414,000)
Reclassification adjustments for gains recognized in profit or loss from disposal of investment in foreign operations	23	-	(63,709,618)	-
		<u>3,030,674</u>	(49,036,598)	<u>15,346,981</u>
Item that will not be reclassified subsequently to profit or loss:				
Remeasurement of post-employment defined benefit plan	21, 23	11,330,762	(18,336,523)	(1,899,376)
Tax income (expense)	22, 23	(2,596,877)	4,792,281	508,268
		<u>8,733,885</u>	(13,544,242)	(1,391,108)
Other comprehensive income (loss) – net of tax		<u>11,764,559</u>	(62,580,840)	<u>13,955,873</u>
TOTAL COMPREHENSIVE INCOME		P 415,376,582	P 278,128,981	P 686,860,815
Total comprehensive income (loss) attributable to:				
Parent Company's stockholders		P 408,814,806	P 280,848,711	P 500,763,262
Non-controlling interests		<u>6,561,776</u>	(2,719,730)	<u>186,097,553</u>
		<u>P 415,376,582</u>	P 278,128,981	P 686,860,815

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

Notes	Attributable to the Parent Company's Stockholders						Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-in Capital	Treasury Shares - at Cost	Revaluation Reserves	Retained Earnings	Total		
Balance at January 1, 2017	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 27,542,667)	P 3,129,157,242	P 9,658,677,117	P 339,415,073	P 9,998,092,190
Dividends declared	-	-	-	-	(127,507,940)	(127,507,940)	-	(127,507,940)
Total comprehensive income for the year	-	-	-	11,764,559	397,050,247	408,814,806	6,561,776	415,376,582
Balance at December 31, 2017	<u>P 2,030,975,000</u>	<u>P 4,641,701,922</u>	<u>(P 115,614,380)</u>	<u>(P 15,778,108)</u>	<u>P 3,398,699,549</u>	<u>P 9,939,983,983</u>	<u>P 345,976,849</u>	<u>P 10,285,960,832</u>
Balance at January 1, 2016	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	P 35,038,173	P 2,967,881,891	P 9,559,982,606	P 508,864,998	P 10,068,847,604
Transaction between owners:								
Deconsolidation of a subsidiary	1 -	-	-	-	-	-	(166,730,195)	(166,730,195)
Dividends declared	23 -	-	-	-	(182,154,200)	(182,154,200)	-	(182,154,200)
Total comprehensive income for the year	23 -	-	-	(62,580,840)	343,429,551	280,848,711	(2,719,730)	278,128,981
Balance at December 31, 2016	<u>P 2,030,975,000</u>	<u>P 4,641,701,922</u>	<u>(P 115,614,380)</u>	<u>(P 27,542,667)</u>	<u>P 3,129,157,242</u>	<u>P 9,658,677,117</u>	<u>P 339,415,073</u>	<u>P 9,998,092,190</u>
Balance at January 1, 2015	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	P 21,082,300	P 2,590,367,022	P 9,168,511,864	P 322,767,445	P 9,491,279,309
Dividends declared	23 -	-	-	-	(109,292,520)	(109,292,520)	-	(109,292,520)
Total comprehensive income for the year	23 -	-	-	13,955,873	486,807,389	500,763,262	186,097,553	686,860,815
Balance at December 31, 2015	<u>P 2,030,975,000</u>	<u>P 4,641,701,922</u>	<u>(P 115,614,380)</u>	<u>P 35,038,173</u>	<u>P 2,967,881,891</u>	<u>P 9,559,982,606</u>	<u>P 508,864,998</u>	<u>P 10,068,847,604</u>

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 561,460,980	P 465,572,117	P 832,188,557
Adjustments for:				
Fair value losses (gains) on investment property - net	12	(135,678,910)	52,938,928	(87,747,812)
Depreciation and amortization	11	85,528,588	80,149,510	76,013,702
Interest income	7, 20, 25	(70,327,634)	(59,861,406)	(77,425,436)
Gain on sale of investment property	12	(37,510,547)	-	(138,520,266)
Impairment loss on property and equipment	11	14,346,250	-	-
Gain on redemption of financial assets at fair value through profit or loss (FVTPL)	6	(5,918,418)	(2,268,082)	(1,403,189)
Interest expense	20	2,834,528	12,431,682	59,348,521
Interest amortization on refundable deposits	16	1,555,880	272,778	155,895
Gain on sale of property and equipment	11	(1,533,248)	(739,986)	(6,685,469)
Gain on derecognition of liabilities	15	(1,293,384)	(72,555)	-
Gain on discounting of refundable deposits	16	(486,937)	(2,891,369)	-
Unrealized foreign currency exchange gains - net	20	(406,317)	(28,119,793)	(32,197,646)
Dividend income	20	(219,272)	-	-
Gain on sale of subsidiary	1, 25	-	(127,963,343)	-
Fair value gain on financial assets at FVTPL	6	-	(2,491,078)	(260,983)
Gain on settlement of receivables	7	-	-	(19,395,000)
Operating profit before working capital changes		412,351,559	386,957,403	604,070,874
Decrease (increase) in trade and other receivables - net		137,379,997	(188,166,371)	136,928,058
Decrease (increase) in advances to related parties		(117,077)	(154,302,664)	27,327,315
Decrease (increase) in merchandise inventories and supplies - net		264,341,044	63,193,801	(271,525,372)
Decrease in real estate inventories - net		11,431,888	24,746,816	724,452,797
Decrease (increase) in other current assets		(5,195,533)	125,259,674	(134,446,514)
Decrease in post-employment benefit asset		5,943,527	763,840	4,393,168
Decrease (increase) in other non-current assets		(3,350,875)	9,387,639	14,781,965
Increase (decrease) in trade and other payables		38,469,673	23,432,122	(95,816,590)
Increase (decrease) in customers' deposits		5,937,743	55,613,237	(951,269,920)
Increase in advances from related parties		1,911,556	116,925,091	36,384,895
Increase in refundable deposits		4,660,839	4,964,040	5,708,945
Increase (decrease) in post-employment benefit obligation		4,860,368	13,265,851	(966,250)
Cash generated from operations		878,624,709	482,040,479	100,023,371
Interest received		45,361,516	38,006,465	64,967,784
Cash paid for income taxes		(151,770,477)	(120,188,155)	(227,272,116)
Net Cash From (Used in) Operating Activities		772,215,748	399,858,789	(62,280,961)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from redemption of financial assets at FVTPL	6	875,150,494	811,112,953	1,016,699,632
Acquisitions of property and equipment	11	(173,211,098)	(141,407,745)	(152,791,087)
Acquisitions of financial assets at FVTPL	6	(127,500,000)	(1,425,077,589)	(391,971,786)
Additions to investment property	12	(102,145,718)	(76,772,868)	(279,581,068)
Proceeds from disposal of investment property	12	85,686,880	-	1,506,509,527
Interest received	20	23,400,466	21,807,292	35,504,679
Proceeds from disposal of property and equipment	11	3,720,816	1,321,843	7,519,692
Net proceeds from sale of a subsidiary	1	-	275,997,999	-
Acquisitions of available-for-sale financial assets	8	-	(972,258)	(3,000,000)
Net Cash From (Used in) Investing Activities		585,101,840	(533,990,373)	1,738,889,589
<i>Balance carried forward</i>		P 1,357,317,588	(P 134,131,584)	P 1,676,608,628

	Notes	2017	2016	2015
<i>Balance brought forward</i>		<u>P 1,357,317,588</u>	(P 134,296,203)	<u>P 1,676,608,628</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	23	(127,507,940)	(182,154,200)	(109,292,520)
Proceeds from availment of interest-bearing loans	14	2,849,802	-	-
Interest paid	14	(2,834,528)	(12,431,682)	(59,348,521)
Dividends received	19	219,272	164,619	-
Repayments of interest-bearing loans		<u>-</u>	(16,241,491)	(587,266,367)
Net Cash Used in Financing Activities		(127,273,394)	(210,662,754)	(755,907,408)
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		<u>661,356</u>	<u>28,119,793</u>	<u>32,197,646</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,230,705,550	(316,839,164)	952,898,866
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>2,259,894,549</u>	<u>2,576,733,713</u>	<u>1,623,834,847</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>P 3,490,600,099</u>	<u>P 2,259,894,549</u>	<u>P 2,576,733,713</u>

Supplemental Information on a Non-cash Investing Activity –

In 2017 and 2016, the Group transferred certain property and equipment with carrying amounts of P36.2 million and P1.0 million, respectively, to Investment Property account (see Notes 11 and 12).

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017, 2016 AND 2015
(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
	2017	2016	2015		
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
Phil-Nanning Consortium, Inc. (PNCI)	-	-	100	f	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	-	-	51	g	Real estate
Associate –					
Creative HotHouse Manila, Inc. (CHMI)	-	-	50	i	Development of mobile application

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) Indirectly owned through Precos as of December 31, 2015; in 2016, Precos sold all its shareholdings in PNCI
- (g) Indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China (PRC); in 2016, deconsolidated through sale of investment in PNCI
- (h) Incorporated on October 23, 2014; has not yet started commercial operation as of December 31, 2017
- (i) Indirectly owned through MyApp; incorporated on February 5, 2015; in 2016, MyApp sold all its shareholdings in CHMI
- (j) 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) Recognition of Real Estate Sales of Fil-Dragon

In prior years, Fil-Dragon started its pre-selling activities in relation to the Golden Hill Project located in Nanning City, Guangxi Province in PRC. However, no real estate sales were recognized, pending the receipt of the certificates of property ownership from the Chinese government. Accordingly, collections from real estate buyers were recognized as part of Customers' Deposits in the consolidated statements of financial position. In 2015, Fil-Dragon has obtained the certificates of property ownership; hence, it recognized real estate sales amounting to ¥242.5 million (P1.8 billion) in the 2015 consolidated statement of income, which represents those that have already reached the Group's revenue recognition threshold of at least 25% collection of the total contract price [see Note 2.15(e)].

(b) 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 Sale of Equity Interest in PNCI

On August 10, 2016, the Group disposed of its 100% equity interest in PNCI to Solid Company Limited (SCL), a related party owned by the Parent Company's director, for cash consideration of P296.3 million, which was received in 2016. The sale also covered the assignment of advances granted by Precos to PNCI, amounting to P146.9 million (see Note 25.10).

The gain on disposal amounting to P128.0 million is presented as a separate line item under the Other Operating Expenses (Income) section in the 2016 consolidated statement of income. No similar transaction has occurred in 2017 and 2015.

1.4 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 nd 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

1.5 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 2017 that are Relevant to the Group*

The Group adopted for the first time the following amendments, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed in the succeeding page are the relevant information about these amendments.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of consolidated financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the consolidated statement of financial position including those changes identified immediately above.

Management has applied these amendments and present a reconciliation between the opening and closing balances of liabilities arising from financing activities in Note 14.

- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has had no impact on the Group's consolidated financial statements.

(b) *Effective in 2017 but not Relevant to the Group*

Among the improvements to PFRS (2014-2016 Cycle), only PFRS 12, *Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale*, is mandatorily effective for annual periods beginning on or after January 1, 2017 but is not relevant to the Group's consolidated financial statements.

(c) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS, amendments and interpretations to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions:

- (i) PAS 40 (Amendment), *Investment Property – Reclassification to and from Investment Property* (effective from January 1, 2018). 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* (effective from January 1, 2018). 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, 2017, 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* (effective January 1, 2018). 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, 2017, 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* (effective from January 1, 2018). 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.
- (vi) 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.
- (vii) 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.

- (viii) 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.

- (ix) 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.
- (x) 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.
- (xi) 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 Available-for-sale 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 two 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 and Fil-Dragon, 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 and Fil-Dragon are maintained in United States (U.S.) dollar and Chinese yuan renminbi (RMB), respectively.

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 and Fil-Dragon 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 and Fil-Dragon 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 and 2016, 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, 2016 and 2015 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 and 2016, 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 and 2016 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.

(b) *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 amounting to P14.3 million, and 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 years ended December 31, 2016 and 2015.

(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 devices 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 December 31, 2017, 2016 and 2015 and the related revenue and profit information for each of the three years in the period ended December 31, 2017 (amounts in thousands):

	<u>Digital Mobile Devices</u>	<u>Property and Building Services</u>	<u>Technical Support and Solutions</u>	<u>Investments and Others</u>	<u>Total</u>
2017					
SEGMENT RESULTS					
Sales to external customers	P 3,293,235	P 365,366	P 1,184,028	P 140,107	P 4,982,736
Intersegment sales	<u>74,963</u>	<u>99,148</u>	<u>50,699</u>	<u>24,180</u>	<u>248,990</u>
Total revenues	3,368,198	464,514	1,234,727	164,287	5,231,726
Cost of sales, services, and rentals	2,915,495	267,052	862,935	70,098	4,112,736
Other operating Expenses (income)	<u>416,465</u>	<u>(127,127)</u>	<u>162,384</u>	<u>30,018</u>	<u>482,426</u>
Operating profit	36,238	324,589	209,408	64,171	636,564
Finance income	4,788	27,055	3,864	4,132	39,838
Finance costs	(2,613)	(21,745)	(1,473)	(3,031)	(29,369)
Other gains (losses) – net	<u>(563)</u>	<u>8,824</u>	<u>7,262</u>	<u>998</u>	<u>16,434</u>
Profit before tax	37,850	338,723	219,061	66,270	663,467
Tax expense	<u>10,876</u>	<u>120,393</u>	<u>66,488</u>	<u>4,333</u>	<u>202,090</u>
Net profit	<u>P 26,974</u>	<u>P 218,330</u>	<u>P 152,573</u>	<u>P 61,937</u>	<u>P 459,814</u>
SEGMENT ASSETS AND LIABILITIES					
Total assets	<u>P 1,952,268</u>	<u>P 5,857,231</u>	<u>P 1,078,028</u>	<u>P 8,675,375</u>	<u>P 17,562,902</u>
Total liabilities	<u>P 1,491,370</u>	<u>P 2,267,149</u>	<u>P 345,015</u>	<u>P 449,979</u>	<u>P 4,553,513</u>
OTHER SEGMENT INFORMATION					
Capital expenditures	P 73	P 225,963	P 46,545	P 214	P 272,795
Depreciation and amortization	1,060	39,912	30,782	502	72,256
Impairment loss	-	19,341	28	177	19,546

	Digital Mobile Devices	Property and Building Services	Technical Support and Solutions	Investments and Others	Total
<u>2016</u>					
SEGMENT RESULTS					
Sales to external customers	P 5,162,612	P 320,977	P 782,805	P 93,391	P 6,359,785
Intersegment sales	<u>1,805</u>	<u>27,757</u>	<u>47,248</u>	<u>85,504</u>	<u>162,314</u>
Total revenues	5,164,417	348,734	830,053	178,895	6,522,099
Cost of sales, services, and rentals	4,536,783	197,887	584,048	69,097	5,387,815
Other operating expenses	<u>467,547</u>	<u>27,471</u>	<u>132,022</u>	<u>32,868</u>	<u>659,908</u>
Operating profit	160,087	123,376	113,983	76,930	474,376
Finance income	19,733	22,197	4,012	11,315	57,257
Finance costs	(495)	(13,006)	(2,015)	(2,482)	(17,998)
Other gains (losses) – net	<u>(317)</u>	<u>5,698</u>	<u>10,237</u>	<u>1,319</u>	<u>16,937</u>
Profit before tax	179,008	138,265	126,217	87,082	530,572
Tax expense	<u>64,704</u>	<u>19,153</u>	<u>37,615</u>	<u>3,390</u>	<u>124,862</u>
Net profit	<u>P 114,304</u>	<u>P 119,112</u>	<u>P 88,602</u>	<u>P 83,692</u>	<u>P 405,710</u>
SEGMENT ASSETS AND LIABILITIES					
Total assets	<u>P 2,277,117</u>	<u>P 5,557,466</u>	<u>P 966,765</u>	<u>P 8,173,388</u>	<u>P 17,514,736</u>
Total liabilities	<u>P 1,843,870</u>	<u>P 1,950,075</u>	<u>P 350,265</u>	<u>P 438,002</u>	<u>P 4,582,212</u>
OTHER SEGMENT INFORMATION					
Capital expenditures	P 373	P 90,601	P 50,091	P 343	P 141,408
Depreciation and amortization	1,709	51,444	26,590	407	80,150
Impairment loss	-	1,886	185	255	2,326

2015

SEGMENT RESULTS

		Digital Mobile Devices	Property and Building Services	Technical Support and Solutions	Investments and Others	Total
Sales to external customers	P	3,527,735	P 2,102,331	P 727,123	P 103,657	P 6,460,846
Intersegment sales		<u>66,280</u>	<u>34,076</u>	<u>29,111</u>	<u>42,014</u>	<u>171,481</u>
Total revenues		3,594,015	2,136,407	756,234	145,671	6,632,327
Cost of sales, services, and rentals		3,216,420	1,059,324	553,014	80,346	4,909,104
Other operating expenses		<u>489,752</u>	<u>224,552</u>	<u>153,953</u>	<u>20,691</u>	<u>888,948</u>
Operating profit (loss)	(	112,157)	852,531	49,267	44,634	834,275
Finance income		20,463	57,545	1,977	9,533	89,518
Finance costs	(	12,307)	(56,832)	(1,097)	(6,769)	(77,005)
Share in net loss of an associate		-	-	-	(3,306)	(3,306)
Other gains – net		<u>5,246</u>	<u>5,195</u>	<u>4,437</u>	<u>1,181</u>	<u>16,059</u>
Profit (loss) before tax	(	98,755)	858,439	54,584	45,273	859,541
Tax expense (income)	(	<u>29,309</u>	<u>167,603</u>	<u>15,737</u>	<u>5,253</u>	<u>159,284</u>
Net profit (loss)	(P	<u>69,446</u>)	<u>690,836</u>	<u>38,847</u>	<u>40,020</u>	<u>700,257</u>

SEGMENT ASSETS AND
LIABILITIES

Total assets	P	<u>2,623,032</u>	<u>7,207,455</u>	<u>930,885</u>	<u>8,139,049</u>	<u>18,900,421</u>
Total liabilities	P	<u>2,296,969</u>	<u>3,145,517</u>	<u>338,589</u>	<u>359,565</u>	<u>6,140,640</u>

OTHER SEGMENT
INFORMATION

Capital expenditures	P	540	P 111,460	P 40,544	P 247	P 152,791
Depreciation and amortization		2,474	48,827	24,259	454	76,014
Impairment loss		11,542	20	814	805	13,181

4.5 Reconciliations

The total segment balances presented for the Group's operating segments reconciled to the Group's consolidated balances as presented in the consolidated financial statements are as follows (amount in thousands):

	Segment Totals	Intercompany Accounts	Consolidated Balances
2017			
Revenues	P 5,231,726	(P 288,988)	P 4,942,738
Net profit for the year	459,814	(56,202)	403,612
Total assets	17,562,902	(5,800,972)	11,761,930
Total liabilities	4,553,513	(3,077,543)	1,475,970
Other segment information:			
Capital expenditures	272,795	2,562	275,357
Depreciation and amortization	72,256	13,273	85,529
Impairment losses	19,546	-	19,546
2016			
Revenues	P 6,527,673	(P 162,314)	P 6,365,359
Net profit for the year	405,710	(65,000)	340,710
Total assets	17,514,736	(6,178,047)	11,336,689
Total liabilities	4,582,212	(3,243,615)	1,338,597
Other segment information:			
Capital expenditures	141,408	-	141,408
Depreciation and amortization	80,150	-	80,150
Impairment losses	2,326	-	2,326
2015			
Revenues	P 6,632,327	(P 171,481)	P 6,460,846
Net profit for the year	700,257	(27,352)	672,905
Total assets	18,900,421	(6,538,799)	12,361,622
Total liabilities	6,140,640	(3,847,866)	2,292,774
Other segment information:			
Capital expenditures	152,791	-	152,791
Depreciation and amortization	76,014	-	76,014
Impairment losses	13,181	-	13,181

5. CASH AND CASH EQUIVALENTS

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

	<u>2017</u>	<u>2016</u>
Cash on hand and in banks	P 690,867,359	P 441,472,662
Short-term placements	<u>2,799,732,740</u>	<u>1,818,421,887</u>
	<u>P 3,490,600,099</u>	<u>P 2,259,894,549</u>

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% in 2017, from 0.1% to 2.2% in 2016 and from 0.3% to 2.5% in 2015 (see Note 20.2).

