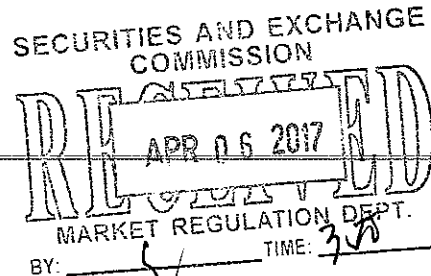




6 April 2017

**Markets and Securities Regulation Department**  
**SECURITIES AND EXCHANGE COMMISSION**  
G/F Secretariat Building  
PICC Complex, Roxas Boulevard  
Pasay City, 1307



Attn : **Dir. Vicente Graciano P. Felizmenio, Jr.**  
**Director**

Subject : **Definitive Information Statement**

Dear Sir:

In reference to the letter of the Securities and Exchange Commission (SEC) dated 30 March 2017 and received by San Miguel Properties, Inc. (the "Company") on 5 April 2016, relative to the Preliminary Information Statement (or SEC Form IS-20 or PIS) submitted by the Company, we respectfully submit the following replies to the remarks under the checklist of requirements:

1. "The company is advised that its term of existence will expire in 2019. The date of incorporation is January 24, 1969."
  - The Company appreciates the reminder of the SEC . It intends to extend its existence with an amendment of its Articles of Incorporation in the next Annual Stockholders' Meeting in 2018.
2. "Submit a Certificate of Qualification of Independent Directors pursuant to SEC Memorandum Circular No. 5, Series of 2017."
  - We have already attached the updated certification made by our independent directors.
3. "Update information to March 31, 2017"
  - We have already updated the information to March 31, 2017 under Items 2 and 4 of the Definitive Information Statement.

Thank you.

Very truly yours,

  
**Atty. KAREN M. CAS-CABALLA**  
**Corporate Secretary**

# COVER SHEET

0 0 0 0 0 3 7 3 3 8

S. E. C. Registration Number

S A N M I G U E L

P R O P E R T I E S , I N C .

(Company's Full Name)

T H I R D F L O O R , N O . 4 0

H O C B L D G . S A N M I G U E L

A V E . M A N D A L U Y O N G C I T Y

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

Atty. Karen Cas-Caballa

Contact Person

632-3282

Company Telephone

Number

0 4

Month  
Day

0 6

Day

Definitive Information Statement

FORM TYPE

2<sup>nd</sup> Wednesday of

0 5

Month  
Annual Meeting

- -

Secondary License Type, If Applicable

Dept. Requiring this Doc.  
Number/Section

Amended Articles

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

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Remarks = pls. Use black ink for scanning purposes

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 20-IS  
INFORMATION STATEMENT PURSUANT TO SECTION 20 OF THE SECURITIES  
REGULATION CODE**

1. Check the appropriate box:  
☒ Definitive Information Sheet

2. Name of Registrant as specified in its Charter:

**SAN MIGUEL PROPERTIES, INC.**

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

**Metro Manila, Philippines**

4. SEC Identification Number: **37338**

5. BIR Tax Identification Code: **000-133-166**

6. Address of principal office  
**40 San Miguel Avenue,  
Mandaluyong City**

Postal Code:  
**1550**

7. Registrant's telephone number, including area code:

**(632) 637-1111**

8. Date, time and place of the meeting of stockholders:

Date : **May 8, 2017, Monday**  
Time : **2:30 P.M.**  
Place : **Executive Dining Room, 2<sup>nd</sup> Floor  
San Miguel Head Office Complex,  
No. 40 San Miguel Avenue, Mandaluyong City**

9. Approximate date on which the Information Statement is to be first sent or given to security holders:

**April 10, 2017**

10. Securities registered pursuant to Section 8 and 12 of the SRC.

<u>Title of Each Class</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
<b>Common</b>	<b>15,000,000,000</b>	<b>571,695,169</b>

11. Are any or all registrant's securities listed on a Stock Exchange?

Yes

☒ No

If yes, disclose the name of such Stock Exchange and the class of securities listed thereon:



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## NOTICE OF REGULAR MEETING OF STOCKHOLDERS

May 8, 2017

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The Regular Meeting of the Stockholders of San Miguel Properties, Inc. will be held on Monday, **May 8, 2017 at 2:30 P.M. at the Executive Dining Room, 2/F San Miguel Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.**

The Agenda of said Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Annual Stockholders' Meeting held on May 5, 2016
3. Presentation of Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Appointment of External Auditors
6. Election of the Board of Directors
7. Other Matters
8. Adjournment

The Minutes of the Annual Stockholders' Meeting last May 5, 2016 and resolutions of the Board of Directors since the date of the May 5, 2016 Regular Stockholders' Meeting will be available for examination during office hours at the Office of the Corporate Secretary.

The deadline for the submission of proxies is on April 24, 2017. For corporations, the proxy shall be accompanied by its corporate secretary's certificate setting out the authority of the corporate officer representing the said corporation in the meeting. Proxies need not be notarized. Validation of proxies is on May 4, 2017 at 10:00 a.m. at the Office of the SMC Stock and Transfer Service Corporation, located at the 2<sup>nd</sup> Floor, SMC Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City, Philippines.

For your convenience in registering your attendance, please present some form of identification (i.e. company I.D. passport or driver's license). Registration will start at 12:00 N.N. and the registration booths will be closed at 2:30 P.M.

Thank you.

  
Atty. **KAREN M. CAS-CABALLA**  
Corporate Secretary

## **INFORMATION STATEMENT**

### **I. GENERAL INFORMATION**

#### **Date, Time and Place of Annual Meeting**

Date	:	May 8, 2017, Monday
Time	:	2:30 P.M.
Place	:	Executive Dining Room, 2 <sup>nd</sup> Floor San Miguel Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City

Mailing address of the principal office of the Registrant	:	40 San Miguel Avenue, Mandaluyong City
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**Approximate date on which the Information Statement is to be first sent or given to security holders:** April 10, 2017

**WE ARE NOT ASKING YOU FOR A PROXY  
AND YOU ARE REQUESTED NOT TO SEND US A PROXY.**

#### **Dissenter's Right of Appraisal**

Under Section 81, Title X of the Corporation Code, stockholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the day prior to the date on which the vote was taken for such corporate action under the following instances:

- a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- b. sale, lease, mortgage or other disposition of all or substantially all of the corporation's assets;
- c. merger or consolidation; investment of corporate funds in another corporation or business or for any purpose other than its primary purpose; and
- d. extension or shortening of term of corporate existence.

The stockholders' right of appraisal may be exercised for a period within 30 days from the date on which the vote on the corporate action was taken.

There are no corporate matters or actions at the May 8, 2017 annual stockholders' meeting of the Company that will entitle dissenting stockholders to exercise their right of appraisal as provided in Title X of the Corporation Code.

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

~~No director, nominee for election as director, associate of the nominee or executive officer of the Company at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.~~

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

## II. CONTROL AND COMPENSATION INFORMATION

### Voting Shares

As of March 31, 2017, the Company has the following outstanding shares of common stock:

**571,695,169 common shares**

All stockholders as of March 31, 2017 are entitled to vote at the Annual Stockholders' Meeting.