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 and 2016 follows:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year		P 741,732,076	P 123,008,280
Additions		127,500,000	1,425,077,589
Redemptions		(869,232,076)	(808,844,871)
Fair value gains	20.2	<u>-</u>	<u>2,491,078</u>
Balance at end of year		<u>P -</u>	<u>P 741,732,076</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 gain on redemption of financial assets at FVTPL amounting to P5.9 million, P2.3 million and P1.4 million in 2017, 2016 and 2015 respectively, 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>2017</u>	<u>2016</u>
Current:			
Trade receivables	25.2, 25.5, 26.1, 26.3	P 766,617,490	P 793,778,987
Advances to suppliers	25.5	451,094,241	551,917,085
Loans receivables	25.3	37,194,998	38,563,648
Rental receivable	25.2	6,274,639	5,587,720
Interest receivable		2,209,591	643,939
Receivable from officers and employees		2,171,345	1,090,835
Receivable from treasurer	25.9	-	12,500,000
Other receivables		41,717,033	65,203,008
		1,307,279,337	1,469,285,222
Allowance for impairment		(92,851,711)	(89,278,577)
		<u>1,214,427,626</u>	<u>1,380,006,645</u>
Non-current:			
Trade receivables		13,620,877	12,527,394
Loans receivables	25.3	647,049	51,938
Cash surrender value of investment in life insurance		678,596,450	650,520,370
		<u>692,864,376</u>	<u>663,099,702</u>
		<u>P 1,907,292,002</u>	<u>P 2,043,106,347</u>

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.

Interest income recognized on the Group's loans receivables amounted to P7.7 million, P8.2 million and P11.3 million in 2017, 2016 and 2015, respectively, and are presented as part of Interest under the Revenues section of the consolidated statements of income. The effective interest rates on loans receivables range from 7.5% to 30.0% in 2017, 2016 and 2015.

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 income. 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.

A reconciliation of the allowance for impairment at beginning and end of 2017 and 2016 is shown below.

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year		P 89,278,577	P 87,260,575
Impairment losses during the year	20.1	5,199,729	2,326,209
Reversal of impairment losses	20.2	(1,555,166)	(308,207)
Write-off of receivable		(71,429)	-
Balance at end of year		<u>P 92,851,711</u>	<u>P 89,278,577</u>

In 2016, certain trade and other receivables were included as part of the consideration transferred upon disposal of the investment in PNCI (see Note 1.3).

In 2015, SMC foreclosed certain machineries of one of its lessees in settlement of the latter's outstanding liability to the former amounting to P10.6 million. Such foreclosed machineries were eventually sold by SMC for P30.0 million and recognized gain on settlement of receivables amounting to P19.4 million, which is presented as part of Finance Income in the 2015 consolidated statement of income (see Note 20.2). There were no similar transactions occurred in 2017 and 2016.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises of the following:

	<u>2017</u>	<u>2016</u>
Club shares	P 22,307,258	P 19,407,258
Equity securities	8,580,000	8,827,065
Others	<u>540,007</u>	<u>272,127</u>
	31,427,265	28,506,450
Allowance for impairment	<u>(10,430,000)</u>	<u>(10,430,000)</u>
	<u>P 20,997,265</u>	<u>P 18,076,450</u>

A reconciliation of the net carrying amounts of AFS financial assets is shown below.

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year		P 18,076,450	P 13,836,527
Additions		-	972,258
Fair value gains – net	23.3	<u>2,920,815</u>	<u>3,267,665</u>
Balance at end of year		<u>P 20,997,265</u>	<u>P 18,076,450</u>

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 December 31, 2017 and 2016, 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 2017, 2016 and 2015.

The fair values of the Group's investments in club shares, which represent proprietary membership club shares, as at December 31, 2017 and 2016 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>2017</u>	<u>2016</u>
Merchandise inventories	17.1	P 681,659,177	P 863,290,614
Service parts, supplies and others	25.1	<u>4,203,582</u>	<u>35,803,094</u>
		685,862,759	899,093,708
Allowance for inventory obsolescence		(147,242,272)	(96,132,177)
		<u>P 538,620,487</u>	<u>P 802,961,531</u>

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

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year		P 96,132,177	P 62,592,533
Provisions for inventory obsolescence	17.1, 18	51,531,964	34,461,052
Reversal of allowance for inventory obsolescence	17.1, 18	(421,869)	(921,408)
		<u>P 147,242,272</u>	<u>P 96,132,177</u>

The Group has no outstanding purchase commitment for the acquisition of merchandise inventories and supplies as at December 31, 2017 and 2016.

10. REAL ESTATE INVENTORIES

This account is composed of:

	<u>2017</u>	<u>2016</u>
Land and land development costs:		
Land	P 4,265,299	P 4,265,299
Land development costs	<u>35,281,523</u>	<u>35,281,523</u>
	39,546,822	39,546,822
Allowance for impairment	(2,022,800)	(2,022,800)
	37,524,022	37,524,022
Property development costs – Construction in progress and development costs	<u>402,930,088</u>	<u>414,361,976</u>
	<u>P 440,454,110</u>	<u>P 451,885,998</u>

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 2017, 2016 and 2015.

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 December 31, 2017.

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2017 and 2016 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 beginning and end of 2017 and 2016 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
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	<u>P 1,277,854,682</u>	<u>P 237,885,797</u>	<u>P 76,688,848</u>	<u>P 71,247,271</u>	<u>P 45,871,852</u>	<u>P 189,027</u>	<u>P 4,533,768</u>	<u>P 14,905,136</u>	<u>P 12,794,670</u>	<u>P 167,043,768</u>	<u>P 1,909,014,819</u>
December 31, 2016											
Cost	P 1,277,854,682	P 356,697,622	P 162,455,341	P 202,355,167	P 119,023,617	P 9,747,050	P 72,505,577	P 93,441,319	P 60,075,665	P 151,407,206	P 2,505,563,246
Accumulated depreciation and amortization	-	(69,941,475)	(71,710,085)	(163,123,443)	(90,655,974)	(9,423,314)	(69,213,309)	(80,104,682)	(42,292,398)	-	(596,464,680)
Accumulated impairment losses	-	(35,000,000)	-	-	-	-	-	-	-	-	(35,000,000)
Net carrying amount	<u>P 1,277,854,682</u>	<u>P 251,756,147</u>	<u>P 90,745,256</u>	<u>P 39,231,724</u>	<u>P 28,367,643</u>	<u>P 323,736</u>	<u>P 3,292,268</u>	<u>P 13,336,637</u>	<u>P 17,783,267</u>	<u>P 151,407,206</u>	<u>P 1,874,098,566</u>
January 1, 2016											
Cost	P 1,277,854,682	P 352,874,436	P 129,719,241	P 193,871,092	P 113,276,561	P 9,747,050	P 70,705,200	P 88,589,364	P 52,774,064	P 76,494,236	P 2,365,905,926
Accumulated depreciation and amortization	-	(52,396,919)	(53,606,685)	(148,002,053)	(78,333,799)	(9,030,818)	(68,488,935)	(73,032,427)	(32,841,677)	-	(515,733,313)
Accumulated impairment losses	-	(35,000,000)	-	-	-	-	-	-	-	-	(35,000,000)
Net carrying amount	<u>P 1,277,854,682</u>	<u>P 265,477,517</u>	<u>P 76,112,556</u>	<u>P 45,869,039</u>	<u>P 34,942,762</u>	<u>P 716,232</u>	<u>P 2,216,265</u>	<u>P 15,556,937</u>	<u>P 19,932,387</u>	<u>P 76,494,236</u>	<u>P 1,815,172,613</u>

A reconciliation of the carrying amounts at the beginning and end of 2017 and 2016 of property and equipment is shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
Balance at January 1, 2017, net of accumulated depreciation, amortization and impairment losses	P 1,277,854,682	P 251,756,147	P 90,745,256	P 39,231,724	P 28,367,643	P 323,736	P 3,292,268	P 13,336,637	P 17,783,267	P 151,407,206	P 1,874,098,566
Additions	-	3,606,611	4,685,430	11,119,342	30,740,572	180,000	2,289,878	8,748,245	5,118,527	106,722,493	173,211,098
Reclassification	-	801,271	2,011,475	37,694,496	-	-	-	-	-	(40,507,242)	-
Transfer to investment property	-	-	-	-	-	-	-	-	-	(36,232,439)	(36,232,439)
Disposals – net	-	(34,762)	-	(1,089,952)	(744,085)	-	-	-	(318,769)	-	(2,187,568)
Impairment loss	-	-	-	-	-	-	-	-	-	(14,346,250)	(14,346,250)
Depreciation and amortization charges for the year	-	(18,243,470)	(20,753,313)	(15,708,339)	(12,492,278)	(314,709)	(1,048,378)	(7,179,746)	(9,788,355)	-	(85,528,588)
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment losses	<u>P 1,277,854,682</u>	<u>P 237,885,797</u>	<u>P 76,688,848</u>	<u>P 71,247,271</u>	<u>P 45,871,852</u>	<u>P 189,027</u>	<u>P 4,533,768</u>	<u>P 14,905,136</u>	<u>P 12,794,670</u>	<u>P 167,043,768</u>	<u>P 1,909,014,819</u>
Balance at January 1, 2016, net of accumulated depreciation, amortization and impairment losses	P 1,277,854,682	P 265,477,517	P 76,112,556	P 45,869,039	P 34,942,762	P 716,232	P 2,216,265	P 15,556,937	P 19,932,387	P 76,494,236	P 1,815,172,613
Additions	-	3,823,186	32,736,100	8,785,388	6,155,725	-	1,800,377	4,851,955	7,301,601	75,953,413	141,407,745
Reclassification	-	-	-	57,179	-	-	-	-	-	(57,179)	-
Transfer to investment property	-	-	-	-	-	-	-	-	-	(983,264)	(983,264)
Transferred on sale of investment in a subsidiary	-	-	-	(358,492)	(408,669)	-	-	-	-	-	(767,161)
Disposals – net	-	-	-	(11,930)	(553,250)	-	-	-	(16,677)	-	(581,857)
Depreciation and amortization charges for the year	-	(17,544,556)	(18,103,400)	(15,109,460)	(11,768,925)	(392,496)	(724,374)	(7,072,255)	(9,434,044)	-	(80,149,510)
Balance at December 31, 2016, net of accumulated depreciation, amortization and impairment losses	<u>P 1,277,854,682</u>	<u>P 251,756,147</u>	<u>P 90,745,256</u>	<u>P 39,231,724</u>	<u>P 28,367,643</u>	<u>P 323,736</u>	<u>P 3,292,268</u>	<u>P 13,336,637</u>	<u>P 17,783,267</u>	<u>P 151,407,206</u>	<u>P 1,874,098,566</u>

Construction in progress pertains to accumulated costs incurred on building improvements being constructed in various properties of the Group as part of its expansion program.

Impairment loss amounting to P14.3 million was recognized in 2017. No additional impairment losses were recognized in 2016 and 2015 based on management's assessment.

In 2017, 2016 and 2015, the Group recognized gain on disposal of certain property and equipment totaling P1.5 million, P0.7 million and P6.7 million, respectively (see Note 20.3). The recognized gain on the transactions are presented as part of Other Gains – net in the consolidated statements of income (see Note 20.3). In 2016, certain property and equipment with carrying amount of P0.8 million were included as part of the consideration transferred upon disposal of the investment in PNCI.

The amount of depreciation and amortization computed on property and equipment is presented as part of the following accounts:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cost of services	17.2	P 45,618,535	P 52,898,375	P 46,974,521
Cost of rentals	17.3	3,394,270	1,775,932	1,903,617
General and administrative expenses		<u>36,515,783</u>	<u>25,475,203</u>	<u>27,135,564</u>
	18	<u>P 85,528,588</u>	<u>P 80,149,510</u>	<u>P 76,013,702</u>

There were no restrictions on titles and items of property and equipment as of December 31, 2017 and 2016.

Fully depreciated property and equipment still in use in the Group's operations amounted to P308.3 million and P275.8 million as of December 31, 2017 and 2016, respectively.

12. INVESTMENT PROPERTIES

The Group's investment properties accounted for under the fair value method, consists mainly of land and improvements, and buildings and improvements that are held under operating lease agreements. These properties earn rental income, presented as Rentals in the consolidated statements of income and incur direct costs such as real property taxes, repairs and maintenance and utilities which are presented as part of Cost of Rentals in the consolidated statements of income (see Note 17.3).

The fair values of the Group's investment properties as at December 31, 2017 and 2016 were determined based on appraisal reports dated October 27, 2017 and December 8, 2016, respectively. Management obtains annual appraisal reports on its investment properties from independent appraisers (see Note 30.4).

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position are summarized as follows as of December 31:

		<u>Land and Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
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	(	<u>47,768,000</u>)	<u>(408,333)</u>	<u>(48,176,333)</u>
Balance at end of year	P	<u>2,171,295,332</u>	P <u>732,622,140</u>	P <u>2,903,917,472</u>
2016:				
Balance at beginning of year	P	1,850,330,296	P 802,889,238	P 2,653,219,534
Additions		39,061,688	37,711,180	76,772,868
Fair value gains (losses) on investment property – net (see Note 19)		33,538,048	(86,476,976)	(52,938,928)
Transfer from property and equipment		<u>-</u>	<u>983,264</u>	<u>983,264</u>
Balance at end of year	P	<u>1,922,930,032</u>	P <u>755,106,706</u>	P <u>2,678,036,738</u>

In 2017 and 2015, SMC sold an investment property with a total carrying amount of P48.2 million and P1.1 billion, respectively. The recognized gain on the transaction amounted to P37.5 million in 2017 and P138.5 million in 2015, are presented as part of Other Operating Income – Net account in the 2017 and 2015 consolidated statement of income (see Note 19). There was no similar transaction in 2016.

13. OTHER ASSETS

The composition of these accounts as of December 31 is shown below and in the succeeding page.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Current:			
Creditable withholding taxes		P 83,400,385	P 52,827,965
Input VAT – net		75,142,087	117,033,705
Short-term placements	5	60,000,000	-
Deferred costs		40,977,153	-
Prepayments		23,010,706	24,651,269
Refundable deposits	27.2	10,698,615	13,419,531
Deferred input VAT		6,090,847	-
Advances to contractors		-	644,382
Others		<u>2,642,052</u>	<u>6,593,508</u>
<i>Balance carried forward</i>		P <u>301,822,764</u>	P <u>215,170,360</u>

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<i>Balance brought forward</i>		<u>P 322,149,600</u>	<u>P 215,170,360</u>
Non-current:			
Deposits to suppliers		7,030,204	7,030,204
Land under litigation	27.7	4,935,606	4,935,606
Refundable deposits	27.2	4,731,811	4,714,533
Investment in shares		3,135,818	1,375,291
Cash bond		568,234	568,234
Intangible assets		171,883	-
Others		<u>2,878,409</u>	<u>1,477,222</u>
		<u>23,451,965</u>	<u>20,101,090</u>
		<u>P 325,274,729</u>	<u>P 235,271,450</u>

Short-term placements are made for 180 days and earn effective interest of 3.5% in 2017 (see Note 5).

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.

Land under litigation pertains to certain real estate properties owned by SMC are the subject of litigations brought up by third parties against the subsidiary (see Note 27.7).