Every stockholder entitled to vote shall be entitled to one vote for each share of stock in his name in the books of the Company. However, in electing members to the Board of Directors, every stockholder is entitled to accumulate his votes in accordance with the provisions of law.<sup>1</sup>

### Security Ownership of Holders of More than 5%

Owner of record of more than 5% of the company's voting securities as of March 31, 2017 is as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	San Miguel Corporation <sup>2</sup> No. 40 San Miguel Avenue, Mandaluyong City 1550, parent company of the issuer	San Miguel Corporation, parent company of the issuer	Filipino	569,811,487	98.45%

### Beneficial Owners

The following are the number of shares of the Company's capital stock (all of which are voting shares) owned of record by the Chairman, directors and nominees for election as director and key officers of the Company, as of March 31, 2017:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Ramon S. Ang	1(D)	Filipino	0.00%
Common	Aurora T. Calderon	1(D)	Filipino	0.00%

<sup>1</sup> In accordance with Section 24 of the Corporation Code of the Philippines, a stockholder may vote such number of shares 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, provided, that the total number of votes casted by him shall 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.

<sup>2</sup> The Board of Directors of San Miguel Corporation (SMC) authorized any one Group A signatory or any two Group B signatories to act and vote in person or by proxy, shares held by SMC in other corporations. The Group A signatories of SMC are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Joseph N. Pineda, Virgilio S. Jacinto, Aurora T. Calderon, and Sergio G. Edeza. The Group B signatories of SMC are Bella O. Navarra, Cecile Caroline U. de Ocampo, Manuel M. Agustin, Virgilio S. de Guzman, Lorenzo G. Formoso III, Maria Cristina Menorca, Almira C. Dalusung, and Ma. Raquel Paula G. Lichauco.

Common	Hector L. Hofileña	1(D)	Filipino	0.00%
Common	Mario C. Garcia	1(D)	Filipino	0.00%
Common	Minita V. Chico-Nazario	1(D)	Filipino	0.00%
Common	Karen V. Ramos	1(D)	Filipino	0.00%

\*Mr. Jeronimo U. Kilayko has been elected to assume the unexpired portion of the term of retired Justice Edgardo P. Cruz who has resigned as independent director of the Company effective 31 January 2017. Mr. Kilayko has been nominated as Director to assume directorship for the 7<sup>th</sup> seat in the SMPI Board of Directors. The election of the duly nominated directors shall take place in the Annual Stockholders' Meeting of the Company scheduled on May 8, 2017.

The aggregate number of shares owned of record by the key officers and directors as a group as of March 31, 2017 are seven (7) shares or approximately 0.00% of the Company's outstanding capital stock.

The foregoing beneficial or record owners have no right to acquire additional shares within thirty (30) days from options, warrants, conversion privileges or similar obligations or otherwise.

There is no person holding more than 5% of the Company's voting securities under a voting trust or similar agreement.

Since the beginning of the last fiscal year, there were no arrangements which resulted in a change in control of the Company.

### III. DIRECTORS AND EXECUTIVE OFFICERS

The current members of the board of directors and executive officers of San Miguel Properties are listed below:

Ramon S. Ang	Director/ Chairman of the Board/ President	Filipino
Aurora T. Calderon	Director	Filipino
Mario C. Garcia	Director	Filipino
Hector L. Hofileña	Director	Filipino
Jeronimo U. Kilayko	Independent Director	Filipino
Minita V. Chico-Nazario	Independent Director	Filipino
Karen V. Ramos	General Manager/ Director	Filipino

The following directors are the members of the following committees of the Corporation:

#### Audit Committee

Minita V. Chico-Nazario <sup>3</sup>	Chairman
Jeronimo U. Kilayko <sup>4</sup>	Member
Aurora T. Calderon	Member
Ferdinand K. Constantino <sup>5</sup>	Member

<sup>3</sup> Former Associate Justice of the Supreme Court. Minita V. Chico-Nazario has been nominated as independent director of the SMPI Board and Chairman of the Audit Committee and Executive Compensation Committee since May 9, 2012. Although this is already her fifth year as independent director of the Company, she will still be re-elected as independent director of the Company by virtue of the recent issuance of the Securities and Exchange Commission that an independent director who has reached the 5-year limit (as previously set) can be re-elected if he or she still possesses the qualifications and none of the disqualifications, for an additional term of 4 more years or a total term of 9 years as independent director.

<sup>4</sup> Mr. Jeronimo U. Kilayko has been appointed to assume the unexpired portion of the term of former Associate Justice Edgardo P. Cruz who has resigned as independent director of the Company effective 31 January 2017. He was also appointed to assume the unexpired portion of the term of Associate Justice Edgardo P. Cruz as Member of the Audit Committee and Executive Compensation Committee and Chairman of the Nomination and Hearing Committee.

<sup>5</sup> He is the Senior Vice President, Chief Information Officer, and Chief Finance Officer of San Miguel Corporation (SMC).

#### Executive Compensation Committee

Minita V. Chico-Nazario	Chairman
Jeronimo U. Kilayko	Member
Ferdinand K. Constantino	Member

#### Nomination and Hearing Committee Committee

Jeronimo U. Kilayko	Chairman
Hector L. Hofileña	Member
Aurora T. Calderon	Member

#### Positions/Offices/Directorships Held for the Past Five Years of Directors, Including Independent Directors and Nominees and Executive Officers

The names of the incumbent directors, nominees for election as directors and key executive officers of the Company, and their respective ages, periods of service, directorships in other reporting companies and positions in the last five (5) years are as follows:

**Ramon S. Ang**, Filipino, 63, is the Chairman (since May 28, 2002) and President of the Company (since August 11, 2010), respectively. He also holds, among others, the following positions: Vice Chairman, President and Chief Operating Officer (COO) of San Miguel Corporation; Chairman and Chief Executive Officer of Petron Corporation, Petron Marketing Corporation, and SMC Global Power Holdings Corp.; Chairman and President of San Miguel Energy Corporation, Rapid Thoroughfares, Inc., Trans Aire Development Holdings Corp., Coastal View Exploration Corporation, Bell Telecommunication Philippines, Inc., San Miguel Holdings, Corp., Archen Technologies, Inc., SMITS, Inc.; Chairman of San Miguel Brewery, Inc., Magnolia, Inc., San Miguel Foods, Inc., San Miguel Mills, Inc., San Miguel Super Coffee Mix Co., Inc., and 29 wholly-owned subsidiaries of the Company.

**Hector L. Hofileña**, Filipino, 87, has been a Director of the Company since May 28, 2002. He is a former Director of San Miguel Corporation and a former Associate Justice of the Court of Appeals. Justice Hofileña is a lecturer at the Ateneo De Manila University and the Philippine Judicial Academy. He is a Member of the Company's Nomination and Hearing Committee.