On October 28, 2016, management sold the investment in CHMI to Creative Hothouse Philippines PTE LTD for cash consideration amounting to P6.5 million. Accordingly, CHMI ceased to be an associate of the Group as of that date. The Group's share in the net loss of CHMI amounted to P3.3 million and presented as Share in Net Loss of an Associate under Other Income (Charges) – Net section in the 2015 consolidated statement of income.

The table below presents information on the financial position and performance of the CHMI as of and for the period ended December 31, 2015.

Total assets	P 4,793,824
Total liabilities	3,880,787
Total equity	913,037
Net loss	6,611,436

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 December 31, 2017 and 2016 amounting to P115.7 million (\$2.3 million) and P112.6 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.

	2017		2016	
	USD	PHP	USD	PHP
Balance at beginning of year	\$ 2,261,325	P 112,643,382	\$ 2,261,325	P 104,683,711
Additional borrowings	57,210	2,849,802	41,851	2,084,724
Translation adjustment	-	255,039	-	5,874,947
Balance at end of year	<u>\$ 2,318,535</u>	<u>P 115,748,223</u>	<u>\$ 2,261,325</u>	<u>P 112,643,382</u>

Information relating to significant loan transactions of the Group are as follows:

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 2.35% to 2.50% in 2017, from 1.60% to 2.35% in 2016 and 1.6% in 2015. Interest expense arising from these loans amounted to P2.8 million, P2.2 million and P2.7 million in 2017, 2016 and 2015, 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).

Also, the Group incurred borrowing costs related to loans obtained by Fil-Dragon amounting to P10.2 million for the period January 1 to July 31, 2016 and P56.6 million in 2015. These costs were recognized as part of Interest expense on interest-bearing loans under Finance Costs account in the consolidated statements of income (see Note 20.1). In 2016, these loans were included as part of the consideration transferred upon disposal of the investment in PNCI (see Note 1.3).

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 December 31, 2017 and 2016, the Group is not subjected to any covenants relating to the loan.

15. TRADE AND OTHER PAYABLES

This account consists of:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Trade payables	25.5	P 216,881,183	P 184,360,048
Accrued dealers' incentives		96,882,320	114,109,193
Refundable deposits		27,553,369	26,687,689
Accrued expenses		25,788,820	18,312,533
Advances from customers		20,682,813	40,457,128
Deferred output VAT		17,615,732	9,010,496
Rentals payable		9,207,379	12,155,459
Output VAT		6,307,771	1,852,297
Withholding taxes payable		6,039,526	4,997,195
Reserve for warranty costs		1,448,684	2,677,478
Retention payable		43,423	43,423
Other payables		47,237,524	23,849,316
		<u>P 475,688,544</u>	<u>P 438,512,255</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 movements in the Reserve for warranty costs account are as follows:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year		P 2,677,478	P 3,253,200
Provisions for warranty claims	18	27,223,140	60,087,131
Actual warranty claims		(27,791,704)	(60,288,576)
Reversal of reserve for warranty claims	19	(660,230)	(374,277)
Balance at end of year		<u>P 1,448,684</u>	<u>P 2,677,478</u>

The Group derecognized certain accrued expenses and other payables amounting to P1.3 million in 2017 and P0.1 million in 2016, 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). There was no similar transaction in 2015.

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.

In 2016, certain trade and other payables were included as part of the consideration transferred upon disposal of the investment in PNCI (see Note 1.3).

16. REFUNDABLE DEPOSITS

SMC and Kita have long-term refundable deposits from various tenants amounting to P27.1 million and P21.4 million as at December 31, 2017 and 2016, 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 and P2.9 million in 2017 and 2016, respectively (nil in 2015). 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, P0.3 million in 2016 and P0.2 million in 2015 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	2017	2016	2015
Merchandise inventories at beginning of year	9	P 863,290,614	P 896,356,985	P 656,074,999
Net purchases of merchandise inventories during the year	25.5	<u>2,737,307,528</u>	<u>4,639,985,185</u>	<u>3,856,468,664</u>
Goods available for sale		<u>3,600,598,142</u>	<u>5,536,342,170</u>	<u>4,512,543,663</u>
Merchandise inventories at end of year	9	(681,659,177)	(863,290,614)	(896,356,985)
Net provision (reversal of allowance) for inventory obsolescence	9	<u>51,110,095</u>	<u>33,539,644</u>	<u>(39,032,895)</u>
	18	<u>P 2,970,049,060</u>	<u>P 4,706,591,200</u>	<u>P 3,577,153,783</u>

17.2 Cost of Services

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

	Notes	2017	2016	2015
Materials, supplies and other consumables	25.1	P 105,595,086	P 112,659,737	P 88,312,907
Rentals	27.2	183,880,158	16,447,316	25,120,095
Outside services		163,448,547	39,299,628	48,801,512
Equipment cost	18	115,699,072	-	-
Subcontracting services		91,176,417	75,425,967	59,894,407
Salaries and employee benefits	21.1	58,333,359	55,339,554	66,314,648
Depreciation and amortization	11	45,618,535	52,898,375	46,974,521
Service fees	26.3	40,300,756	69,097,449	60,651,473
Communication, light and water		30,428,513	22,614,281	20,844,345
Food and beverage		24,725,309	11,488,724	16,380,171
Transportation and travel		15,847,199	12,996,776	10,391,314
Repairs and maintenance		8,209,412	7,494,950	4,902,902
Integration		8,018,209	111,016,068	8,834,505
Others		24,473,361	8,268,732	2,880,402
	18	<u>P 915,753,933</u>	<u>P 595,047,557</u>	<u>P 460,303,202</u>

17.3 Cost of Rentals

The details of this account are as follows:

	Notes	2017	2016	2015
Taxes and licenses		P 39,980,258	P 12,349,184	P 22,956,318
Outside services		14,608,570	15,910,825	11,826,310
Rentals	27.2	11,467,507	7,353,293	7,353,293
Repairs and maintenance		4,783,421	11,978,499	9,314,104
Depreciation and amortization	11	3,394,270	1,775,932	1,903,617
Salaries and employee benefits	21.1	2,413,462	2,280,375	3,554,777
Others		468,503	488,939	417,404
	12, 18	<u>P 77,115,991</u>	<u>P 52,137,047</u>	<u>P 57,325,823</u>

Others primarily consists of supplies and transportation and travel expenses.

17.4 Cost of Real Estate Sales

The following are the breakdown of direct costs and expenses for sale of real estate:

	Notes	2017	2016	2015
Cost of condominium units and parking lots		P 14,148,749	P 8,224,118	P 434,180
Construction costs		-	-	836,387,295
Land and land use rights		-	-	43,593,535
Borrowing costs	14	-	-	36,523,690
Miscellaneous		-	-	8,281,790
	18	<u>P 14,148,749</u>	<u>P 8,224,118</u>	<u>P 925,220,490</u>

18. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2017	2016	2015
Net purchases of merchandise inventories	17.1, 25.5	P 2,737,307,528	P 4,639,985,185	P 3,856,468,664
Salaries and employee benefits	21.1	257,491,822	223,033,845	225,646,424
Outside services		242,066,904	147,642,428	148,829,489
Subcontracting services		225,418,410	258,871,927	244,046,046
Rentals	27.2	212,499,305	34,768,484	37,486,808
Changes in merchandise, finished goods and work-in-process inventories	17.1	181,631,437	33,066,371	(240,281,986)
Equipment cost		115,699,072	-	-
Materials, supplies and other consumables	17.1, 25.1	105,595,086	121,367,240	107,476,390
Taxes and licenses		92,907,763	63,804,781	69,491,359
Depreciation and amortization	11	85,528,588	80,149,510	76,013,702
Utilities and communication		61,367,400	39,656,142	67,336,289
Net provision (reversal) for inventory obsolescence	9, 17.1	51,110,095	33,539,644	(39,032,895)
Service fees	26.3	40,300,756	69,097,449	60,651,473
Advertising and promotions		35,838,885	46,335,532	148,948,033
Transportation and travel		28,987,519	29,365,267	52,800,901
Provisions for warranty claims	15	27,223,140	60,087,131	902,095
Food and beverage		24,725,309	11,488,724	16,380,171
Repairs and maintenance		21,316,518	22,685,881	16,419,968
Warranty claims		15,615,301	46,890,701	36,345,120
Excess of actual over standard input VAT		15,221,644	-	-
Impairment losses on property and equipment		14,346,250	-	-
Cost of condominium units and parking lots		14,148,749	8,224,118	434,180
Installation cost		13,857,773	7,906,364	-
Integration		10,862,109	110,195,187	8,834,505
Construction costs		-	-	836,387,295
Land and land use rights		-	-	43,593,535
Borrowing costs		-	-	36,523,690
Miscellaneous		44,693,517	8,234,020	105,246,444
		<u>P 4,675,760,850</u>	<u>P 6,096,395,931</u>	<u>P 5,916,947,700</u>

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

	Note	2017	2016	2015
Cost of sales	17.1	P 2,970,049,060	P 4,706,591,200	P 3,577,153,783
Cost of services	17.2	915,753,933	595,047,557	460,303,202
Cost of rentals	17.3	77,115,991	52,137,047	57,325,823
Cost of real estate sales	17.4	14,148,749	8,224,118	925,220,490
Selling and distribution costs		330,955,769	376,046,004	559,990,238
General and administrative expenses		367,737,348	358,350,005	336,954,164
		<u>P 4,675,760,850</u>	<u>P 6,096,395,931</u>	<u>P 5,916,947,700</u>

19. OTHER OPERATING INCOME – Net

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Fair value gains (losses) on investment property – net	12	P 135,678,910	(P 52,938,928)	P 87,747,812
Gain on sale of investment property	12	37,510,547	-	138,520,266
Increase in cash surrender value of investment in life insurance	7	27,177,277	24,625,954	21,921,474
Income from utilities charged to tenants		19,929,905	1,353,798	-
Common usage service area		11,567,900	1,407,619	3,732,705
Forfeited customer deposit		10,435,789	-	-
Revenue share from embedded third party application		6,302,100	16,330,198	-
Forfeited refundable deposit		1,711,096	-	-
Reversal of reserve for warranty costs	15	660,230	374,277	-
Penalties arising from lease contract		400,598	-	-
Reversal of provision for penalty		-	-	1,476,161
Miscellaneous		<u>-</u>	<u>25,542,917</u>	<u>9,625,785</u>
		<u>P 251,374,352</u>	<u>P 16,695,835</u>	<u>P 263,024,203</u>

20. OTHER INCOME (CHARGES) – Net

20.1 Finance Costs

This account consists of the following:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Impairment losses on trade and other receivables	7	P 5,199,729	P 2,326,209	P 13,180,829
Foreign currency exchange losses		5,150,204	2,262,546	493,499
Interest expense on interest-bearing loans	14	2,834,528	12,431,682	59,348,521
Interest amortization on refundable deposits	16	1,555,880	272,778	155,895
Others		<u>286,584</u>	<u>704,995</u>	<u>3,826,826</u>
		<u>P 14,453,757</u>	<u>P 17,998,210</u>	<u>P 77,005,570</u>

20.2 Finance Income

This account consists of the following:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Interest income from cash and cash equivalents, short-term placements and restricted cash	5, 13	P 23,400,466	P 21,807,292	P 35,504,679
Foreign currency exchange gains		6,344,923	30,382,339	32,691,145
Gain on redemption of financial assets at FVTPL	6	5,918,418	2,268,082	1,403,189
Interest income from real estate sale		2,131,985	-	-
Reversal of impairment losses on trade and other receivables	7	1,555,166	308,207	262,770
Gain on discounting of refundable deposit	16	486,937	2,891,369	-
Fair value gains on financial assets at FVTPL	6	-	2,491,078	260,983
Gain on settlement of receivables	7	<u>-</u>	<u>-</u>	<u>19,395,000</u>
		<u>P 39,837,895</u>	<u>P 57,256,998</u>	<u>P 89,517,766</u>

20.3 Other Gains – Net

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Refund of deposits of electricity		P 6,199,033	P -	P -
Net interest income on retirement benefit asset	21.2	3,723,337	4,961,743	4,754,859
Gain on sale of property and equipment	11	1,533,248	739,986	6,685,469
Gain on derecognition of liabilities	15	1,293,384	72,555	-
Reversal of allowance for inventory obsolescence		488,578	-	-
Dividend income		219,272	164,619	-
Excess of standard over actual input VAT		-	5,364,560	-
Sale of scrap		-	611,383	-
Proceeds from litigation claims		-	-	2,532,114
Proceeds from insurance		-	-	1,554,837
Miscellaneous		<u>4,336,112</u>	<u>776,707</u>	<u>531,528</u>
		<u>P 17,726,255</u>	<u>P 12,691,553</u>	<u>P 16,058,807</u>

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).

	Notes	2017	2016	2015
Short-term benefits		P 237,813,913	P 208,649,477	P 213,467,517
Post-employment benefits	21.2	<u>19,677,909</u>	<u>14,384,368</u>	<u>12,178,907</u>
	18	<u>P 257,491,822</u>	<u>P 223,033,845</u>	<u>P 225,646,424</u>

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

	Notes	2017	2016	2015
General and administrative expenses		P 190,053,510	P 131,348,905	P 149,602,672
Cost of services	17.2	58,333,359	55,339,554	66,314,648
Selling and distribution costs		6,691,491	34,065,011	6,174,327
Cost of rentals	17.3	<u>2,413,462</u>	<u>2,280,375</u>	<u>3,554,777</u>
	18	<u>P 257,491,822</u>	<u>P 223,033,845</u>	<u>P 225,646,424</u>

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.

	2017	2016
Fair value of plan assets	P 178,965,686	P 188,639,137
Present value of obligation	<u>(73,201,592)</u>	<u>(85,665,401)</u>
	<u>P 105,764,094</u>	<u>P 102,973,736</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>	<u>2016</u>
Fair value of plan assets	P 3,289,187	P 2,821,707
Present value of obligation	(41,154,860)	(35,827,012)
	(P 37,865,673)	(P 33,005,305)

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 191,460,844	P 190,368,803
Benefits paid by the plan	(16,205,625)	(6,040,974)
Interest income	10,203,233	9,830,313
Return on plan assets (excluding amounts included in net interest)	(5,757,379)	(5,201,661)
Contributions paid into the plan	<u>2,553,800</u>	<u>2,504,363</u>
Balance at end of year	<u>P 182,254,873</u>	<u>P 191,460,844</u>

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 121,492,413	P 92,826,439
Current service costs	19,677,909	14,384,368
Benefits paid*	(16,205,625)	(3,721,826)
Interest costs	6,479,896	4,868,57
Remeasurements – actuarial losses (gains) arising from:		
Experience adjustments	(13,236,283)	(2,260,094)
Changes in financial assumptions	(5,078,640)	14,807,849
Changes in demographic assumptions	<u>1,226,782</u>	<u>587,107</u>
Balance at end of year	<u>P 114,356,452</u>	<u>P 121,492,413</u>

* These amounts include benefits paid directly by the Group amounting to P1,465,555 in 2016. There were no benefits paid directly during 2017.

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

	<u>2017</u>	<u>2016</u>
Debt securities:		
Philippines government bonds	P 152,854,025	P 117,338,492
Corporate bonds	13,718,540	18,662,816
UITF	9,670,600	13,219,025
Mutual funds	1,567,437	41,324,512
Other assets	<u>4,444,271</u>	<u>915,999</u>
	<u>P 182,254,873</u>	<u>P 191,460,844</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 a net return of P4.4 million, P4.6 million and P3.1 million in 2017, 2016 and 2015, respectively.

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>	<u>2016</u>	<u>2015</u>
<i>Reported in consolidated statements of income:</i>				
Current service cost	21.1	P 19,677,909	P 14,384,368	P 12,178,907
Net interest income	20.3	<u>(3,723,337)</u>	<u>(4,961,743)</u>	<u>(4,754,859)</u>
		<u>P 15,954,572</u>	<u>P 9,422,625</u>	<u>P 7,424,048</u>
<i>Reported in consolidated statements of comprehensive income:</i>				
Actuarial gains (losses) from:				
Changes in experience adjustments		P 13,236,283	P 2,260,094	P 10,795,456
Financial assumptions		5,078,640	(14,807,849)	(6,118,553)
Changes in demographic assumption		<u>(1,226,782)</u>	<u>(587,107)</u>	<u>(949,590)</u>
Return on plan assets (excluding amounts included in net interest)		<u>(5,757,379)</u>	<u>(5,201,661)</u>	<u>(5,626,689)</u>
	23.3	<u>P 11,330,762</u>	<u>(P 18,336,523)</u>	<u>(P 1,899,376)</u>

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:

	2017	2016	2015
Discount rates	5.58% - 5.70%	4.2% - 5.4%	5.0% - 5.4%
Salary increases rate	9.00%	9.00%	8.00%

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)
<u>2016</u>			
Discount rate	+/- 0.5%	(P 9,760,791)	P 10,478,134
Salary increase rate	+/- 1.0%	20,707,154	(17,491,159)

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>	<u>2016</u>
Within one year	P 3,924,688	P 3,831,351
More than one year to five years	18,837,068	10,109,488
More than five years to 10 years	62,109,003	64,565,355
More than 10 years to 15 years	86,996,250	94,496,591
More than 15 years to 20 years	219,446,411	201,827,742
More than 20 years	<u>3,013,653,464</u>	<u>2,801,810,623</u>
	<u>P3,404,966,884</u>	<u>P3,176,641,150</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.