**Jeronimo U. Kilayko**, Filipino, 69, has been appointed as Independent Director of the Company last March 14, 2017 to serve for the unexpired term of former Justice Edgardo P. Cruz who resigned effective January 31, 2017. He is nominated as Director of the Company for election in the forthcoming Annual Stockholders' Meeting. Mr. Kilayko served as the President and Chief Executive Officer of the United Coconut Planters Bank from 2011 to 2016. He is also former Chairman of the Board of Bank of Commerce from 2007 to 2011. He has been the President of San Miguel Properties, Inc. from 2002 to 2011. He is the President of K5 Distribution, Inc., a family owned company.

**Mario C. Garcia**, Filipino, 65, has been a Director of the Company since November 3, 2009. He is also a Director of San Miguel Pure Foods Company, Inc. and represents the National Government in the Board of Directors of the Subic Bay Metropolitan Authority. He is a TV Host of Kapihan ng Bayan, NBN-4 and Comentario, PBS Radio ng Bayan, Interim National President of KBP Society of Broadcast Journalists, and Consultant of Radio Affairs, Pulis Ng Bayan, PNP. He is previously a Board member of Clark Development Corporation (November 2009-March 2010), member of the Board of Advisers of Freeport Service Corporation (2007-2008), Consultant for Special Projects at the Philippine Daily Inquirer (February-November 2008), Director and Vice Chairman of the Quezon City Red Cross (2006-2007), and Vice President for Programming and Operations and Station Manager of Radio Veritas (1991-2005).



**Aurora T. Calderon**, Filipino, 62, has been a Director of the Company since August 11, 2010. She is also the Senior VicePresident and Senior Executive Assistant to the President and Chief Operating Officer (COO) of San Miguel Corporation (SMC) since 2011. She has been a consultant reporting directly to the President and COO of SMC (1998-2010). She is presently a member of the Board of Directors of Petron Corporation, SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., TransAire Development Holdings Corp., Bell Telecommunications Philippines, Inc., San Miguel Equity Investments Inc., and various subsidiaries of SMC. She is currently a member of the Audit and Nomination and Hearing Committee of the Company.

**Minita V. Chico-Nazario**, Filipino, 77, has been an Independent Director of the Company since May 9, 2012. She is currently an Independent Director of Ginebra San Miguel, Inc.. She is also the incumbent Dean of the College of Law of the University of Perpetual Help in Las Pinas City. She has previously held the following positions: Legal Consultant of the Philippine Amusement and Gaming Corporation (January 2010-June 2010) and Metro Manila Development Authority (March 2010-June 2010); and Chairman of the Board of Directors (June 2010-August 2010) and Director (September 2010 – September 2011) of PNOC Exploration Corporation. She has served the judiciary in various capacities for forty-seven years (47), as Presiding Justice of the Sandiganbayan (February 2003 – February 2004) and Associate Justice of the Supreme Court (February 10, 2004 – December 5, 2009). She is a graduate of the University of the Philippines and a member of the New York State Bar. She is the Chairperson of the Company's Audit and Executive Compensation Committees.

**Karen V. Ramos**, Filipino, 52, is the General Manager of the Company since her appointment last March 1, 2016 which was later on confirmed and ratified by the members of the Board of Directors during their March 14, 2016 regular meeting. Previously, she was designated as Officer-in-Charge (OIC) from August 1, 2015 of the Company. She is likewise holding the positions of Sales and Marketing Manager in a concurrent capacity (after the approval of the Board to have the Sales Department merged with the Marketing Department last August 10, 2016 regular board meeting). She used to work as Marketing Manager of the Company since April 1, 2007. She is a former Director of Northpine Land, Inc.. Previously, she is connected with the United Coconut Planters Bank as Head of Planning and Design Department, Corporate Services Division (2004 - 2007) and Head of Special Services Department, Asset Management Division (2000 – 2003).

**Karen M. Cas-Caballa**, Filipino, 43, is the Head of the Legal and Asset Management Services Department of the Company since April of 2010. She was appointed as Corporate Secretary and Compliance Officer as of August 10, 2015. She used to be the Assistant Corporate Secretary of the Company since November 10, 2010. She was first hired as a Consultant from April 2006 to April 2010 in the Office of the General Manager likewise tasked to spearhead the Legal and Asset Management Services Department (formerly known as Asset Management Department) of the Company. Also, Ms. Caballa is currently a Director of Northpine Land, Inc. and San Miguel Properties Centre Condominium Corporation, and the Corporate Secretary of all the subsidiaries of the Company except Integrated Geosolutions, Inc.

**Maria Alma C. Geronimo**, Filipino, 46, is the Head of Finance and Treasury Department of the Company since July 2012. She is a former Director for External Affairs and Board of Trustee of Angel John Integrated Academy, and AJIA Vocational and Technical School, Inc., She has previously held the following positions: Audit Supervisor at Sycip, Gorres, and Velayo & CO. (January 1992 – February 1997); Finance Manager at Landco Pacific Company (February 1997 – June 1998); Financial Controller at Degussa Construction Chemicals Group of Companies in the Philippines and in Vietnam (July 1998 – July 2005); Senior Manager in the General Accounting Department of Pilipinas Makro, Inc. (October 2005 – July 2007); and Financial Controller at Headstrong Philippines, Inc. (July 2007 – March 2008). Presently, she is also the Finance and Treasury Head of all the subsidiaries of the Company

**Jenzell Libunao**, Filipino, 46, is the Manager of Accounts Management Development Department since June 2015. He has previously held the Branch Manager position in the following Banks: Philippine National Bank (January 2012 to May 2015); Security Bank

Corporation (January 2001 to December 2011); Team Leader of Branch Audit of the following Banks: Security Bank Corporation (January 1997 to December 2000); East West Banking Corporation (January 1996 to December 1996); and Bank of Phil. Islands (Nov. 1991 to Dec. 1995)

A certification that none of the above named directors and officers work with the national government is attached hereto as **Annex "A"**.

### **Term of Office**

Pursuant to the Group By-Laws, the directors are elected at each annual meeting of the stockholders by the stockholders entitled to vote. Each director holds office until the next annual election and until his successor is duly elected and qualified.

The nominees for election to the Board of Directors on May 8, 2017 are as follows:

1. Ramon S. Ang
2. Aurora T. Calderon
3. Mario C. Garcia
4. Hector L. Hofilena
5. Jeronimo U. Kilayko – Independent Director
6. Minita V. Chico-Nazario – Independent Director
7. Karen V. Ramos

### **Independent Directors**

The independent directors of the Group are Jeronimo U. Kilayko and Minita V. Chico-Nazario.

The nominees for election of independent directors of the Board of Directors at the Stockholders' Meeting which will be held on May 8, 2017, are as follows:

Nominee for Independent Director (a)	Citizenship	Person/Group recommending nomination (b)	Relation of (a) and (b)
Jeronimo U. Kilayko	Filipino	Ramon S. Ang	None
Minita V. Chico-Nazario	Filipino	Ramon S. Ang	None

In approving the nominations for the independent directors, the Nomination and Hearing Committee took into consideration the guidelines on the nomination of independent directors prescribed in SRC Rule 38 its Implementing Rules and Regulations and other SEC issuances. The Nomination and Hearing Committee pre-screened the qualifications of the candidates and prepared a final list of the nominees. Under the company's by-laws, the conduct of election of independent directors shall be in accordance with the standard election procedures for regular directors as provided therein; save that specific slots for independent directors shall not be filled up by unqualified nominees and in case of failure of election for independent directors, a separate election shall be called to fill up the vacancy.