SMC waived its right to avail of the 5% special tax rate on gross income tax for the taxable year ended December 31, 2015. In 2017 and 2016, 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>	<u>2016</u>	<u>2015</u>
<i>Reported in consolidated statements of income:</i>			
Current tax expense:			
RCIT at 30%	P 102,073,471	P 44,965,959	P 252,629,434
Minimum corporate			
income tax (MCIT) at 2%	(23,929,276)	14,675,969	6,587,196
Final taxes at 20% and 7.5%	12,149,899	9,967,555	11,373,538
Preferential tax at 5%	1,590,086	1,604,536	2,062,586
Capital gains tax	-	13,982,500	-
PRC corporate income tax at 25%	-	-	214,541,027
	<u>91,884,180</u>	<u>85,196,519</u>	<u>487,193,781</u>
Application of excess MCIT	(624,265)	(244,237)	-
Deferred tax expense (income)			
relating to origination and reversal			
of temporary differences	<u>66,589,042</u>	<u>39,910,014</u>	<u>(327,910,166)</u>
	<u>P 157,848,957</u>	<u>P 124,862,296</u>	<u>P 159,283,615</u>
<i>Reported in consolidated statements of comprehensive income:</i>			
Deferred tax expense (income) on			
remeasurements of defined benefit			
post-employment plan	P 2,596,877	(P 4,792,281)	(P 508,268)
Deferred tax expense on changes			
in fair value of AFS financial assets	<u>210,000</u>	<u>630,000</u>	<u>414,000</u>
	<u>P 2,806,877</u>	<u>(P 4,162,281)</u>	<u>(P 94,268)</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>	<u>2016</u>	<u>2015</u>
Tax on pretax profit at 30%	P 168,438,294	P 139,671,635	P 249,656,567
Adjustment for income subjected to lower tax rates	(5,473,954)	(16,184,706)	(14,790,374)
Tax effects of:			
Deferred income subject to RCIT	-	-	-
Nontaxable income	(8,379,376)	(3,624,737)	(7,339,663)
Nondeductible expenses and losses	2,407,938	15,712,782	59,185,631
Unrecognized deferred tax assets (DTA) from net operating loss carry-over (NOLCO) and MCIT and other temporary differences	1,498,054	18,184,943	14,295,227
Impairment loss on receivables	750,797	-	-
Application of unrecognized MCIT	(624,265)	-	-
Excess of itemized deductions over optional standard deduction	(402,113)	(107,258)	(133,754,476)
Post-employment defined benefits	(329,165)	-	-
Income of foreign subsidiary not subject to taxes	(39,197)	-	(7,232,973)
Benefit from previously unrecognized NOLCO, MCIT and other temporary differences	37,994	(810,363)	(944,037)
Application of NOLCO	(30,453)	-	-
Others	(5,597)	-	207,713
Gain on sale of investment in a subsidiary	<u>-</u>	<u>(27,980,000)</u>	<u>-</u>
	<u>P 157,848,957</u>	<u>P 124,862,296</u>	<u>P 159,283,615</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>	<u>2016</u>
Deferred tax assets:		
Allowance for inventory obsolescence	P 43,971,501	P 28,638,472
Accrued expenses	29,064,696	-
Allowance for impairment on trade and other receivables	23,182,609	22,812,783
Retirement benefit obligation	8,395,322	-
MCIT	4,011,357	29,535,787
Unrealized foreign currency loss	1,278,094	-
Provision for warranty claims	434,605	35,036,001
NOLCO	434,151	74,895
Amortization of past service cost	-	6,123,375
Unamortized past service costs	<u>-</u>	<u>103,737</u>
<i>Balance brought forward</i>	<u>P 110,772,335</u>	<u>P 122,325,050</u>

	<u>2017</u>	<u>2016</u>
<i>Balance carried forward</i>	<u>P 110,772,335</u>	<u>P 122,325,050</u>
Deferred tax liabilities:		
Unrealized foreign currency gains	-	(2,441,012)
Changes in fair value of financial assets at FVTPL	<u>-</u>	<u>(338,245)</u>
	<u>-</u>	<u>(2,779,257)</u>
Deferred tax assets – net	<u>P 110,772,335</u>	<u>P 119,545,793</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>	<u>2016</u>
Deferred tax assets:		
Unearned rent income	P 5,086,366	P 3,775,825
Impairment losses on property and equipment	4,303,875	-
Allowance for impairment on trade and other receivables	2,917,872	2,901,755
MCIT	2,717,134	1,121,980
Loss on investment in subsidiaries	838,709	838,709
Unamortized past service costs	598,961	756,324
NOLCO	59,724	5,243,300
Allowance for inventory obsolescence	35,760	35,759
Deferred rent expense – PAS 17	<u>-</u>	<u>311,264</u>
	<u>16,558,401</u>	<u>14,984,916</u>
Deferred tax liabilities:		
Fair value gains on investment property – net	(523,852,805)	(454,207,272)
Accumulated depreciation on investment property	(136,906,716)	(148,117,625)
Retirement benefit asset	(29,436,332)	(28,664,691)
Excess of FV over cost of property	(14,653,835)	(14,653,835)
Unrealized foreign currency gains	(4,269,860)	(2,635,520)
Accrued rent income	(3,790,307)	(2,603,139)
Changes in fair value of AFS	(1,080,000)	(870,000)
Deferred rent income – PAS 17	193,260	-
Changes in fair value of financial assets at FVTPL	<u>-</u>	<u>(47,373)</u>
	<u>(713,796,595)</u>	<u>(651,799,455)</u>
Deferred tax liabilities – net	<u>(P 697,238,194)</u>	<u>(P 636,814,539)</u>

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

	2017	2016	2015
Fair value gains on investment property – net	P 45,989,950	(P 13,914,094)	(P 289,768,359)
Excess of MCIT over RCIT	25,517,625	-	-
Allowance for inventory obsolescence	(15,333,029)	(10,061,893)	11,709,868
Accumulated depreciation on investment property	10,917,024	6,010,283	(1,849,819)
Retirement benefit asset	(8,122,932)	(1,452,878)	(984,648)
Reserve for commission	5,168,062	-	-
NOLCO	4,824,320	64,483,167	(35,518,264)
Unrealized foreign currency gains (losses) – net	(2,111,743)	2,255,865	(7,634,216)
Unamortized pre-operating expenses	(1,556,619)	-	-
Refundable deposits	1,247,766	-	-
Provision for warranty claims	395,409	(2,359,659)	81,910
Allowance for impairment on trade and other receivables	(321,143)	(605,401)	(4,398,520)
Deferred rent income – PAS 17	(137,041)	480,598	(227,395)
Unamortized past service costs	130,590	65,523	178,593
Changes in fair value of financial assets at FVTPL	(47,374)	385,619	-
Unearned rent income	28,177	(4,403,809)	-
Benefits from previously unrecognized MCIT	-	(3,075,190)	(6,456,516)
Accrued expenses	-	2,041,970	6,957,200
Accrued income	-	59,913	-
	<u>P 66,589,042</u>	<u>P 39,910,014</u>	<u>(P 327,910,166)</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:

Year	Original Amount	Applied	Expired Balance	Remaining Balance	Valid Until
NOLCO:					
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	49,791,181	33,079,292	16,711,889	-	
	<u>P 128,768,462</u>	<u>P 43,016,981</u>	<u>P 16,711,889</u>	<u>P 69,039,592</u>	
MCIT					
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	9,393,350	9,393,350	-	-	
	<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.

	2017		2016		2015	
	Amount	Tax Effect	Amount	Tax Effect	Amount	Tax Effect
NOLCO	P 61,381,137	P 18,414,342	P 93,859,213	P 28,157,764	P 79,397,012	P 23,819,104
Allowance for impairment of trade receivables	13,600,000	4,080,000	19,330,570	5,799,171	165,422	49,627
Unrealized foreign currency gain	(356,304)	(106,891)	(8,603,911)	(2,581,173)	(13,297,033)	(3,989,110)
Allowance for impairment loss on AFS financial assets	3,809,492	1,142,848	3,809,492	1,142,848	3,809,492	1,142,848
Retirement benefit obligation	-	-	6,544,607	1,963,382	1,063,827	319,148
MCIT	-	-	654,265	654,265	928,369	928,369
Allowance for inventory obsolescence	-	-	551,407	165,423	844,748	253,423
	<u>P 78,434,325</u>	<u>P 23,530,299</u>	<u>P 116,145,643</u>	<u>P 35,301,680</u>	<u>P 72,911,837</u>	<u>P 22,523,409</u>

The deferred tax liability on unrealized foreign currency gains in 2017, 2016 and 2015 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 SBC in 2016 and 2017, and ZTC in 2017, the Group opted to claim itemized deductions in computing for its income tax due in 2017, 2016, and 2015. SMC opted to claim optional standard deductions in 2015 while it claimed itemized deductions in 2017 and 2016.

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 December 31, 2017 and 2016, the Company has issued shares of 2,030,975,000 (with P1 par value), of which, 386,922,704 and 395,960,704 shares are held by the public in 2017 and 2016, respectively. There are 4,267 and 4,309 holders of the listed shares, which closed at P1.57 and P1.22 per share on December 31, 2017 and 2016, respectively.

23.2 Retained Earnings

The BOD approved the declaration of cash dividends in 2017, 2016 and 2015 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, 2016	August 31, 2016	1,821,542,000	0.10	182,154,200
August 7, 2015	August 28, 2015	1,821,542,000	0.06	109,292,520

Retained earnings is restricted in the amount of P115.6 million as of December 31, 2017 and 2016, 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>2017</u>	<u>2016</u>	<u>2015</u>
Remeasurement of post-employment benefit:				
Balance at beginning of year		P 12,019,876	P 25,564,118	P 26,955,226
Actuarial gains (loss) during the year	21.2	11,330,762	(18,336,523)	(1,899,376)
Tax income (expense)	22.2	(2,596,877)	4,792,281	508,268
Balance at the end of the year		20,753,761	12,019,876	25,564,118
Cumulative translation adjustments:				
Balance at beginning of year		52,067,724	103,741,987	89,361,006
Currency exchange differences on translating financial statements of foreign operations	2	319,859	12,035,355	14,380,98
Reclassification adjustments for gains recognized in profit or loss from disposal of investment in foreign operations		-	(63,709,618)	-
Balance at end of year		52,387,583	52,067,724	103,741,987
Unrealized fair value losses on AFS financial assets:				
Balance at beginning of year		(91,665,267)	(94,302,932)	(95,268,932)
Fair value gains – net	8	2,920,815	3,267,665	1,380,000
Tax expense	22.2	(210,000)	(630,000)	(414,000)
Balance at end of year		(88,954,452)	(91,665,267)	(94,302,932)
Other comprehensive income attributable to non-controlling interest		35,000	35,000	35,000
		(P 15,778,108)	(P 27,542,667)	P 35,038,173

24. EARNINGS PER SHARE

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

	2017	2016	2015
Net profit for the year attributable to the Parent Company's stockholders	P 397,050,247	P 343,429,551	P 486,807,389
Divided by weighted average shares outstanding:			
Number of shares issued	2,030,975,000	2,030,975,000	2,030,975,000
Treasury shares	(209,433,000)	(209,433,000)	(209,433,000)
	1,821,542,000	1,821,542,000	1,821,542,000
Earnings per share – basic and diluted	P 0.22	P 0.19	P 0.27

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2017, 2016 and 2015; 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 and 2016 and for each of the three years in the period ended December 31, 2017 is summarized below and in the succeeding pages.

Related Party Category	Notes	Amounts of Transaction			Outstanding Receivable (Payable)	
		2017	2016	2015	2017	2016
Related Parties Under Common Ownership:						
Purchase of mobile phones	25.5	P 2,553,884,042	P 4,265,620,907	P 2,881,839,025	(P 1,010,941)	(P 248,258)
Advances to suppliers	25.5	2,581,598,142	4,230,430,349	(174,696,873)	435,170,669	542,044,871
Purchase of spare parts	25.1	27,714,099	134,850	772,315	(7,067,911)	(9,049,483)
Sale of goods	25.12	13,058,613	-	-	7,712,111	-
Purchase of supplies and services	25.1	5,879,937	-	-	(567,882)	-
Rendering of services	25.13	4,462,209	3,937,161	-	1,098,802	841,136
Lease of real property	25.2	2,393,875	2,039,760	823,650	162,103	56,511
Granting (collection) of business loans	25.3, 25.6	(2,000,000)	-	(162,688,761)	12,000,000	14,000,000
Commissions	25.5	1,501,182	2,363,233	1,800,000	1,501,182	2,363,233
Interest income	25.3, 25.6	1,070,519	1,396,111	8,991,695	-	-
Payment of loans	25.7	-	-	(456,642,697)	-	-
Interest expense	25.7	-	-	56,567,376	-	-
Cash advances obtained	25.4	-	(72,555)	36,384,895	(3,793,105)	(1,881,549)
Cash advances granted	25.4	-	(573,306)	(27,327,315)	9,223,071	9,105,994
Collection of receivables	25.5	-	-	15,588,734	-	(3,190,413)
Others:						
Key management personnel compensation	25.8	43,301,964	39,862,851	46,053,852	-	-
Receivable from treasurer	25.9	-	12,500,000	-	-	12,500,000
Sale of investment in a subsidiary	25.10	-	296,325,000	-	-	-

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 and advances from related parties are impaired.

25.1 Purchase of Goods, Supplies and Services

In 2016, SE Corp. purchases parts and supplies from CPD. Total purchases of parts and supplies amounting to nil in 2017 and P0.1 million in 2016 are recorded as part of Materials, supplies and other consumables under Cost of Services in the consolidated statements of income (see Note 17.2), while unused parts and supplies are included as part of Service parts, supplies and others under the Merchandise Inventories and Supplies account in the consolidated statements of financial position (see Note 9).

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% in 2017, 2016 and 2015. Total interest earned from these loans amounted to P1.1 million in 2017, P1.4 million in 2016 and P9.0 million in 2015 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 and nil in 2016 and P11.0 million in 2015. No principal repayment related to this loan was made in 2016. This loan is payable on demand. The outstanding receivables from this business loan amounted to P12.0 million and P14.0 million as of December 31, 2017 and 2016, respectively.

The business loans to AA Export, AA Marine, PPI, BFI and KFI were originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until December 31, 2015. Also, on August 23, 2012, SMFI's BOD approved the suspension of the payment of amortization for the principal amount of these loans; hence, there were no principal repayments on these loans in 2013. In 2014, principal repayment amounted to P2.0 million. These loans were fully settled in 2015.

The business loan granted to AA Export is secured by its own shares of stock, which are owned by a related party (see Note 7). 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 P9.2 million and P9.1 million as of December 31, 2017 and 2016, respectively, while the outstanding balances of Advances from Related Parties amounted to P3.8 million and P1.9 million as of December 31, 2017 and 2016, 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 SGI'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 and 2016 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. Total collections received in behalf of STL in 2015 (nil in 2017 and 2016) amounted to P15.6 million. Total obligations arising from this transaction as of December 31, 2016 amounting to P3.2 million is presented as Due to a related party under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

My Solid purchases mobile phone inventories from STL amounting to P2.6 billion, P4.3 billion and P2.9 billion in 2017, 2016 and 2015, respectively. In 2017, My Solid acquired mobile phone spare parts from STL amounting to P27.7 million (nil in 2016). Total outstanding payable from these purchases amounted to P8.1 million and P0.2 million as of December 31, 2017 and 2016, respectively, 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 and P542.0 million as of December 31, 2017 and 2016, respectively, 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 Transactions with SCL

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan RMB to SCL, amounting to P125.1 million (¥17.4 million) which matures on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to increase the annual interest rate to 5% and extend the loan for another year. In 2014, the parties agreed to further extend the term of the loan to March 31, 2015. Interest rate was maintained at 5%. In 2015, all of the loan receivable has been collected which has been used to partially pay the loan obtained from Bank of Singapore.

Interests earned from these loans amounted to P5.0 million in 2015, and is presented as part of Interest account under the Revenues section in the 2015 consolidated statement of income.

25.7 Loan Availments

In 2011, Fil-Dragon obtained loans from companies that are owned by SCL. Outstanding balance from these loans amounted to ¥21.1 million (P152.5 million) as of December 31, 2015. These loans bear annual interest at prevailing market rates ranging from 6% to 15% in 2015. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing Loans in the 2015 consolidated statement of financial position. Borrowing cost incurred in 2015 amounting to ¥7.8 million (P56.6 million) is shown as part of Interest expense on interest-bearing loans under the Finance Costs account in the consolidated statement of income (see Notes 14 and 20.1). In 2016, these loans were included as part of the consideration transferred upon disposal of the investment in PNCI.

25.8 Key Management Personnel Compensation

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Short-term benefits	P 41,084,414	P 36,501,892	P 42,692,723
Post-employment benefit	<u>2,217,550</u>	<u>3,360,959</u>	<u>3,361,129</u>
	<u>P 43,301,964</u>	<u>P 39,862,851</u>	<u>P 46,053,852</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).

25.9 Receivable from Treasurer

As of December 31, 2016, GSHMI has not yet maintained a bank account under its name. Its cash amounting to P12.5 million that was received from the issuance of shares was temporarily held in trust by one of the Company's officers; thus, presented as Receivable from treasurer under the Trade and Other Receivables – Net account in the 2016 statement of financial position (see Note 7). This had been fully collected in 2017.

25.10 Sale of Equity Interest in PNCI

On August 10, 2016, the Group's BOD approved the sale of its 100% shares in PNCI, consisting of 96,000 common shares, to SCL for a consideration of P296.3 million. The sale covered the assignment of advances granted by Precos to PNCI, amounting to P146.9 million.

The gain on disposal amounting to P128.0 million is presented as a separate line item under the Other Operating Expenses (Income) section in the 2016 consolidated statement of income (see Note 19). No similar transaction has occurred in 2017 and 2015.

25.11 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 and P191.5 million as at December 31, 2017 and 2016, respectively (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.

25.12 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).

25.13 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 and P3.9 million in 2016 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 and P0.8 million as of December 31, 2017 and 2016, respectively, 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.

Network support fees and in-warranty service fees relating to Sony products amounted to P86.7 million, P82.3 million and P80.8 million in 2017, 2016 and 2015, respectively, 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 and P7.2 million as of December 31, 2017 and 2016, respectively, 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.