The incumbent independent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC. The Certification of the incumbent directors submitted to the SEC is attached hereto as **Annex "B-1"** and **Annex "B-2"**.

### **Significant Employees**

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

### Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the directors, executive officers, or nominees for election as directors of the Company.

### Certain Relationships and Related Transactions

There were no transactions with directors, officers or any principal stockholders (owning at least 10%) of the total outstanding shares of the Company) which are not in the ordinary course of business of the Company.

### Parent Company

As of March 31, 2017, the Company is 98.45% owned by San Miguel Corporation.

### Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers, underwriters or control persons of the Company have been involved in any legal proceeding, including without limitation being the subject of any (a) bankruptcy petition, (b) conviction by final judgment, (c) order, judgment or decree, or (d) violation of a securities or commodities law, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

The Company and its significant subsidiaries are not currently involved in any litigation or legal proceedings that could be expected to have a material adverse effect on the Company and its significant subsidiaries of their respective results of operations.

## IV. COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following table summarizes the aggregate compensation paid or accrued during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Company's President and senior executive officers:

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
<b>Ramon S. Ang<sup>6</sup></b> – Chairman and President	2017 (estimated)	P17.3 Million	P4.8 Million	P4.3 Million	P26.4 Million
<b>Karen V. Ramos</b> – General Manager/ Sales and Marketing Department Manager					
<b>Maria Alma C. Geronimo</b> – Finance and Treasury Department Manager	2016	P15.4 Million	P7.4 Million	P4.1 Million	P26.9 Million
<b>Jenzell I. Libunao</b> – Accounts Management Group Manager *	2015	P21.8 Million	P11.5 Million	P6.7 Million	P40.0 Million
<b>Karen M. Cas-Caballa</b> – Legal and Asset Management Services Department Manager					

<sup>6</sup> While Mr. Ramon S. Ang is the Chairman and President of the Company, he is not receiving any compensation from the Company. His compensation is being paid by the mother company, San Miguel Corporation.

(Atty. Karlo Marco P. Estavillo Julio S. Jalandoni**)					
All other officers and directors as a group unnamed	2017 (estimated)	P0.0 Million	P0.0 Million	P0.0 Million	P0.0 Million
	2016	P0.0 Million	P0.0 Million	P0.0 Million	P0.0 Million
	2015	P0.0 Million	P0.0 Million	P0.0 Million	P0.0 Million
		P0.0 Million	P0.0 Million	P0.0 Million	P0.0 Million
<b>TOTAL</b>	2016 (estimated)	P17.3 Million	P4.8 Million	P4.3 Million	P26.4 Million
	2015	P15.4 Million	P7.4 Million	P4.1 Million	P26.9 Million
	2014	P21.8 Million	P11.5 Million	P6.7 Million	P40.0 Million

Atty. Karlo Marco P. Estavillo has already resigned from the Company effective end of July 2015 while Mr. Julio S. Jalandoni has already resigned from the Company effective end of December 2015.

Article III, Section 10 of the Amended By-Laws of the Company provides that by resolution of the Board of Directors, each director shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than ten percent (10%) of the net income before income tax of the Corporation during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting.

In 2017, each director received a per diem of 10,000.00 per attendance at Board and Committee meetings of the Company.

There were no other arrangements pursuant to which any of the directors was compensated or is to be compensated, directly or indirectly, during the last fiscal year and the ensuing fiscal year.

There were neither compensatory plans nor arrangements with respect to a named executive officer.

## V. ACTION WITH RESPECT TO REPORTS

The approval of the following will be considered and acted upon at the meeting:

1. Annual Report of the Company for the year ended December 31, 2016;
2. Approval of the Minutes of the Annual Stockholders' Meeting held on May 5, 2016
3. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
4. Appointment of External Auditors
5. Election of the members of the Board of Directors

The Minutes of the May 5, 2016 Annual Stockholders' Meeting and resolutions of the Board of Directors since the date of the 2016 Annual Stockholders' Meeting will be available for examination during office hours at the office of the Corporate Secretary.

## **VI. AMENDMENT OF CHARTER, BY-LAWS OR OTHER DOCUMENTS**

The Company has filed, on 11 February 2016, with the Securities and Exchange Commission ("SEC") an application for the Increase in its Authorized Capital Stock (ACS), Denial of Pre-emptive Rights and Amendment of its Articles of Incorporation reflecting the said increase in the ACS and denial of Pre-Emptive Rights. The Company complied with the requirements pursuant to SEC Memorandum Circular No 6, Series of 2008 re: Guidelines on On-Site Verification of Financial Records Relative to Certain Applications Filed with the Commission". The said increase of the Authorized Capital Stock and Amendment of the Articles of Incorporation were approved by the SEC last 11 March 2016.

## **VII. VOTING PROCEDURES**

In the election of directors, the seven (7) nominees with the greatest number of votes will be elected directors. The approval of the other proposals or matters submitted to a vote will require an affirmative vote of the majority of the shares of the stock present or represented by proxy at the meeting.

Counting of the Ayes and Nays or a show of hands will be the methods by which votes will be counted. Counting will be undertaken by the Company's Corporate Secretary with the assistance of the stock transfer agent, SMC Stock Transfer Service Corporation.

## **VIII. FINANCIAL AND OTHER INFORMATION**

### **• Brief Description of the General Nature and Business of the Company**

San Miguel Properties, Inc. ("SMPI" or the "Group"), a 100% subsidiary of San Miguel Corporation (SMC), is primarily engaged in the acquisition, development, sale or lease of properties. On December 9, 2002, the Group merged with another subsidiary, HOC Realty, Inc. ("HRI"), with the Group as the surviving entity.

Among the Group's significant subsidiaries and associates are: (a) SMPI Makati Flagship Realty Corp. (previously known as SMPI-GSIS Joint Venture Corporation) which owns and operates Makati Diamond Residences, a service apartment located in Legazpi Village, Makati City; (b) Bright Ventures Realty, Inc. (BVRI) with the on-going construction of Dover Hill, a residential townhouse with a condominium concept of ownership, located in Addition Hills, San Juan City; (c) Carnell Realty, Inc. with the on-going construction of One Dover View, a residential townhouse project, located along Lee St., Mandaluyong City; (d) Excel Unified Land Resources Corporation ("Exceland"), incorporated in 1995 purposely to acquire, develop and sell high end real estate properties, and a joint venture project of the Group with Pet Plans, Inc. with the Group owning 51.5% as of year-end 2012; (e) E-Fare Investments Holdings, Inc. which is the owner and developer of an industrial estate and economic zone in Mariveles, Bataan; (f) La Belle Plume Realty, Inc. to undertake a tourism economic zone in the Visayas Area in joint venture/partnership with another entity; and (g) Bank of Commerce ("BOC"), which has been serving the Philippine banking community for over 40 years, and in which the Group owns 39.93% of its total and outstanding shares of stock as of December 31, 2016.