Revenues arising from these transactions amounted to P2.2 million both in 2017 and 2016, and P1.8 million in 2015 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 and P3.1 million as of December 31, 2017 and 2016, respectively, 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>	<u>2016</u>
Within one year	P 34,609,719	P 97,485,928
After one year but not more than five years	50,039,883	220,848,436
More than five years	<u>294,247</u>	<u>294,247</u>
	<u>P 84,943,849</u>	<u>P 318,628,611</u>

Rental income earned from these transactions amounted to P233.3 million, P184.9 million and P146.1 million in 2017, 2016 and 2015, respectively, and 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>	<u>2016</u>
Within one year	P 24,275,484	P 17,648,288
After one year but not more than five years	<u>17,038,791</u>	<u>24,802,927</u>
	<u>P 41,314,275</u>	<u>P 42,451,215</u>

Rental expense charged to operations from these operating leases amounted to P11.5 million, P0.8 million and P0.8 million in 2017, 2016 and 2015, respectively, and 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 and P18.1 million as of December 31, 2017 and 2016, respectively. 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 December 31, 2017 and 2016 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 December 31, 2017.

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 Option Agreement

Relative to SBC's sale of its broadband assets and subscriber base, SGI granted SCC with an option to purchase SGI'S shares in SBC. The said option is exercisable until December 31, 2013. As of December 31, 2013, SCC has not exercised this option (see Note 26.3); hence, the Parent Company still holds the ownership interests in SBC.

27.7 Legal Claims

SMC is involved in a litigation covering a certain portion of land in Pililia, Rizal as the subject of expropriation coverage under the Agrarian Reform. The land subject to litigation is presented as Land under litigation under Other Non-current Assets account in the consolidated statements of financial position (see Note 13).

Management believes that the ultimate resolution of these cases will not materially affect the Group's consolidated financial statements.

27.8 Others

As of December 31, 2017 and 2016, the Group has unused credit facilities amounting to P1.1 billion and P1.2 billion, respectively.

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 are as follows:

	<u>2017</u>	<u>2016</u>
Financial assets	P 125,584,496	P 102,740,587
Financial liabilities	(137,590,698)	(121,312,975)
Short-term exposure	(P 12,006,202)	(P 18,572,388)

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 12 months at a 99% confidence level.

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
	<u>Reasonably Possible Change in Rate</u>	<u>Effect in Profit Before Tax</u>	<u>Reasonably Possible Change in Rate</u>	<u>Effect in Profit Before Tax</u>	<u>Reasonably Possible Change in Rate</u>	<u>Effect in Loss Before Tax</u>
Php – USD	10.77%	P 1,293,068	12.91%	P 2,397,695	10.42%	(P 1,678,603)
		P 1,293,068		P 2,397,695		P 48,288,877

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 December 31, 2017 and 2016, 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 +/-1.68% in 2017, +/-1.33% in 2016 and +/-2.03% in 2015. 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 1.68%, 1.33% and 2.03%, profit (loss) before tax in 2017 and 2016, and loss before tax in 2015 would have increased/decreased by P47.0 million, P17.2 million and P26.8 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax in 2017, 2016 and 2015 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.

	Notes	2017	2016
Cash and cash equivalents	5	P 3,490,600,099	P 2,259,894,549
Trade and other receivables (excluding advances to suppliers) – net	7	1,456,197,761	1,491,189,262
Short-term placements	13	60,000,000	-
Refundable deposits	13	15,430,426	18,134,064
Advances to related parties	25.4	9,223,071	9,105,994
Cash bond	13	568,234	568,234
		<u>P 5,032,019,591</u>	<u>P 3,778,892,103</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 Philippine Deposit Insurance Corporation 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>	<u>2016</u>
Not more than three months	P 186,742	P 401,825
More than three months but not more than one year	<u>9,222,673</u>	<u>9,138,456</u>
	<u>P 9,409,415</u>	<u>P 9,540,281</u>

There were no other financial assets that are past due as of December 31, 2017 and 2016.

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 6 Months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>
Interest-bearing loans	P 118,582,751	P -	P -
Trade and other payables	423,594,017	-	-
Advances from related parties	3,793,105	-	-
Refundable deposits	-	-	27,098,123
	<u>P 545,969,873</u>	<u>P -</u>	<u>P 27,098,123</u>

This compares to the maturity of the Group's financial liabilities as of December 31, 2016 as follows:

	<u>Current</u>		<u>Non-current</u>
	<u>Within 6 Months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>
Interest-bearing loans	P 114,834,228	P -	P -
Trade and other payables	379,517,661	-	-
Advances from related parties	1,881,549	-	-
Refundable deposits	-	-	21,368,341
	<u>P 496,233,438</u>	<u>P -</u>	<u>P 21,368,341</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	2017		2016	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial assets				
Loans and receivables:				
Cash and cash equivalents	5	P 3,490,600,099	P 3,490,600,099	P 2,259,894,549
Trade and other receivables – net	7	1,456,197,761	1,456,197,761	1,491,189,262
Short-term placements	13	60,000,000	60,000,000	-
Refundable deposits	13	15,430,426	15,430,426	18,134,064
Advances to related parties	25.4	9,223,071	9,223,071	9,105,994
Restricted cash and cash bond	13	568,234	568,234	568,234
		<u>5,032,019,591</u>	<u>5,032,019,591</u>	<u>3,778,892,103</u>
Financial assets at FVTPL	6	-	-	741,732,076
AFS financial assets:	8			
Golf club shares – net		11,877,258	11,877,258	8,977,258
Equity		8,580,000	8,580,000	8,827,065
Others		540,007	540,007	272,127
		<u>20,997,265</u>	<u>20,997,265</u>	<u>18,076,450</u>
		<u>P 5,053,016,856</u>	<u>P 5,053,016,856</u>	<u>P 4,538,700,629</u>
Financial liabilities				
At amortized cost:				
Interest-bearing loans – net	14	P 115,748,223	P 115,748,223	P 112,643,382
Trade and other payables	15	423,594,017	423,594,017	379,517,661
Refundable deposits	16	27,098,123	27,098,123	21,368,341
Advances from related parties	25.4	3,793,105	3,793,105	1,881,549
		<u>P 570,233,468</u>	<u>P 570,233,468</u>	<u>P 515,410,933</u>

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 P3.8 million and P1.9 million as at December 31, 2017 and 2016, 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 P9.2 million and P9.1 million as at December 31, 2017 and 2016, 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 and 2016, the Group's cash surrender value of investment in life insurance amounting to P678.6 million and P650.5 million, respectively, 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 and P112.6 million as at December 31, 2017 and 2016, 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 December 31, 2017 and 2016.

	Notes	2017			
		Level 1	Level 2	Level 3	Total
AFS financial assets	8	<u>P -</u>	<u>P 20,457,258</u>	<u>P -</u>	<u>P 20,457,258</u>
2016					
		Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	6	P -	P 741,732,076	P -	P 741,732,076
AFS financial assets	8	-	17,804,323	-	17,804,323
		<u>P -</u>	<u>P 759,536,399</u>	<u>P -</u>	<u>P 759,536,399</u>

As of December 31, 2017 and 2016, the Group has certain unquoted AFS financial assets amounting to P540,007 and P272,127, respectively, 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 and 2016.

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 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.

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.

		2017			
Notes		Level 1	Level 2	Level 3	Total
Financial Assets					
<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	13	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
		P 3,550,600,099	P -	P 1,481,419,492	P 5,032,019,591
Financial Liabilities					
<i>At amortized cost:</i>					
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
		P -	P -	P 570,233,469	P 570,233,468
		2016			
Notes		Level 1	Level 2	Level 3	Total
Financial Assets					
<i>Loans and receivables:</i>					
Cash and cash equivalents	5	P 2,259,894,549	P -	P -	P 2,259,894,549
Trade and other receivables – net	7	-	-	1,491,189,262	1,491,189,262
Refundable deposits	13	-	-	18,134,064	18,134,064
Advances to related parties	25.4	-	-	9,105,994	9,105,994
Restricted cash and cash bond	13	-	-	568,234	568,234
		P 2,259,894,549	P -	P 1,518,997,554	P 3,778,892,103
Financial Liabilities					
<i>At amortized cost:</i>					
Interest-bearing loans – net	14	P -	P -	P 112,643,382	P 112,643,382
Trade and other payables	15	-	-	379,517,661	379,517,661
Refundable deposits	16	-	-	21,368,341	21,368,341
Advances from related parties	25.4	-	-	1,881,549	1,881,549
		P -	P -	P 515,410,933	P 515,410,933

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 December 31.

		2017		
		Level 1	Level 2	Level 3
		Total		
Land and improvements	P	-	P 2,171,295,332	P -
Building and improvements		-	-	732,622,140
	P	-	P2,171,295,332	P 732,622,140
				P2,903,917,472
		2016		
		Level 1	Level 2	Level 3
		Total		
Land and improvements	P	-	P1,922,930,032	P -
Building and improvements		-	-	755,106,706
	P	-	P1,922,930,032	P 755,106,706
				P2,678,036,738

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, 2016 and 2015, all are 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>2017</u>	<u>2016</u>
Total liabilities (excluding advances from related parties)	P 1,472,176,546	P 1,336,715,489
Total equity	<u>10,285,960,832</u>	<u>9,998,092,190</u>
	<u>0.14 : 1.00</u>	<u>0.13 : 1.00</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 December 31, 2017 and 2016, 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 December 31, 2017 and 2016.



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Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

**The Board of Directors and Stockholders
Solid Group Inc. and Subsidiaries**
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We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of the Solid Group Inc. and subsidiaries for the year ended December 31, 2017, on which we have rendered our report dated April 3, 2018. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) are presented for purposes of additional analysis in compliance with the requirements under the Securities Regulation Code Rule 68, as amended, of the Philippine Securities and Exchange Commission, and are not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: 
Sheryl G. Llovido
Partner

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TIN 221-750-103
PTR No. 6616012, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1554-A (until Apr. 14, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-36-2015 (until Nov. 1, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 3, 2018

Certified Public Accountants

Punongbayan & Araullo is the Philippine member firm of Grant Thornton International Ltd

Offices in Cavite, Cebu, Davao
BOA/PRC Cert of Reg. No. 0002
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SOLID GROUP INC. AND SUBSIDIARIES
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

Supplementary Schedules

Independent Auditors' Report on the SEC Supplementary Schedules
Filed Separately from the Basic Financial Statements

Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68

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B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	N/A
C. Amounts Receivable/Payable from/to Related Parties which were Eliminated During the Consolidation of Financial Statements	2-3
D. Intangible Assets - Other Assets	N/A
E. Long-term Debt	N/A
F. Indebtedness to Related Parties (Long-term Loans from Related Companies)	N/A
G. Guarantees of Securities of Other Issuers	N/A
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Solid Group Inc. and Subsidiaries
Schedule A - Financial Assets
December 31, 2017

Name of Issuing entity and association of each issue	Number of shares of principal amount of bonds and notes	Amount shown in statement financial position	Value based on market quotation at end of reporting period	Income received and accrued
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Financial Assets at Fair Value Through Profit or Loss

Metropolitan Bank and Trust Company/ Security Bank Unit Investment Trust Fund (UITF)		P -	P -	P 5,918,418
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Available-for-Sale Financial Assets - Current

P -	P -	P -
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Available-for-Sale Financial Assets - Non-Current

			P 6,467,880	
The Country Club	3	P 9,000,000	P 9,000,000	-
Sta. Elena Golf Club	1	3,157,258	3,157,258	-
Alabang Country Club	2	6,467,880	6,467,880	-
Tagaytay Midlands Golf Club	4	2,000,000	2,000,000	-
Philam Properties Corporation	1	272,127	272,127	-
Subic Bay Yacht Club Inc.	1	100,000	100,000	-
		P 20,997,265	P 20,997,265	P -

Solid Group Inc. and Subsidiaries
Schedule C - Amounts Receivable/Payable from/to Related Parties which are Eliminated During the Consolidation of Financial Statements
December 31, 2017

Name and designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts collected	Amounts written off	Current	Not current	
Trade Receivables:							
My Solid Devices & Technologies Corporation	P 3,871,818	P 74,963,309	P 10,710,741	P -	P 68,124,386	-	P 68,124,386
Kita Corporation	13,600,000	-	-	-	13,600,000	-	13,600,000
Green Sun Hotel Management Inc.	-	18,748,702	13,917,385	-	4,831,317	-	4,831,317
Omni Solid Services Inc.	67,092,624	34,025,625	93,986,487	-	7,131,762	-	7,131,762
Solid Electronics Corporation	9,079,281	12,799,447	18,426,781	-	3,451,947	-	3,451,947
Solid Manila Corporation	155,655	53,042,950	50,948,921	-	2,249,684	-	2,249,684
Solid Video Corporation	2,719,675	269,330	2,989,005	-	-	-	-
SolidGroup Technologies Corporation	174,396	51,319,036	51,493,432	-	-	-	-
	<u>P 96,693,449</u>	<u>P 245,168,399</u>	<u>P 242,472,752</u>	<u>P -</u>	<u>P 99,389,096</u>	<u>P -</u>	<u>P 99,389,096</u>
Advances to and From							
My Solid Devices & Technologies Corporation	P 1,664,400,900	P -	P 350,000,000	P -	P 1,314,400,900	P -	P 1,314,400,900
Kita Corporation	439,259,173	-	13,000,000	-	426,259,173	-	426,259,173
Zen Towers Corporation	390,499,950	-	58,499,950	-	332,000,000	-	332,000,000
Solid Manila Corporation	222,043,188	-	40,000,000	-	182,043,188	-	182,043,188
Brilliant Reach Limited	161,275,147	356,137	-	-	161,631,284	-	161,631,284
Solid Video Corporation	90,000,000	-	50,000,000	-	40,000,000	-	40,000,000
SolidGroup Technologies Corporation	25,000,000	-	10,000,000	-	15,000,000	-	15,000,000
Casa Bocobo Hotel, Inc.	13,500,000	-	3,500,000	-	10,000,000	-	10,000,000
Laguna International Industrial Park	4,972,151	-	1,000,000	-	3,972,151	-	3,972,151
Skyworld	1,424,492	119,705	-	-	1,544,197	-	1,544,197
MyApp Corporation	1,400,000	-	-	-	1,400,000	-	1,400,000
Interstar Holdings Corporatin, Inc.	814,664	90,661	-	-	905,325	-	905,325
	<u>P 3,014,589,665</u>	<u>P 566,503</u>	<u>P 525,999,950</u>	<u>P -</u>	<u>P 2,489,156,218</u>	<u>P -</u>	<u>P 2,489,156,218</u>

				Deductions				Ending Balance							
Name and designation of debtor		Balance at beginning of period		Additions		Amounts collected		Amounts written off		Current		Not current		Balance at end of period	
Trade payables:															
Solid Video Corporation		P	-	P	110,982,438	P	43,556,802	p	-	P	67,425,636	p	-	P	67,425,636
My Solid Devices & Technologies Corporation			768,170		48,364,776		41,566,114		-		7,566,832		-		7,566,832
Green Sun Hotel and Management			-		21,148,347		15,984,867		-		5,163,480		-		5,163,480
Omni Solid Services Inc.			9,900		23,128,884		22,588,336		-		550,448		-		550,448
Solid Electronics Corporation			903,314		4,343,983		5,116,426		-		130,871		-		130,871
Casa Bocobo Hotel Inc.			2,818,866		91,392		2,818,866		-		91,392		-		91,392
SolidGroup Technologies Corporation			633,570		1,065,857		1,656,343		-		43,084		-		43,084
Solid Manila Corporation			75,518		-		61,680		-		13,838		-		13,838
Solid Broadband Corporation			41,800		-		41,800		-		-		-		-
		P	5,251,138	P	209,125,678	P	133,391,234	P	-	P	80,985,581	P	-	P	80,985,581

Solid Group Inc. and Subsidiaries
Schedule H - Capital Stock
December 31, 2017

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption (A)</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties (B)</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Common shares - P1 par value						
Authorized - P5,000,000,000 shares	5,000,000,000					
Issued		2,030,975,000				
Outstanding		1,821,542,000		1,083,377,816	351,241,480	386,922,704

A: Number of shares issued and outstanding = 2,030,975,000 issued shares less 209,433,000 treasury shares

B: This represents shares held by AA Commercial and AV Value Holdings Corp., related parties which are ultimately owned by the Lim Family.