SMPI is currently focusing on marketing the remaining inventory of its General Trias, Cavite Projects, namely: Maravilla, Bel Aldea, and Asian Leaf. SMPI also has two (2) new townhouse projects under construction, namely Two Dover View, located in Lee St., Mandaluyong City, and Emerald 88, in Sixto Avenue, Pasig City.

SMPI's major competitors in the CALABARZON area are the Ayala West Grove Heights by Ayala Land Premier; Nuvali by Ayala Land; Georgia Club by Brittany; South Forbes Bali Mansions by Cathay Land; Eton City by Eton Properties; Tierra Nevada by Camella Homes, Governor's Hills and Cybergreens by Megaworld Corp. through its affiliate, Suntrust Properties, Inc.; Avida Settings Cavite by Avida Land; Bellefort Estates and Lancaster Estates by Profitrends, Inc.; Amaia Scapes by Amaia Land; Amalfi of Crown Asia; Ara Vista of Picar Development, Inc. and Villa Elena of Asia Landbest, Inc. The quality of development and pricing of the Group's projects remain to be very competitive.

The Group's competitors in Metro Manila are Rockwell Land's 205 Santolan and Alvendia, Filinvest's Fortune Hill, and KMC MAG Group Inc.'s 81 Xavier.

All SMPI-managed buildings are at 100% occupancy level. The Group's lease operation remains stable due to the primacy of the Group's commercial office spaces.

The Group leases most of its commercial office spaces and warehouses to third parties. Some are rented out to San Miguel Corporation and its affiliates. The Group has leaseable commercial office spaces in Mandaluyong City, Edsa, Ortigas City, Pasig City, and industrial spaces and warehouses in Isabela and South Cotabato.

For the properties of SMPI generating lease income located in the Ortigas area, its competitors include the Taipan Place, Wynsum Corporate Plaza, Orient Square and Robinson's PCI Bank Tower.

#### **Management's Discussion and Analysis or Plan of Operation**

The Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2016 is attached hereto as ***Annex "C"***.

#### **Financial Statements**

The Consolidated Financial Statements of the Company as of December 31, 2016 with the Statement of Management's Responsibility and Report of Auditors are attached hereto as ***Annex "D"***.

#### **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There are no disagreements with accountants on accounting and financial disclosure.

#### **Market Price and Dividends on the Company's Common Equity and Related Stockholder Matters**

The Philippine Stock Exchange (PSE) has imposed a trading suspension on the shares of the Company effective January 1, 2013. Effective May 6, 2013, the PSE has approved SMPI's Petition for Voluntary Delisting and accordingly ordered the delisting of SMPI's shares from its Official Registry.

There are no extraordinary restrictions that limit the ability of the Company to pay dividends in common stock.

The approximate number of shareholders of common shares as of March 31, 2017 is 909.

The top 20 stockholders of the Company as of March 31, 2017 are as follows:

Rank	Name of Stockholders	Nationality	No. of Shares	% of Total O/S
1	San Miguel Corporation	Filipino	569,811,487	98.45
2	Philippine Breweries Corporation	Filipino	1,525,672	0.266860
3	San Miguel Foundation, Inc.	Filipino	280,332	0.049035
4	Heirs of Fidel & Teresita Reyes, Inc.	Filipino	15,667	0.002740
5	Ronald Manese	Filipino	3,744	0.000655
6	Society of the Divine Word	Filipino	3,456	0.000605
7	B.R. Medrano	Filipino	2,196	0.000384
8	Ronald S. Po	Filipino	1,840	0.000322
9	Anglo Agricultural Development Corporation	Filipino	1,776	0.000311
10	Benjamin C. Reyes	Filipino	1,744	0.000305
11	Ma. Luisa Llamado	Filipino	1,734	0.000303
12	Arturo C. Reyes	Filipino	1,730	0.000303
13	Amado O. Milan and/or Dolores Milan	Filipino	1,728	0.000302
14	Varifold Marketing Corporation	Filipino	1,728	0.000302
15	PCD Nominee Corporation (Filipino)	Filipino	1,669	0.000292
16	Teresita R. Reyes	Filipino	1,458	0.000255
17	Eva S. Recio	Filipino	1,399	0.000245
18	G. D. Tan & Co., Inc.	Filipino	1,090	0.000191
19	Antonio Q. Sevilla	Filipino	1,000	0.000175
20	Aurelia V. Agonias	Filipino	864	0.000151

There were no dividends declared or cash dividends payout on the Company's common shares for the last two (2) fiscal years. On March 14, 2017, the BOD approved that the Five Billion (P5,000,000,000.00) funds used to appropriate for the projects of the Company such as but not limited to the residential townhouse projects and the service hotel apartment be reversed as they have already been completed or substantially completed. The BOD likewise approved the appropriation of Four Billion Five Hundred Million Pesos (P4,500,000,000.00) of the Company's retained earnings for its capital projects and long-term project development.

The Company has not sold any unregistered or exempt securities (including issuance of securities constituting an exempt transaction) within the past three (3) fiscal years.

#### Independent Public Accountants

The accounting firm of Punongbayan and Araullo ("P&A"), an independent auditor in good standing and recognized to practice as such under the laws governing the practice of public accounting in the Philippines, has served as the Company's external auditors for the fiscal year. The Board of Directors will again nominate P&A for re-appointment this fiscal year.

Representatives of P&A are expected to be present at the stockholders' meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire.

P&A has been the Company's external auditors since 2003. In compliance with paragraph (3) (b) (iv) of SRC Rule 68, as amended, changes were made in the assignment of P&A's engagement partners for the Company for fiscal year 2011 to maintain P&A's independence. Relevant provisions of the Code of Professional Ethics for Certified Public Accountants is observed by rotating the lead engagement partner for every five (5) years or as the need arises.

#### Audit and Audited Related Fees

The Group's total audit fees for 2015 and 2016 amounted to P4.4 million per year, inclusive of out-of-pocket expenses.

The stockholders approved the appointment of the Company's external auditors. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations.

#### **Compliance with leading practice on Corporate Governance**

~~The evaluation by the Company to measure and determine level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance ("Manual") is vested by the Board of Directors in the Compliance Officer. The Compliance Officer is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual of Corporate Governance. The Compliance Officer has certified that for 2014, the Company has substantially adopted all the provisions of the Manual.~~

Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company and its stockholders.

In 2014, the Company substantially adopted all the provision of the Manual on Corporate Governance as prescribed by SEC Memorandum Circular No.2, Series of 2002 (the "Manual")

On March 25, 2010, the Board Directors amended its Manual of Corporate Governance in compliance with the Revised Code of Corporate Governance issued by the Securities and Exchange Commission under its Memorandum Circular No.6 of 2009.

#### **UNDERTAKING**

Upon the written request of the stockholder, the Company will furnish such stockholder a copy of SEC Form 17-A free of charge. Such written request for a copy of SEC Form 17-A shall be addressed to:

SMC Stock Transfer Service Corporation  
2nd Floor, San Miguel Corporation  
No. 40 San Miguel Avenue, Mandaluyong City  
1550 Metro Manila, Philippines

#### **SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaluyong on March 27 2016 .

**SAN MIGUEL PROPERTIES, INC.**

By:

  
Atty. **KAREN M. CAS-CABALLA**  
Corporate Secretary





Annex "A"

# SAN MIGUEL PROPERTIES

## CERTIFICATION

I, **Atty. KAREN M. CAS-CABALLA**, of legal age, Filipino, with office address at No. 40 San Miguel Avenue, Mandaluyong City, after having been duly sworn to in accordance with law do hereby depose and state that:

1. I am the Compliance Officer of **SAN MIGUEL PROPERTIES, INC.** (the "Company"), a corporation duly organized and existing in accordance with the laws of the Republic of the Philippines;
2. Based on the records of the Company, none of its incumbent Directors and Executive Officers are connected and/or working in the government, to wit:

• **Directors**

1. **Ramon S. Ang**
2. **Aurora T. Calderon**
3. **Karen V. Ramos**
4. **Hector L. Hofileña**
5. **Mario C. Garcia**
6. **Minita V. Chico-Nazario**
7. **Jeronimo U. Kilayko**

• **Executives Officers**

1. **Ramon S. Ang** – Chairman and President
2. **Karen V. Ramos** – General Manager / Marketing Manager
3. **Maria Alma C. Geronimo** – Finance and Treasury Department Manager
4. **Karen M. Cas-Caballa** – Legal and Asset Management Services Department Manager
5. **Jenzell I. Libunao** – Account Management Group Manager

3. I am issuing this Certification in compliance with the requirement of the Securities and Exchange Commission on the annual reporting of the Company's Definitive Information Statement.

IN WITNESS WHEREOF, I have signed this certification this APR 06 2017 at Mandaluyong City.

  
**Atty. KAREN M. CAS-CABALLA**

Corporate Secretary / Compliance Officer

**ATTY. JOSE B. DULNUAN**

**SUBSCRIBED AND SWORN** to before me this APR 06 2017 at Mandaluyong City, Philippines, that the said **KAREN M. CAS-CABALLA** is the duly authorized officer of the Company and personally appeared before me and exhibited to me her Competent Evidence of Identity as follows:

**Name**

Karen M. Cas Caballa

**Competent Evidence of Identity**

IBP Lifetime Membership Card No. 011217  
ROLL NO. 263114  
MCLE COMP. NO. V-0022171, 6-15-16  
VALID UNTIL 04-14-2019  
D22-AB GUVENTVILLE II, D.M. GUEVARA ST,  
MAUWAY, MANDALUYONG CITY  
TEL 532-8858, 5334664  
email: jbdulnuan@gmail.com

Doc. No. 13 ;  
Page No. 3 ;  
Book No. 78 ;  
Series of 2017.

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MINITA V. CHICO-NAZARIO**, Filipino, of legal age, and a resident of 299 Governor A. Santos, BF Homes, Parañaque, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of San Miguel Corporation ("SMC") and have been its independent director since 9 May 2012.

2. I am affiliated with the following companies or organizations:

Company	Position/Relationship	Period of Service
College of Law, University of Perpetual Help-system Dalta, Las Piñas City	Dean	June 2011 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SMC, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and regulations and other issuances of the Securities and Exchange Commission ("SEC").

4. I am related to the following director/officer/substantial shareholder of SMC and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code:

Name of Director/Officer/Substantial Shareholder	Company	Nature of Relationship
Ginebra San Miguel	Ginebra San Miguel	Independent Director

5. I disclose that I have never been the subject of any criminal/administrative investigation or proceeding:

6. I am neither in government service nor affiliated with a 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, the Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Done this APR 06 2017 of day of 2017 at Mandaluyong City.

**ATTY. JOSE B. DULNUAN**  
NOTARY PUBLIC

FOR THE CITY OF MANDALUYONG

Until December 31, 2017

COMMISSION NO. 458-16

IBP LIFETIME NO. 100-1788 / IFUGAO

PTR NO. 69252527, 1-5-17, Cainta, Rizal

ROLL NO. 26304

MCLE COMP. NO. V-0022171, 6-15-16

VALID UNTIL 04-14-2019

D22-AB GUVENTVILLE II, D.M. GUEVARA ST,

MAUWAY, MANDALUYONG CITY

TEL 532-8858, 5334664

email: jbdulnua@gmail.com

SUBSCRIBED AND SWORN to before me this APR 06 2017 of day of 2017 at Mandaluyong City, affiant exhibiting to me her Passport No. EC3431310 issued on APR 06 2017 at

Manila.

Doc. No. 14;

Page No. 3;

Book No. 78;

Series of 2017.

**CERTIFICATION OF INDEPENDENT DIRECTOR**

I, **JERONIMO U. KILAYKO**, Filipino, of legal age, and a resident of 2024 Kalamansi St. Dasmariñas Village, Makati, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of San Miguel Corporation ("SMC") for election by San Miguel Properties, Inc. this coming Annual Stockholders' Meeting on 8 May 2017.

2. I am affiliated with the following companies or organizations:

Company	Position/Relationship	Period of Service
K5 Distribution, Inc.	President	2003 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SMC, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and regulations and other issuances of the Securities and Exchange Commission ("SEC").

4. I am not related to the following director/officer/substantial shareholder of SMC and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.

5. I disclose that I am the subject of the following criminal/administrative investigation or proceeding:

Offense Charged/Investigated	Tribunal or Agency Involved	Status
A legal suit between private parties (EGI) and the United Coconut Planters Bank (UCPB). I was included only because I was the <i>former President of UCPB</i> .  (G.R. No. 168859 and G.R. No. 168897)	Supreme Court	The SC affirmed the ruling of the Court of Appeals where appellate court did not find enough evidence on record to already resolve the administrative complaint in favor of EGI and against UCPB, <i>et al.</i> , precisely the reason why it still remanded the case to the BSP Monetary Board for further proceedings.  To date no pending proceedings before the BSP.

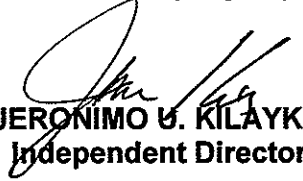
6. I am neither in government service nor affiliated with a government agency or government-owned and -controlled corporation.

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, the Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

APR 6 2017

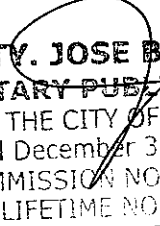
Done this \_\_\_\_\_ of day of \_\_\_\_\_ 2017 at Mandaluyong City.

  
**JERONIMO U. KILAYKO**  
Independent Director

APR 06 2017

SUBSCRIBED AND SWORN to before me this \_\_\_\_ of day of \_\_\_\_\_ at Mandaluyong City, affiant exhibiting to me his Driver's License with No. N11-71-016775 with expiration on September 30, 2017.