SOLID GROUP INC.
2285 Don Chino Roces Avenue, Makati City
Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2017

Unappropriated Retained Earnings at Beginning of Year	P	833,846,642
Retained Earnings Restricted for Treasury Shares	(	115,614,381)
Prior Years' Outstanding Reconciling Items, net of tax		
Deferred tax income	(	<u>99,060</u>)
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted		718,133,201
Net Profit Realized during the Year		
Net profit per audited financial statements	P	35,008,219
Unrealized foreign exchange gain	(	<u>356,304</u>)
		34,651,915
Other Transaction During the Year		
Dividends declared	(	<u>127,507,940</u>)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year	P	<u>625,277,176</u>

SOLIDGROUP INC. AND SUBSIDIARIES
Schedule J - Financial Soundness Indicators

	FORMULA	DECEMBER 31, 2017	DECEMBER 31, 2016
Liquidity Ratios			
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	8.4:1	9.05:1
Acid Test ratio	$\frac{\text{Cash \& Cash Equivalents + Trade Receivables}}{\text{FAFVPL + AFS}} \div \frac{\text{Current Liabilities}}{\text{Current Liabilities}}$	6.62:1	6.8:1
Solvency Ratios			
Debt to Equity ratio	$\frac{\text{Total Liabilities (excluding advances from related parties)}}{\text{Total Equity}}$	0.14:1	0.13:1
Gearing Ratio	$\frac{\text{Financial Debt}}{\text{Total Equity}}$	0.06:1	0.05:1
Asset-to-Equity Ratios	$\frac{\text{Total Assets}}{\text{Total Equity}}$	1.14:1	1.13:1
Interest Rate Coverage Ratio	$\frac{\text{EBIT}}{\text{Interest Expense}}$	198.08:1	37.45:1
Profitability Ratios			
Operating Margin	$\frac{\text{Operating Profit (Loss)}}{\text{Total Revenues}}$	10%	6%
Net Profit Margin	$\frac{\text{Net Income (Loss) after Tax}}{\text{Total Revenues}}$	8%	5%
Return on Total Assets	$\frac{\text{Net Income (Loss) after Tax}}{\text{Average Total Assets}}$	3%	3%
Return on Equity	$\frac{\text{Net Income (Loss) after Tax}}{\text{Total Equity}}$	4%	3%

SOLID GROUP INC.
Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* (effective January 1, 2018)			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation (effective January 1, 2019)			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4, <i>Insurance Contracts</i> * (effective January 1, 2018)			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* (effective when PFRS 9 is first applied)			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments (2014)* (effective January 1, 2018)			✓
	Amendments to PFRS 9: Prepayment Features with Negative Compensation* (effective January 1, 2019)			✓
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 10	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (<i>effective date deferred indefinitely</i>)			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation (<i>effective January 1, 2019</i>)			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers* (<i>effective January 1, 2018</i>)			✓
PFRS 16	Leases* (<i>effective January 1, 2019</i>)			✓
PFRS 17	Insurance Contracts* (<i>effective January 1, 2021</i>)			✓
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* (<i>effective January 1, 2019</i>)			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
	Amendment to PAS 23: Eligibility for Capitalization			✓

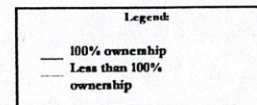
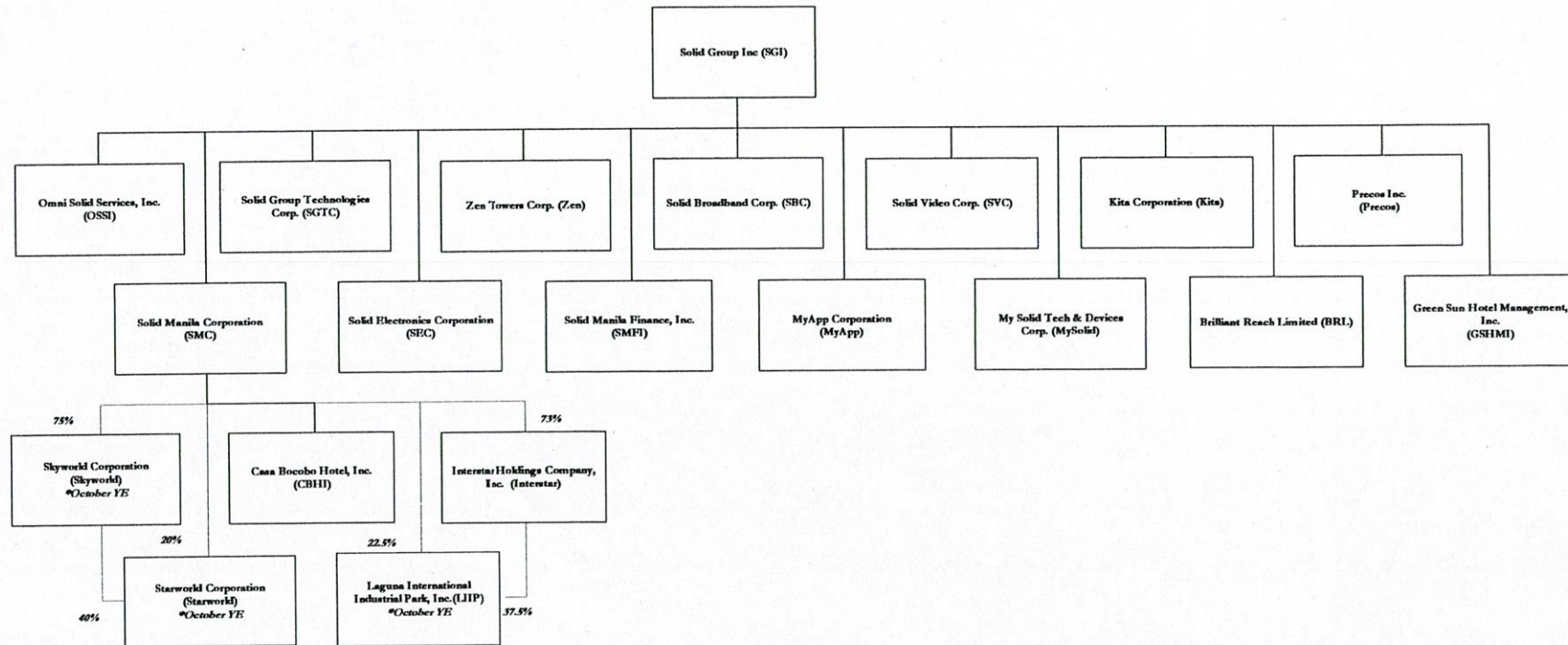
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (<i>effective date deferred indefinitely</i>)			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss (<i>effective January 1, 2018</i>)			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture (<i>effective January 1, 2019</i>)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property			✓
	Amendment to PAS 40: Reclassification to and from Investment Property (<i>effective January 1, 2018</i>)			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**			✓
IFRIC 18	Transfers of Assets from Customers**			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration (effective January 1, 2018)			✓
IFRIC 23	Uncertainty Over Income Tax Treatments (effective January 1, 2019)			✓
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

* These standards will be effective for periods subsequent to 2017 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

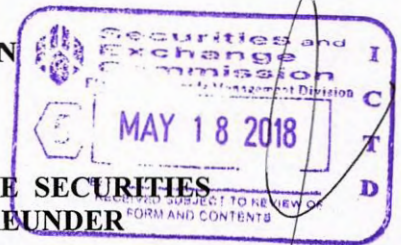
Solid Group Inc. and Subsidiaries
Map Showing the Relationships Between and Among the Company and its Related Parties



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: March 31, 2018
2. Commission Identification Number: 845
3. BIR Tax Identification No.: 321-000-508-536
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: 2285 Don Chino Roces Avenue, Makati City,
Philippines Postal Code: 1231
8. Telephone No: (632) 843-15-11
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 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 three (3) months period ended March 31, 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)	(22%)	(34%)
Asset turnover	26%	35%
Operating expense ratio	20%	16%
EBITDA	P97 million	P93 million
EPS	P0.03	P0.03
Current ratio	10.09:1	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 22% for the first quarter of 2018 vs. 34% decrease for the same period in 2017 principally due to lower revenues of the digital mobile devices segment.

Asset turnover stood lower at 26% for the first quarter of 2018 from 35% for the same period in 2017 as a result of lower revenues for the period.

Operating expense ratio was 20% and 16% for the first quarter of 2018 and 2017, respectively, principally due to lower revenues for the period.

EBITDA amounted to P97 million for the first quarter of 2018 against P93 million for the same period in 2017. The increase was mainly contributed by investment and others segment. The Company also realized deferred profits from project completed in the first quarter of 2018.

Earnings per share stood to P0.03 for the first quarter of 2018 and 2017 mainly from net income for the period.

Current ratio improved to 10.09:1 as of March 31, 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 March 31, 2018 from 0.14: 1 as of December 31, 2017 primarily due to lower liabilities.

Results of Operations

Revenues decreased by 22% in the first quarter of 2018 reaching P768 million from P982 million for the same period in 2017 principally from lower revenues of the digital mobile devices segment.

Sale of goods amounted to P529 million for the first quarter of 2018, lower by 33% from P788 million for the same period in 2017 mainly due to lower volume of sales of the digital products.

Service revenue went up to P151 million for the first quarter of 2018, an increase of 20% for the same period in 2017 of P126 million mainly due to higher revenues of the technical support and solutions segment.

Rental income amounted to P60 million for the first quarter of 2018, higher by 6% from P57 million for the same period in 2017 due to higher occupancy.

Interest income increased to P17 million for the first quarter of 2018, up by 63% from P10 million for the same period in 2017 due to higher investible funds and higher yields.

Sale of real estate amounted to P9 million for the first quarter of 2018 from sale of condominium units, nil for the same period in 2017.

Cost of sales, services, real estate sold and rentals amounted to P578 million for the first quarter of 2018, or a decrease of 28% from P806 million for the same period in 2017 as discussed below.

Cost of sales amounted to P417 million for the first quarter of 2018, lower by 38%, from P675 million for the same period of last year in relation to decrease in sales.

Cost of services amounted to P124 million for the first quarter of 2018 from P114 million for the same period of 2017, up by 9% mainly in relation to higher service revenue.

Cost of rentals amounted to P30 million for the first quarter of 2018, up by 91% from P16 million for the same period of 2017 mainly due to higher depreciation and taxes and licenses of the property and related services segment.

Gross profit amounted to P189 million for the first quarter of 2018 from P176 million for the same period in 2017. The increase of 7% was principally due to higher gross profit rate of mobile device segment, profit from sale of condominium and improved interest income.

Other operating expenses (income) amounted to P150 million for the first quarter of 2018 from P121 million for the same period of 2017 as explained below.

General and administrative expenses amounted to P93 million for the first quarter of 2018 from P83 million for the same period of 2017. The increase was due to higher communication, light and water, rental expense, security and janitorial services and trainings and seminar offset by lower taxes and licenses expenses.

Selling and distribution costs amounted to P62 million for the first quarter of 2018 from P73 million for the same period of 2017 mainly from lower commissions and manpower and other outside services of the digital mobile devices segment.

Other operating income – net amounted to P5.7 million for the first quarter of 2018, down by 84% from P35 million operating income –net for the same period in 2017 principally due to gain on sale of investment property of the property and building services segment in 2017, nil in 2018.

Despite higher gross profit, operating profit amounted to P39 million for the first quarter of 2018 from P55 million for the same period in 2017, a decline of 29% mainly from lower profit of the mobile devices and property and related services segments. (In 2017, the company reported gain on sale of investment property, none in 2018).

Other income (charges) amounted to P35 million income for the first quarter of 2018 against P15 million income for the same period in 2017 mainly from the following:

Finance costs decreased to P0.9 million for the first quarter of 2018 compared with P6.7 million in 2017 primarily due to lower foreign currency exchange loss.

Finance income was higher at P33 million for the first quarter of 2018 compared with P20 million for the same period of last year mainly due to higher foreign exchange currency gains of the digital mobile and investment and others segments.

Other gains - net amounted to P2.6 million in the first quarter of 2018 compared with P1.3 million of the previous year mainly from excess standard over actual input VAT and others gains.

Profit before tax was P74 million for the first quarter of 2018, an increase of 5 % from P71 million for the same period in 2017 mainly due to higher finance income as explained above.

Tax expense amounted to P21 million for the first quarter of 2018 from P14 million in 2017 due to higher pre-tax income in 2018.

Net profit amounted to P53 million for the first quarter of 2018 against P56 million net profit for the same period in 2017 due to the factors discussed above.

Net profit attributable to equity holders of the parent amounted to P50 million for the first quarter of 2018 against P53 million net profit in for the same period of 2017 as discussed above.

Net profit attributable to non-controlling interest (NCI) amounted to P3.02 million for the first quarter of 2018 compared with P2.9 million in 2017 primarily due to minority share in net income for the period

Financial Position

Cash and cash equivalents amounted to P3,706 million as of March 31, 2018 up by 6% from P3,490 million as of December 31, 2017. Cash was primarily provided from operating activities mainly from decrease in trade and other receivables.

Trade and other receivables reached P635 million as of March 31, 2018 against P1,214 million as of December 31, 2017, or a decrease of 48% 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 amounted to P12 million as of March 31, 2018 and P9 million as of December 31, 2017, an increase of 31% due to additional advances.

Merchandise inventories and supplies - net amounted to P787 million as of March 31, 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 March 31, 2018 and P440 million as of December 31, 2017. There was no material change for this account.

Other current assets amounted to P329 million as of March 31, 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 equivalent.

Total current assets reached P5,906 million as of March 31, 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 P733 million as of March 31, 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 P21 million as of March 31, 2018 and P20 million as December 31, 2017. There was no material change for this account.

Property and equipment amounted to P1,905million as of March 31, 2018 from P1,909 million as of December 31, 2017. There was no material change for this account.

Investment property decreased to P2,894 million as of March 31, 2018 from P2,903 as of December 31, 2017. There was no material change for this account.

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

Deferred tax assets - net amounted to P99 million as of March 31, 2018 and P110 million as of December 31, 2017 mainly due to deferred tax expense on release of reserve for commission.

Other non-current assets amounted to P33 million as of March 31, 2018 or an increase of 42% from P23 million as of December 31, 2017 primarily due to higher deposits.

Total non-current assets amounted to P5,792 million as of March 31, 2018 from P5,766 million as of December 31, 2017 as discussed above.

Total assets reached P11,699 million as of March 31, 2018 from P11,761 million as of December 31, 2017 as discussed above.

Interest-bearing loans amounted to P122 million as of March 31, 2018 from P115 million as of December 31, 2017. The increase of 6% was due to application of unpaid interest expense to principal loan balances.

Trade and other payables amounted to P340 million as of March 31, 2018 against P475 million as of December 31, 2017, lower by 28% due to lower trade payable and accrued dealers' incentives.

Customers' deposits amounted to P11.7 million as of March 31, 2018 versus P16.7 million as of December 31, 2017 from refund of deposits.

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

Estimated liability for land and land development costs amounted to P 68 million as of March 31, 2018 and December 31, 2017.

Income tax payable amounted to P40 million as of March 31, 2018 from P33 million as of December 31, 2017 mainly from tax expense for the period.

Total current liabilities amounted to P585 million as of March 31, 2018 from P713 million as of December 31, 2017 as a result of lower trade and other payables.

Non-current refundable deposits amounted to P25 million as of March 31, 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 March 31, 2018 and as of December 31, 2017. This represents the unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities -net amounted to P692 million as of March 31, 2018 and P697 million as of December 31, 2017. There was no material change for this account.

Total non-current liabilities amounted to P756 million as of March 31, 2018 from P762 million as of December 31, 2017.

Total liabilities amounted to P1,341 million as of March 31, 2018 from P1,475 million as of December 31, 2017.

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

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

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

Revaluation reserves amounted to P2.5 million as of March 31, 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 P3,448 million as of March 31, 2018 from P3,398 million as of December 31, 2017 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P10,008 million as of March 31, 2018 from P9,939 million as of December 31, 2017 mainly due to higher retained earnings.

Non-controlling interests amounted to P349 million as of March 31, 2018 from P345 million as of December 31, 2017 primarily due to minority share in net income for the period.

Total equity amounted to P10,357 million as of March 31, 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 2017 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

None

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.

A handwritten signature in dark ink, appearing to be 'SLT', written over a horizontal line.

SUSAN L. TAN

President & Chief Executive Officer

A handwritten signature in dark ink, appearing to be 'V. Lim', written over a horizontal line.

VINCENT S. LIM

SVP & Chief Financial Officer

May 17, 2018

Solid Group Inc. and Subsidiaries

Unaudited Consolidated Financial Statements

March 31, 2018 and December 31, 2017

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

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	5	P 3,706,832,992	P 3,490,600,099
Trade and other receivables - net	7	635,200,509	1,214,427,626
Advances to related parties	25	12,079,812	9,223,071
Merchandise inventories and supplies - net	9	787,338,803	538,620,487
Real estate inventories - net	10	435,904,790	440,454,110
Other current assets	13	<u>329,137,647</u>	<u>301,822,764</u>
Total Current Assets		<u>5,906,494,553</u>	<u>5,995,148,157</u>
NON-CURRENT ASSETS			
Trade and other receivables	7	733,090,805	692,864,376
Available-for-sale financial assets - net	8	21,259,032	20,997,265
Property and equipment - net	11	1,905,041,887	1,909,014,819
Investment properties - net	12	2,894,481,197	2,903,917,472
Post-employment benefit asset	21	105,764,094	105,764,094
Deferred tax assets - net	22	99,592,622	110,772,335
Other non-current assets - net	13	<u>33,317,101</u>	<u>23,451,965</u>
Total Non-current Assets		<u>5,792,546,738</u>	<u>5,766,782,326</u>
TOTAL ASSETS		P <u>11,699,041,291</u>	P <u>11,761,930,483</u>

	Notes	2018	2017
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Interest-bearing loans	14	P 122,576,215	P 115,748,223
Trade and other payables	15	340,670,501	475,688,544
Customers' deposits	2	11,702,547	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		40,207,871	33,477,152
Total Current Liabilities		585,343,329	713,767,661
NON-CURRENT LIABILITIES			
Refundable deposits	16	25,996,193	27,098,123
Post-employment benefit obligation	21	37,865,673	37,865,673
Deferred tax liabilities - net	22	692,350,988	697,238,194
Total Non-current Liabilities		756,212,854	762,201,990
Total Liabilities		1,341,556,183	1,475,969,651
EQUITY			
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	2,580,028	(15,778,108)
Retained earnings	23	3,448,836,582	3,398,699,549
Total equity attributable to the Parent Company's stockholders		10,008,479,152	9,939,983,983
Non-controlling interests	2	349,005,956	345,976,849
Total Equity		10,357,485,108	10,285,960,832
TOTAL LIABILITIES AND EQUITY		P 11,699,041,291	P 11,761,930,483