Doc. No. 15 ;  
Page No. 3 ;  
Book No. 78 ;  
Series of 2017.

  
**ATTY. JOSE B. DULNUAN**  
**NOTARY PUBLIC**  
FOR THE CITY OF MANDALUYONG  
Until December 31, 2017  
COMMISSION NO. 458-16  
IBP LIFETIME NO. 0955258 / IFUGAO  
PTR NO. 69252527, 1-3-17, Camla, Rizal  
ROLL NO. 26304  
MCLE COMP. NO. V-0022171, 6-15-16  
VALID UNTIL 04-14-2019  
D22-AB GIUVENTVILLE II, D.M. GUEVARA ST.  
MAUWAY, MANDALUYONG CITY  
TEL 532-8858, 5334664  
email: jbdulnuan@gmail.com

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE**

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of San Miguel Properties, Inc. ("SMPI" or the "Company") and its subsidiaries (collectively referred to as the "Group") for the three-year period ended December 31, 2016. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. All necessary adjustments to present fairly the Group's consolidated financial position as of December 31, 2016 and the financial performance and cash flows for the year ended December 31, 2016 and for all the other periods presented, have been made.

### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### ***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 (IASB) and approved by 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.

In applying the equity method on the Company's investment in BOC, adjustments to BOC's audited financial statements were made to conform its accounting policies to that of the Group's accounting policies in accordance with PFRS.

##### ***(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 all items of income and expenses and other comprehensive income or loss in a single consolidated statement of comprehensive 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.

In 2016, the Group restated its 2015 financial statements to correct the classification of raw land and certain cost and expenses. Accordingly, the Group presents a third consolidated statement of financial position as of January 1, 2015 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The following are the details of the various prior period adjustments made:

- In 2016, the Group changed the classification of a parcel of land amounting to P117,239 from Subdivision house and lots under Real Estate Projects account to Raw Land Inventory account to conform to the presentation and account classification of the asset in the separate financial statements of the subsidiary since December 31, 2014.
- In 2016, management had noted that certain costs and expenses pertaining to the Group's hotel operations were presented as part of Other Operating Expenses in the 2015 consolidated statement of comprehensive income. Accordingly, these costs and expenses were reclassified to the Cost of Room Services and Cost of Food and Beverages Sold to conform with the current year presentation.

The effects of the restatement in the consolidated statement of financial position as of December 31, 2015 and the corresponding figures for January 1, 2015 are summarized below.

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Adjusted</u>
<u>As of December 31, 2015</u>			
<i>Changes in assets –</i>			
Real estate projects	P 2,321,317	(P 117,239)	P 2,204,078
Raw land inventory	2,407,869	117,239	2,525,108
<u>As of January 1, 2015</u>			
<i>Changes in assets –</i>			
Real estate projects	P 2,006,642	(P 117,239)	P 1,889,403
Raw land inventory	2,643,666	117,239	2,760,905

The effects of the reclassification in the 2015 consolidated statement of comprehensive income are summarized below.

<u>As of December 31, 2015</u>	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Adjusted</u>
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*Changes in costs of sales and services –*

Costs of room services	P 105,844	P 90,879	P 196,723
Costs of food and beverages sold	80,447	<u>34,220</u>	114,667

Increase in cost of  
sales and services

P 125,099

*Changes in other operating expenses –*

Other operating expenses	<u>P 594,446</u>	<u>(P 125,099)</u>	<u>P 469,347</u>
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The restatement and reclassification have no significant impact in the consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2015 and 2014. It also does not have an impact in the earnings per share presented in the 2015 and 2014 consolidated statements of comprehensive income.

(c) *Functional and Presentation Currency*

The restatement and reclassification have no significant impact in the consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2015 and 2014. It also does not have an impact in the earnings per share presented in the 2015 and 2014 consolidated statements of comprehensive income.

***Adoption of New and Amended PFRS***

(a) *Effective in 2016 that are Relevant to the Group*

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2016:

PAS 1 (Amendments)	:	Presentation of Financial Statements – Disclosure Initiative
PAS 16 and 38 (Amendments)	:	Property, Plant and Equipment, and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 16 and 41 (Amendments)	:	Property, Plant and Equipment, and Agriculture – Bearer Plants

PFRS 10, PFRS 12 and

PAS 28 (Amendments) : Consolidated Financial Statements,  
Disclosure of Interests in Other  
Entities, and Investments in Associates  
and Joint Ventures – Investment  
Entities – Applying the Consolidation  
Exception

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PFRS 11 (Amendments) : Joint Arrangements – Accounting  
Acquisitions of Interests in Joint  
Operations

Annual Improvements : Annual Improvements to  
PFRS (2012-2014 Cycle)

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

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure Initiative*. The amendments encourage entities to apply professional judgment in presenting and disclosing information in the consolidated financial statements. Accordingly, they clarify that materiality applies to the whole consolidated financial statements and an entity shall not reduce the understandability of the consolidated financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendments clarify that the Group's share in other comprehensive income of associates and joint ventures accounted for using the equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to consolidated profit or loss. They further clarify that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the consolidated financial statements. The amendments did not have material impact on the Group's consolidated financial statements.
- (ii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 38 (Amendments), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendments in PAS 16 clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendments to PAS 38 introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and
-



the consumption of the economic benefits of an intangible asset are highly correlated. The amendments also provide guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

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- (iii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 41 (Amendments), *Agriculture – Bearer Plants*. The amendments define a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce; except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendments further clarify that produce growing on bearer plants remains within the scope of PAS 41.
  - (iv) PFRS 10 (Amendments), *Consolidated Financial Statements*, PFRS 12 (Amendments), *Disclosure of Interests in Other Entities*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception*. These amendments address the concerns that have arisen in the context of applying the consolidation exception for investment entities. They clarify which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of PFRS 10 and clarify whether the exemption to present consolidated financial statements, set out in paragraph 4 of PFRS 10, is available to a parent entity that is a subsidiary of an investment entity. These amendments also permit a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries. The amendments did not have material impact on the Group's consolidated financial statements.
  - (v) PFRS 11 (Amendments), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*. These amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3, *Business Combinations*, to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11. The amendments did not have material impact on the Group's consolidated financial statements.
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(vi) Annual Improvements to PFRS (2012-2014 Cycle). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify the existing requirements:

- ~~PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*~~. The amendments clarify that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.
- PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*. The amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. They also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.
- PFRS 7 (Amendments), *Financial Instruments: Disclosures – Servicing Contracts*. The amendments provide additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(b) *Effective in 2016 that are not Relevant to the Group*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2016 but are not relevant to the Group's consolidated financial statements:

PAS 27 (Amendments)	: Separate Financial Statements – Equity Method in Separate Financial Statements
PFRS 14	: Regulatory Deferral Accounts

Annual Improvements to

PFRS (2012-2014 Cycle)

PFRS 7 (Amendments) : Financial Instruments: Disclosures –  
Applicability of the Amendments to  
PFRS 7 to Condensed Interim  
Financial Statements

PAS 34 (Amendments) : Interim Financial Reporting – Disclosure  
of Information “Elsewhere in the  
Interim Financial Report”

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(c) *Effective Subsequent to 2016 but not Adopted Early*

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There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2016 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group’s consolidated financial statements:

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). 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.
  - (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). 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.
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(iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Recognition 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 loss 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 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.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments

caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management is currently assessing the impact of PFRS 9 (2014) on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

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- (iv) PFRS 15, *Revenue from Contracts with Customers* (effective from 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, *Transfers 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.
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Relative to the adoption of PFRS 15 in the Philippines, the FRSC also approved the issuance of Philippine Interpretations Committee Question & Answer No. 2016-04, *Application of PFRS 15, "Revenue from Contracts with Customers," on Sale of Residential Properties under Pre-completion Contracts*, which provides that sales of residential properties under pre-completion stage can be recognized over time until completion of construction.