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTH ENDED MARCH 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
REVENUES			
Sale of goods	2	P 529,252,912	P 788,351,569
Rendering of services	25, 26	151,559,314	126,507,560
Rentals	12, 25, 27	60,808,818	57,460,450
Interest	7, 20, 25	17,323,350	10,657,464
Sale of real estate	2	9,771,429	-
		<u>768,715,823</u>	<u>982,977,043</u>
COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS			
Cost of sales	17	417,576,467	675,532,626
Cost of services	17	124,116,492	114,366,756
Cost of rentals	12, 17	30,983,378	16,220,212
Cost of real estate sold	17	6,186,779	-
		<u>578,863,116</u>	<u>806,119,594</u>
GROSS PROFIT		<u>189,852,707</u>	<u>176,857,449</u>
OTHER OPERATING EXPENSES (INCOME)			
General and administrative expenses	18	93,764,904	83,348,355
Selling and distribution costs	18	62,190,410	73,456,726
Other operating income - net	19	(5,754,189)	(35,545,873)
		<u>150,201,125</u>	<u>121,259,208</u>
OPERATING PROFIT (LOSS)		<u>39,651,582</u>	<u>55,598,241</u>
OTHER INCOME (CHARGES)			
Finance costs	20	(913,691)	(6,729,053)
Finance income	20	33,428,707	20,966,221
Other gains - net	20	2,670,029	1,335,660
		<u>35,185,045</u>	<u>15,572,828</u>
PROFIT (LOSS) BEFORE TAX		<u>74,836,627</u>	<u>71,171,069</u>
TAX EXPENSE (INCOME)	22	<u>21,670,487</u>	<u>14,910,573</u>
NET PROFIT (LOSS)		<u>P 53,166,140</u>	<u>P 56,260,496</u>
Net Profit (Loss) for the period attributable to the:			
Parent Company's stockholders	24	P 50,137,033	P 53,312,495
Non-controlling interests		<u>3,029,107</u>	<u>2,948,001</u>
		<u>P 53,166,140</u>	<u>P 56,260,496</u>
Earnings (Loss) per share attributable to the Parent Company's stockholders			
	24	<u>P 0.03</u>	<u>P 0.03</u>

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTH ENDED MARCH 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
NET PROFIT (LOSS) FOR THE PERIOD	P	<u>53,166,140</u>	P <u>56,260,496</u>
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified subsequently to profit or loss:			
Currency exchange differences on translating financial statements of foreign operations	2, 23	18,358,136	2,900,354
		<u>-</u>	<u>-</u>
		<u>18,358,136</u>	<u>2,900,354</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	P	<u><u>71,524,276</u></u>	P <u><u>59,160,850</u></u>
Total comprehensive income (loss) attributable to:			
Parent Company's stockholders	P	68,495,169	P 56,212,849
Non-controlling interests		<u>3,029,107</u>	<u>2,948,001</u>
	P	<u><u>71,524,276</u></u>	P <u><u>59,160,850</u></u>

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTH ENDED MARCH 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS			
CAPITAL STOCK - 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
ADDITIONAL PAID-IN CAPITAL		<u>4,641,701,922</u>	<u>4,641,701,922</u>
TREASURY SHARES - at cost			
Acquired at P0.5520 per share - 209,433,000 shares	(	115,614,380	(115,614,380)
REVALUATION RESERVES			
Balance at beginning of year	(	15,778,108	(27,542,667)
Other comprehensive income (loss) for the period		<u>18,358,136</u>	<u>2,900,354</u>
Balance at end of the period		<u>2,580,028</u>	(24,642,313)
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of year			
As previously reported		3,398,699,549	3,129,157,242
Profit (loss) for the year attributable to the Parent Company's stockholders		50,137,033	53,312,495
Cash dividends		<u>-</u>	<u>-</u>
Balance at end of the period		<u>3,448,836,582</u>	<u>3,182,469,737</u>
Total Equity Attributable to the Parent Company's stockholders		<u>10,008,479,152</u>	<u>9,714,889,966</u>
NON-CONTROLLING INTERESTS			
Balance at beginning of year		345,976,849	339,415,073
Profit (loss) for the period attributable to non-controlling interests		<u>3,029,107</u>	<u>2,948,001</u>
Balance at end of the period		<u>349,005,956</u>	<u>342,363,074</u>
TOTAL EQUITY	P	<u>10,357,485,108</u>	P <u>10,057,253,040</u>
Total comprehensive income (loss) for the period attributable to:			
Parent Company's stockholders	P	68,495,169	P 56,212,849
Non-controlling interests		<u>3,029,107</u>	<u>2,948,001</u>
	P	<u>71,524,276</u>	P <u>59,160,850</u>

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTH ENDED MARCH 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before tax		74,836,627	71,171,069
Adjustments for:			
Interest income	(	27,729,357)	(15,343,764)
Depreciation and amortization		21,739,165	21,027,414
Impairment losses on trade and other receivables		-	
Interest expense		806,066	668,242
Gain on redemption of financial assets at FVTPL		-	(610)
Fair value (gains) loss on financial assets at FVTPL		-	(2,472,720)
Loss (reversal) on inventory obsolescence	(	210,586)	
Unrealized foreign currency losses (gains) - net	(	20,346,163)	1,471,926
Fair value loss (gain) on investment property - net		14,074,108	
Loss (gain) on sale of investment property		-	(35,650,680)
Gain on sale of investment in subsidiaries			
Impairment (reversal) losses on available-for-sale FA		-	-
Operating profit before working capital changes		63,169,860	40,870,877
Decrease (increase) in trade and other receivables		562,086,209	799,185,449
Decrease (increase) in available-for-sale financial assets			
Decrease (increase) in financial assets at FVTPL			
Decrease (increase) in merchandise inventories and supplies	(	248,507,730)	(141,017,618)
Decrease (increase) in real estate inventories		4,549,320	
Decrease (increase) in advances to related parties	(	2,856,741)	(408,844)
Decrease (increase) in other current assets	(	27,314,883)	(7,028,464)
Decrease (increase) in retirement benefit asset		-	
Decrease (increase) in deferred tax assets			3,246,407
Decrease (increase) in other non-current assets	(	9,865,136)	(8,135,068)
Increase (decrease) in trade and other payables	(	134,296,797)	(94,624,997)
Increase in estimated liability for land and land development costs		-	
Increase (decrease) in customers' deposits	(	5,053,443)	258,430
Increase (decrease) in advances from related parties	(	1,911,557)	
Increase (decrease) in refundable deposits	(	1,101,930)	(334,029)
Increase (decrease) in retirement benefit obligation		-	
Increase (decrease) in deferred tax liabilities		-	-
Cash generated from (used in) operations		198,897,173	592,012,143
Interest received		10,348,373	7,727,937
Cash paid for income taxes	(	4,424,958)	(13,358,747)
Net Cash From (Used in) Operating Activities		204,820,588	586,381,333
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at FVTPL			(173,393,730)
Proceeds from redemption of financial assets at FVTPL		-	
Decrease (acquisitions) of property and equipment	(	17,766,233)	(36,176,623)
Interest received		8,324,805	4,686,300
Minority interest			
Proceeds on disposal of investment in subsidiaries			
Decrease (acquisitions) of available-for-sale financial assets	(	261,767)	(252,806)
Proceeds from sale of investment property		-	66,274,857
Decrease (Additions) to investment property	(	4,637,833)	13,281,021
Net Cash From (Used in) Investing Activities	(	14,341,027)	(125,580,981)

	Notes	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (repayments of) interest-bearing loans - net		6,827,992	2,202,654
Dividends paid		-	-
Interest paid		(1,420,823)	(1,332,204)
Net Cash From (Used in) Financing Activities		5,407,169	870,450
Effect of Currency Rate Changes on Cash and Cash Equivalents		20,346,163	(1,471,926)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		216,232,893	460,198,876
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		3,490,600,099	2,259,894,549
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P	3,706,832,992	P 2,720,093,425

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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 nd 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, Mamlasan, 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 Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS 2014-2016 Cycle	
PAS 28 (Amendment)	: Investment in Associates – Clarification on 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

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.
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 - 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 Available-for-sale 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 two 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 and 2016, 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, 2016 and 2015 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 and 2016, 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 and 2016 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.

(b) *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 amounting to P14.3 million, and 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 years ended December 31, 2016 and 2015.

(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 devices 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 March 31, 2018 and December 31, 2017, the related revenue and profit information for each of the three-month period ended March 31, 2018 and March 31, 2017. (amounts in thousands):

	Digital Mobile Devices	Property & Building Services	Technical Support & Solutions	Investment and Others	Elimination	Total
2018						
SEGMENT RESULTS						
Total revenues	P 435,615	P 114,427	P 215,585	P 32,079	(P 28,990)	P 768,716
Net profit (loss)	<u>475</u>	<u>P 12,090</u>	<u>P 7,941</u>	<u>P 16,763</u>	<u>P 15,897</u>	<u>P 53,166</u>
SEGMENT ASSETS AND LIABILITIES						
Total assets	<u>P 1,912,742</u>	<u>P 6,271,110</u>	<u>P 941,481</u>	<u>P 8,281,704</u>	<u>(P 5,707,995)</u>	<u>P 11,699,041</u>
Total liabilities	<u>P 1,451,369</u>	<u>P 1,938,977</u>	<u>P 181,527</u>	<u>P 398,412</u>	<u>(P 2,628,729)</u>	<u>P 1,341,556</u>

	Digital Mobile Devices	Property & Building Services	Technical Support & Solutions	Investment and Others	Elimination	Total
2017						
SEGMENT RESULTS						
Total revenues	P 766,190	P 80,561	P 133,866	P 24,664	(P 22,304)	P 982,977
Net profit (loss)	<u>13,294</u>	<u>P 35,465</u>	<u>P 1,029</u>	<u>(P 6,472)</u>	<u>(P)</u>	<u>P 56,260</u>
SEGMENT ASSETS AND LIABILITIES						
Total assets	<u>P 1,952,268</u>	<u>P 5,857,231</u>	<u>P 1,078,028</u>	<u>P 8,675,375</u>	<u>(P 5,800,972)</u>	<u>P 11,761,930</u>
Total liabilities	<u>P 1,491,370</u>	<u>P 2,267,149</u>	<u>P 345,015</u>	<u>P 449,979</u>	<u>(P 3,077,543)</u>	<u>P 1,475,970</u>

5. CASH AND CASH EQUIVALENTS

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

	<u>2018</u>	<u>2017</u>
Cash on hand and in banks	P 311,708,331	P 690,867,359
Short-term placements	<u>3,395,124,661</u>	<u>2,799,732,740</u>
	<u>P 3,706,832,992</u>	<u>P 3,490,600,099</u>

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 March 31, 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>Note</u>	<u>2017</u>
Balance at beginning of year		P 741,732,076
Additions		124,500,000
Redemptions		(869,232,076)
Fair value gains	20.2	=
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:

	Notes	2018	2017
Current:			
Trade receivables	25.2, 25.5, 26.1, 26.3	P 193,093,796	P 766,617,490
Advances to suppliers	25.5	407,540,063	451,094,241
Loans receivables	25.3	41,840,949	37,194,998
Rental receivable	25.2	58,007,410	6,274,639
Interest receivable		6,936,976	2,209,591
Receivable from officers and employees		5,324,242	2,171,345
Other receivables		15,308,784	41,717,033
		728,052,220	1,307,279,337
Allowance for impairment		(92,851,711)	(92,851,711)
		635,200,509	1,214,427,626
Non-current:			
Trade receivables		16,306,958	13,620,877
Loans receivables	25.3	647,049	647,049
Cash surrender value of investment in life insurance		716,136,798	678,596,450
		733,090,805	692,864,376
		P 1,368,291,314	P 1,907,292,002

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.

Annual interest income recognized on the Group's loans receivables amounted to P7.7 million, P8.2 million in 2017 and are presented as part of Interest under the Revenues section of the consolidated statements of income. The effective interest rates on loans receivables range from 7.5% to 30.0% in March 31, 2018 and December 31, 2017.

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 income. 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	P 22,307,258	P	22,307,258
Equity securities	8,580,000		8,580,000
Others	<u>801,774</u>		<u>540,007</u>
	33,780,032		31,427,265
Allowance for impairment	(<u>12,530,000</u> )	(	<u>10,430,000</u>)
	<u>P 21,259,032</u>	P	<u>20,997,265</u>

A reconciliation of the net carrying amounts of AFS financial assets is shown below.

	<u>Note</u>		<u>2017</u>
Balance at beginning of year		P	18,076,450
Additions			-
Fair value gains – net	23.3		<u>2,920,815</u>
Balance at end of year		P	<u>20,997,265</u>

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 March 31, 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 March 31, 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	P 929,434,148	P 681,659,177
Service parts, supplies and others	25.1	<u>4,936,342</u>	<u>4,203,582</u>
		934,370,489	685,862,759
Allowance for inventory obsolescence		(147,031,686)	(147,242,272)
		<u>P 787,338,803</u>	<u>P 538,620,487</u>

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		P 147,242,272	P 96,132,177
Provisions for inventory obsolescence	17.1, 18		51,531,964
Reversal of allowance for inventory obsolescence	17.1, 18	(210,586)	(421,869)
		<u>P 147,031,686</u>	<u>P 147,242,272</u>

The Group has no outstanding purchase commitment for the acquisition of merchandise inventories and supplies as at March 31, 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	P 4,265,299	P 4,265,299
Land development costs	<u>35,281,523</u>	<u>35,281,523</u>
	39,546,822	39,546,822
Allowance for impairment	<u>(2,022,800)</u>	<u>(2,022,800)</u>
	37,524,022	37,524,022
Property development costs –		
Construction in progress		
and development costs	<u>398,380,768</u>	<u>402,930,088</u>
	<u>P 435,904,790</u>	<u>P 440,454,110</u>

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 March 31, 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 March 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>
March 31, 2018											
Cost	P 1,277,854,682	P 364,380,813	P 179,142,759	P 226,569,618	P 145,612,766	P 15,936,701	P 78,981,618	P 121,960,886	P 46,527,453	P 189,051,878	P 2,647,919,417
Accumulated depreciation and amortization	-	(93,654,586)	(104,137,586)	(162,055,175)	(103,433,364)	(15,593,628)	(73,279,366)	(109,426,490)	(31,938,599)	-	(693,531,280)
Accumulated impairment losses	-	(35,000,000)	-	-	-	-	-	-	-	(14,346,250)	(49,346,250)
Net carrying amount	<u>P 1,277,854,682</u>	<u>P 235,726,227</u>	<u>P 75,005,173</u>	<u>P 64,514,443</u>	<u>P 42,179,402</u>	<u>P 343,073</u>	<u>P 5,702,252</u>	<u>P 12,534,396</u>	<u>P 14,588,854</u>	<u>P 174,705,627</u>	<u>P 1,905,041,887</u>
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	<u>P 1,277,854,682</u>	<u>P 237,885,797</u>	<u>P 76,688,848</u>	<u>P 71,247,271</u>	<u>P 45,871,852</u>	<u>P 189,027</u>	<u>P 4,533,768</u>	<u>P 14,905,136</u>	<u>P 12,794,670</u>	<u>P 167,043,768</u>	<u>P 1,909,014,819</u>

Construction in progress pertains to accumulated costs incurred on building improvements being constructed in various properties of the Group as part of its expansion program.

Annual impairment loss amounting to P14.3 million was recognized in 2017.

In 2017 the Group recognized gain on disposal of certain property and equipment totaling P1.5 million (see Note 20.3). The recognized gain on the transactions are presented as part of Other Gains – net in the consolidated statements of income (see Note 20.3).

The amount of depreciation and amortization computed on property and equipment is presented as part of the following accounts:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Cost of services	17.2	P 9,172,470	P 11,184,177
Cost of rentals	17.3	7,858,345	438,031
General and administrative expenses		2,902,611	7,557,562
Selling and distribution cost		<u>1,805,738</u>	<u>1,847,644</u>
	18	<u>P 21,739,165</u>	<u>P 21,027,414</u>

There were no restrictions on titles and items of property and equipment as of March 31, 2018 and December 31, 2017 .

Fully depreciated property and equipment still in use in the Group's operations amounted to P308.3 million as of March 31, 2018 and December 31, 2017.

12. INVESTMENT PROPERTIES

The Group's investment properties accounted for under the fair value method, consists mainly of land and improvements, and buildings and improvements that are held under operating lease agreements. These properties earn rental income, presented as Rentals in the consolidated statements of income and incur direct costs such as real property taxes, repairs and maintenance and utilities which are presented as part of Cost of Rentals in the consolidated statements of income (see Note 17.3).

The fair values of the Group's investment properties as at December 31, 2017 was determined based on appraisal reports dated October 27, 2017. Management obtains annual appraisal reports on its investment properties from independent appraisers (see Note 30.4).

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position are summarized as follows as of March 31, 2018 and December 31, 2017:

		<u>Land and Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
2018:				
Balance at beginning of year	P	2,171,295,332	P 732,622,140	P 2,903,917,472
Additions		594,602	4,043,231	4,637,833
Fair value gains (losses) on investment property – net (see Note 19)			(14,074,108)	(14,074,108)
Transfer from property and equipment				
Disposals	(_____)	(_____)	(_____)	(_____)
Balance at end of year	P	<u>2,171,889,934</u>	P <u>722,591,263</u>	P <u>2,894,481,197</u>
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	P	<u>2,171,295,332</u>	P <u>732,622,140</u>	P <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 March 31, 2018 and December 31, 2017 is shown below and in the succeeding page.

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Current:			
Creditable withholding taxes		P 84,001,619	P 83,400,385
Input VAT – net		94,844,668	75,142,087
Short-term placements	5		60,000,000
Deferred costs			40,977,153
Prepayments		2,842,897	23,010,706
Refundable deposits	27.2	9,513,058	10,698,615
Deferred input VAT		10,952,341	6,090,847
Advances to contractors		1,164,092	-
Deposit on purchase of land		103,008,413	
Others		<u>22,810,560</u>	<u>2,502,971</u>
		<u>329,137,647</u>	P <u>301,822,764</u>

Non-current:

Deposits to suppliers		16,870,430	7,030,204
Land		4,935,606	4,935,606
Refundable deposits	27.2	3,598,904	4,731,811
Investment in shares		1,303,591	3,135,818
Cash bond		788,180	568,234
Intangible assets			171,883
Others		<u>5,800,389</u>	<u>2,878,409</u>
		<u>33,317,101</u>	<u>23,451,965</u>
		<u>P 362,454,748</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).

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 March 31, 2018 and December 31, 2017 amounting to P122.5 million (\$2.3 million) and P115.7 million (\$2.3 million), respectively, pertain 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	29,354	1,532,458	57,210	2,849,802
Translation adjustment	-	5,295,534	-	255,039
Balance at end of year	<u>\$ 2,347,889</u>	<u>P 122,576,215</u>	<u>\$ 2,318,535</u>	<u>P 115,748,223</u>

Information relating to significant loan transactions of the Group are as follows:

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% and 2.35% to 2.50% as of March 31, 2017 and December 31, 2017, respectively. Annual interest expense arising from these loans amounted to P2.8 million in 2017, 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 March 31, 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	P 76,067,305	P 216,881,183
Accrued dealers' incentives		58,371,000	96,882,320
Refundable deposits		30,449,576	27,553,369
Accrued expenses		44,210,068	25,788,820
Advances from customers		3,465,860	20,682,813
Deferred output VAT		12,059,573	17,615,732
Rentals payable		8,424,226	9,207,379
Output VAT		10,315,637	6,307,771
Withholding taxes payable		8,958,131	6,039,526
Reserve for warranty costs		4,221,829	1,448,684
Retention payable		263,620	43,423
Due to related party		26,758	
Other payables		83,836,878	47,237,524
		<u>P 340,670,501</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 March 31, 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	2018	2017
Merchandise inventories at beginning of year	9	P 681,659,177	P 863,290,614
Net purchases of merchandise inventories during the year	25.5	<u>665,562,023</u>	<u>821,386,742</u>
Goods available for sale		<u>1,347,221,201</u>	<u>1,684,677,356</u>
Merchandise inventories		(929,434,147)	(1,009,144,729)
Net provision (reversal of allowance) for inventory obsolescence	9	(<u>210,586</u>)	
	18	<u>P 417,576,467</u>	<u>P 675,532,626</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	P 34,245,918	P 28,052,844
Rentals	27.2	125,000	38,423
Outside services		11,062,700	29,256,371
Equipment cost	18		
Subcontracting services		17,697,371	
Salaries and employee benefits	21.1	15,802,435	10,439,017
Insurance		449,685	
Depreciation and amortization	11	9,172,470	11,184,177
Service fees	26.3	16,583,254	14,877,945
Communication, light and water		6,500,738	6,514,386
Food and beverage			
Taxes and licenses		478,647	
Transportation and travel		1,892,250	984,050
Fuel & oil		2,504,639	
Repairs and maintenance		1,504,304	2,327,701
Integration		653,183	
Cable Services			49,376
Others		<u>4,640,387</u>	<u>10,642,466</u>
	18	<u>P 123,312,981</u>	<u>P 114,366,756</u>

17.3 Cost of Rentals

The details of this account are as follows:

	Notes	2018	2017
Taxes and licenses		P 14,079,573	P 8,328,713
Outside services		2,304,626	1,912,355
Rentals	27.2	1,892,326	1,909,126
Repairs and maintenance		1,377,211	441,006
Depreciation and amortization	11	7,858,345	438,031
Salaries and employee benefits	21.1	166,376	142,800
Common usage service area		1,062,824	
Others		<u>2,242,097</u>	<u>3,048,181</u>
	12, 18	<u>P 30,983,378</u>	<u>P 16,220,212</u>

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	P 665,562,023	P 821,386,742
Salaries and employee benefits	21.1	52,808,619	77,011,226
Outside services		25,107,195	49,457,461
Subcontracting services		39,693,224	
Rentals	27.2	7,591,640	9,625,059
Changes in merchandise, finished goods and work-in-process inventories	17.1	(247,774,970)	(145,854,115)
Materials, supplies and other consumables	17.1, 25.1	35,206,700	28,781,129
Taxes and licenses		31,772,199	32,335,905
Depreciation and amortization	11	21,739,165	21,027,414
Utilities and communication		15,696,637	10,312,094
Net provision (reversal) for inventory obsolescence	9, 17.1	(210,586)	
Service fees	26.3	16,583,254	14,877,945
Advertising and promotions		6,841,783	
Transportation and travel		4,481,320	3,314,206
Cost of real estate sold		6,186,779	
Repairs and maintenance		5,811,054	4,165,107
Warranty charges		7,175,678	
Insurance		3,395,952	
Integration		653,183	
Miscellaneous		<u>35,694,071</u>	<u>36,484,503</u>
		<u>P 734,014,920</u>	<u>P 962,924,676</u>

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	P 417,576,467	P 675,532,627
Cost of services	17.2	123,312,982	114,366,756
Cost of rentals	17.3	30,983,378	16,220,212
Cost of real estate sales	17.4	6,186,779	
Selling and distribution costs		62,190,410	73,456,726
General and administrative expenses		93,764,904	83,348,355
		<u>P 734,818,430</u>	<u>P 962,924,675</u>

19. OTHER OPERATING INCOME – Net

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Fair value gains (losses) on investment property – net	12	P(14,074,108)	(P 13,354,209)
Gain on sale of investment property	12		35,650,680
Increase in cash surrender value of investment in life insurance	7	6,441,848	6,173,530
Income from utilities charged to tenants		6,906,442	
Common usage service area		1,960,624	
Forfeited customer deposit		269,844	
Revenue share from embedded 3rd party apps		1,850,824	
Miscellaneous		547,892	7,075,872
		<u>P 5,754,189</u>	<u>P 35,545,873</u>

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	P	P 183,610
Foreign currency exchange losses		9,723	5,726,209
Realized foreign currency losses		18,600	
Bank Charges		70,197	
Interest expense on interest-bearing loans	14	806,066	668,242
Others		9,105	150,992
		<u>P 913,691</u>	<u>P 6,729,053</u>

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	P 10,745,096	P 4,686,300
Foreign currency exchange gains		22,683,611	13,179,766
Gain on redemption of financial assets at FVTPL	6		610
Fair value gains on financial assets at FVTPL	6	-	2,472,720
Others			626,825
		<u>P 33,428,707</u>	<u>P 20,966,221</u>

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	P	P 580,357
Excess of standard over actual input VAT		989,031	
Sale of scrap		368,03	
Miscellaneous		<u>3,163,782</u>	<u>755,303</u>
		<u>P 4,520,852</u>	<u>P 1,335,660</u>

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		<u>P 52,808,619</u>	<u>P 77,011,226</u>

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>)
	<u>(P 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:

2017

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 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 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	P 19,677,909
Net interest income	20.3	(<u>3,723,337</u>)
		<u>P 15,954,572</u>
<i>Reported in consolidated statements of comprehensive income:</i>		
Actuarial gains (losses) from:		
Changes in experience adjustments		P 13,236,283
Financial assumptions		5,078,640
Changes in demographic assumption		(1,226,782)

Return on plan assets (excluding amounts included in net interest)	(<u>5,757,379</u>)
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23.3	<u>P 11,330,762</u>
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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:

	<u>Impact on Post-employment Benefit Asset</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<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>P3,404,966,884</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 March 31, 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
Minimum corporate	
income tax (MCIT) at 2%	(23,929,276)
Final taxes at 20% and 7.5%	12,149,899
Preferential tax at 5%	1,590,086
Capital gains tax	-
PRC corporate income tax at 25%	-
	<u>91,884,180</u>
Application of excess MCIT	(624,265)
Deferred tax expense (income)	
relating to origination and reversal	
of temporary differences	<u>66,589,042</u>
	<u>P 157,848,957</u>
<i>Reported in consolidated statements of comprehensive income:</i>	
Deferred tax expense (income) on	
remeasurements of defined benefit	
post-employment plan	P 2,596,877
Deferred tax expense on changes	
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 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) from net operating loss carry-over (NOLCO) and MCIT and other temporary differences	1,498,054
Impairment loss on receivables	750,797
Application of unrecognized MCIT	(624,265)
Excess of itemized deductions over optional standard deduction	(402,113)
Post-employment defined benefits	(329,165)
Income of foreign subsidiary not subject to taxes	(39,197)
Benefit from previously unrecognized NOLCO, MCIT and other temporary differences	37,994
Application of NOLCO	(30,453)
Others	(5,597)
Gain on sale of investment in a subsidiary	-
	<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 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	434,151
Amortization of past service cost	-
Unamortized past service costs	-
	<u>P 110,772,335</u>
<i>Balance brought forward</i>	

	<u>2017</u>
<i>Balance carried forward</i>	<u>P 110,772,335</u>
Deferred tax liabilities:	
Unrealized foreign currency gains	-
Changes in fair value of financial assets at FVTPL	-
	<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:	
Fair value 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	193,260
Changes in fair value of financial assets at FVTPL	-
	<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>
Fair value 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 fair value of financial assets at FVTPL	(47,374)
Unearned rent income	28,177
Benefits from previously unrecognized MCIT	-
Accrued expenses	-
Accrued income	-
	<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>
NOLCO:					
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>	
MCIT					
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.

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

The deferred tax liability on unrealized foreign currency gains in 2017, 2016 and 2015 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 SBC in 2016 and 2017, and ZTC in 2017, the Group opted to claim itemized deductions in computing for its income tax due in 2017, 2016, and 2015. SMC opted to claim optional standard deductions in 2015 while it claimed itemized deductions in 2017 and 2016.

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 March 31, 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 in 2017 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

Retained earnings is restricted in the amount of P115.6 million as of December 31, 2017 and 2016, 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>2017</u>
Remeasurement of post-employment benefit:		
Balance at beginning of year		P 12,019,876
Actuarial gains (loss) during the year	21.2	11,330,762
Tax income (expense)	22.2	(2,596,877)
Balance at the end of the year		<u>20,753,761</u>
Cumulative translation adjustments:		
Balance at beginning of year		52,067,724
Currency exchange differences on translating financial statements of foreign operations	2	319,859
Reclassification adjustments for gains recognized in profit or loss from disposal of investment in foreign operations		<u>-</u>
Balance at end of year		<u>52,387,583</u>
Unrealized fair value losses on AFS financial assets:		
Balance at beginning of year		(91,665,267)
Fair value gains – net	8	2,920,815
Tax expense	22.2	(210,000)
Balance at end of year		<u>(88,954,452)</u>
Other comprehensive income attributable to non-controlling interest		<u>35,000</u>
		<u>(P 15,778,108)</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	P 50,137,033	P 53,312,495
Divided by weighted average shares outstanding:		
Number of shares issued	2,030,975,000	2,030,975,000
Treasury shares	(209,433,000)	(209,433,000)
	<u>1,821,542,000</u>	<u>1,821,542,000</u>
Earnings per share – basic and diluted	P 0.03	P 0.03

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of March 31, 2018 and December 31, 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.

<u>Related Party Category</u>	<u>Notes</u>	<u>Amounts of Transaction</u>		<u>Outstanding</u>
		<u>2017</u>		<u>Receivable (Payable)</u>
				<u>2017</u>
Related Parties Under Common Ownership:				
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
Others:				
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 March 31, 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 March 31, 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 March 31, 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 March 31, 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 SGI'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 and P191.5 million as at December 31, 2017 and 2016, respectively (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 both 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 amounted to P233.3 million in 2017, and 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 amounted to P11.5 million in 2017, and 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 March 31, 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 are as follows:

	<u>2018</u>	<u>2017</u>
Financial assets	P 29,721,043	P 125,584,496
Financial liabilities	(6,607,120)	(137,590,698)
Short-term exposure	(P 23,113,923)	(P 12,006,202)

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 12 months at a 99% confidence level.

	<u>2018</u>		<u>2017</u>	
	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Possible Change in Rate	Effect in Profit Before Tax
Php – USD	2.31%	P 23,113,923	10.77%	P 1,293,068
		23,113,923		P 1,293,068

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 March 31, 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 +/-1.33% in 2018 and +/-1.68% 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 1.33% and 1.68%, profit (loss) before tax in 2018 and 2017 would have increased/decreased by P18.9 million and P47.0 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.

	Notes	2018	2017
Cash and cash equivalents	5	P 3,706,832,992	P 3,490,600,099
Trade and other receivables (excluding advances to suppliers) – net	7	1,038,294,179	1,456,197,761
Short-term placements	13		60,000,000
Refundable deposits	13	13,111,961	15,430,426
Advances to related parties	25.4	12,079,812	9,223,071
Cash bond	13	788,180	568,234
		<u>P 4,771,107,124</u>	<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 Philippine Deposit Insurance Corporation 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	
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.

	Current		Non-current
	Within 6 Months	6 to 12 Months	1 to 5 Years
Interest-bearing loans	P 118,582,751	P -	P -
Trade and other payables	423,594,017	-	-
Advances from related parties	3,793,105	-	-
Refundable deposits	-	-	27,098,123
	P 545,969,873	P -	P 27,098,123

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	Mar 2018		Dec 2017	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial assets				
Loans and receivables:				
Cash and cash equivalents	5	P 3,706,832,992	P 3,490,600,099	P 3,490,600,099
Trade and other receivables – net	7	1,038,294,179	1,491,189,262	1,491,189,262
Short-term placements	13		60,000,000	60,000,000
Refundable deposits	13	13,111,961	15,430,426	15,430,426
Advances to related parties	25.4	12,079,812	9,223,071	9,223,071
Restricted cash and cash bond	13	788,180	568,234	568,234
		4,771,107,124	5,032,019,591	5,032,019,591
Financial assets at FVTPL	6	-	-	-
AFS financial assets:	8			
Golf club shares – net		11,307,258	11,877,258	11,877,258
Equity		8,580,000	8,580,000	8,580,000
Others		801,774	540,007	540,007
		20,689,032	20,997,265	20,997,265
		P 4,791,796,156	P 5,053,016,856	P 5,053,016,856
Financial liabilities				
At amortized cost:				
Interest-bearing loans – net	14	P 122,576,215	P 115,748,223	P 115,748,223
Trade and other payables	15	301,649,470	423,594,017	423,594,017
Refundable deposits	16	25,996,193	27,098,123	27,098,123
Advances from related parties	25.4	1,881,548	3,793,105	3,793,105
		P 452,103,426	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 P1.9 million and P3.8 million as at March 31, 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 P12 million and P9.2 million and as at March 31, 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 and 2016, the Group's cash surrender value of investment in life insurance amounting to P678.6 million and P650.5 million, respectively, 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 and P112.6 million as at March 31, 2018 and 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 March 31, 2018 and December 31, 2017.

	Notes	2018			
		Level 1	Level 2	Level 3	Total
AFS financial assets	8	<u>P -</u>	<u>P 20,457,258</u>	<u>P -</u>	<u>P 20,457,258</u>
2017					
		Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	6	P -	P -	P -	P -
AFS financial assets	8	-	20,457,258	-	20,457,258
		<u>P -</u>	<u>P 20,457,258</u>	<u>P -</u>	<u>P 20,457,258</u>

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 March 31, 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.

		2018			
Notes		Level 1	Level 2	Level 3	Total
Financial Assets					
<i>Loans and receivables:</i>					
Cash and cash equivalents	5	P 3,706,832,992	P -	P -	P 3,706,832,992
Trade and other receivables – net	7	-	-	1,038,294,179	1,038,294,179
Short-term placements	13	-	-	-	-
Refundable deposits	13	-	-	13,111,961	13,111,961
Advances to related parties	25.4	-	-	12,079,812	12,079,812
Restricted cash and cash bond	13	-	-	788,180	788,180
		P 3,706,832,992	P -	P 1,064,274,132	P 4,771,107,124
Financial Liabilities					
<i>At amortized cost:</i>					
Interest-bearing loans – net	14	P -	P -	P 122,576,215	P 122,576,215
Trade and other payables	15	-	-	301,649,470	301,649,470
Refundable deposits	16	-	-	25,996,193	25,996,193
Advances from related parties	25.4	-	-	1,881,548	1,881,548
		P -	P -	P 452,103,426	P 452,103,426
		2017			
Notes		Level 1	Level 2	Level 3	Total
Financial Assets					
<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
		P 3,550,600,099	P -	P 1,481,419,492	P 5,032,019,591
Financial Liabilities					
<i>At amortized cost:</i>					
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
		P -	P -	P 570,233,469	P 570,233,468

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 December 31.

		2018			
		Level 1	Level 2	Level 3	Total
Land and improvements	P	-	P 2,171,889,934	P -	P2,171,889,932
Building and improvements		-	-	722,591,263	722,591,263
	P	-	P2,171,295,332	P 722,591,263	P2,894,481,195
		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
	P	-	P2,171,295,332	P 732,622,140	P2,903,917,472

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)	P 1,339,674,635	P 1,472,176,546
Total equity	<u>10,357,485,108</u>	<u>10,285,960,832</u>
	<u>0.13 : 1.00</u>	<u>0.14 : 1.00</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 March 31, 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 March 31, 2018 and December 31, 2017.

SOLID GROUP INC. AND SUBSIDIARIES
SCHEDULE OF RELEVANT RATIOS
1ST QUARTER 2018

LIQUIDITY RATIOS	FORMULA	2018	2017
LIQUIDITY RATIOS			
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	10.09:1	8.4:1
Acid Test ratio	$\frac{\text{Cash \& Cash Equivalents + Trade Receivables}}{\text{FAFVPL + AFS}} \div \frac{\text{Current Liabilities}}{\text{Current Liabilities}}$	7.42:1	6.59:1
SOLVENCY RATIOS			
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
Asset to equity ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	1.13:1	1.14:1
Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest Expense}}$	93.84:1	107.5:1
Profitability Ratios			
Operating Margin	$\frac{\text{Operating Profit}}{\text{Total Revenues}}$	5%	6%
Net Profit Margin	$\frac{\text{Net Income after Tax}}{\text{Total Revenues}}$	6.92%	5.72%
Return on Total Assets	$\frac{\text{Net Income after Tax}}{\text{Average Total Assets}}$	0.45%	0.50%
Return on Equity	$\frac{\text{Net Income after Tax}}{\text{Total Equity}}$	0.51%	0.55%