Management is currently assessing the impact of this standard on the Group's consolidated financial statements.

- (v) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

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 similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability 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

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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).

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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.

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Management is currently assessing the impact of this new standard in its consolidated financial statements.

- (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 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, the Group shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. In December 2015, the IASB deferred the mandatory effective date of these amendments (i.e. from January 2016) indefinitely.

## **I. 2016 KEY TRANSACTIONS**

### *(a) Increase in the Authorized Capital Stock (ACS) and Amendment of the Articles of Incorporation*

The BOD and stockholders of the Company, in their meetings held on November 5, 2015 and December 17, 2015, respectively, approved the increase in the ACS of the Company from P1.28 billion divided into 128,000,000 common shares with P10 par value to P15 billion divided into 1,500,000,000 common shares with P10 par value per share.

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San Miguel Corporation (SMC) has subscribed to 450,000,000 common shares from the approved increase in ACS for an equivalent amount of P9 billion at a subscription price of P20 per share. As of December 31, 2015, SMC deposited a total of P692 million which was treated as advances for future stock subscription in relation to the intention of both SMC and the Company to increase its subscription and ACS, respectively.

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The Company applied for the approval of the increase in authorized capital stock on February 12, 2016, which was subsequently approved by the SEC on March 11, 2016. Consequently, the total advances for future stock subscription amounting to P2.3 billion were treated as Capital Stock and Additional Paid-in Capital accounts under equity section in the 2016 statement of financial position. The remaining subscription receivable from SMC amounting to P6.7 million were also fully collected in 2016. Accordingly, total additions to Capital Stock and Additional Paid-in Capital accounts arising from the share subscription by SMC amounted to P4.5 billion and P4.4 billion, respectively. Total costs directly related to the issuance of shares amounting to P50.2 million were deducted from the Additional Paid-in Capital account.

*(b) Investment in E-fare Investment Holdings, Inc. (E-fare) and Zobel Polo Club, Inc. (Zobel) shares*

In 2016, the Company subscribed to shares of E-fare for a total subscription price of P1,600,000, making E-fare a subsidiary.

Also, in 2016, the Company invested in Zobel by subscribing to 56,000,000 shares and paying the minimum paid-up capital stock of P14 million to obtain 70% ownership.

*(c) Acquisition of noncontrolling interest (NCI) in Integrated Geosolutions, Inc. (Geosolutions)*

In 2016, the Company made additional investments in Geosolutions amounting to P290.7 million, when it acquired the subsidiary's issued shares from its individual stockholders. Such transaction increased the Company's ownership interest in Geosolutions from 51% in 2015 to 70% in 2016. NCI amounting to P108.6 million was transferred to the Group as a result of the transaction. The resulting excess of the total consideration and the acquired NCI, which amounted to P182 million is presented as part of Other Reserves account in the 2016 consolidated statement of financial position.

Subsequently, the Company and NCI of Geosolutions subscribed additional shares in the subsidiary, which decreased the Company's ownership interest from 70% to 68.30%. The total consideration paid by NCI for the additional subscription amounted to P29 million.

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*(d) Acquisition of properties*

In 2016, E-fare acquired parcels of land located in Central Luzon. The total costs capitalized as Investment Property amounted to P1.7 billion. Initial payments made in the acquisition for other parcels of land in Central Luzon amounted to P212.4 million and were recorded under Deposits on Land for Future Development. These will be reclassified to Investment Property upon transfer of title in the name of E-fare.

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During the second half of 2016, the Company acquired a parcel of land located in Mandaluyong City. The total capitalized costs of investment property amounting to P398.50 million is inclusive of purchase price and other direct costs relative to the transfer of ownership of the property and preparation of the asset for its intended use. As of December 31, 2016, the related unpaid outstanding balance amounting to P78 million is presented as part of Trade and Other Payables in the 2016 statement of financial position.

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In 2016, the Company also acquired a property in Rizal, which consists of a parcel of land, building and machineries and equipment. The total amount paid by the Group, inclusive of purchase price and other direct costs relative to the acquisition of the property, amounted to P34.9 million.

*(e) Reclassification of Other Non-current Asset*

In 2016, upon the finalization of the Assignment and Purchase Agreement ("Agreement") entered into by the Group with a third party in 2015 for the purchase of interest in a joint arrangement and the acquisition of a certain property for the development of a certain project in Western Visayas, the Group made additional payments to the third party amounting to P143.6 million for the full payment of the agreed consideration.

The total consideration amounting to P283.6 million (including the deposit made in 2015 amounting to P140 million) was recognized as Land use rights under Intangible Assets – net account amounting to P164.5 million for the interest in the joint arrangement, and as Land under Investment Property – net account amounting to P119.1 million for the acquisition of the certain property for development, in the 2016 consolidated statement of financial position.

*(f) Donation to San Miguel Foundation, Inc. (SMC Foundation)*

During the year, the Company made a donation of P8.5 million to SMC Foundation for its community settlement and relocation project in General Santos City.

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## II. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following tables:

<i>(in thousands)</i>	Years Ended December 31		
	2016	2015	2014
Revenues	P 1,716,223	P 1,118,736	P 756,242
Gross profit	698,233	584,058	451,819
Other operating expenses	487,924	469,347	355,095
Share in profit of associates – net	309,270	70,828	465,911
Finance costs	(308,477)	(340,987)	(279,380)
Finance income	60,481	17,225	39,552
Donation	(9,072)	(17,066)	(9,071)
Gain on rescission of donation	-	495,000	-
Gain on sale of noncurrent asset classified as held for sale	-	22,145	-
Gain on sale and retirement of investment property and property and equipment	-	-	12,762
Miscellaneous income – net	27,156	5,055	5,781
Profit before tax	289,667	366,911	332,279
Net profit attributable to Equity holders of the parent company	217,695	272,521	362,268

### 2016 vs. 2015

The Group ended the year with P218 million net profit attributable to the owners of the parent company, lower by P55 million as compared to 2015, mainly attributable to the gain on rescission of donation amounting to P495 million recognized in 2015, reduced by the increase in profit of associates amounting to P238 million and increase in gross profit amounting to P114 million during the current year.

Real estate sales increased from P484 million to P680 million in 2016, mainly due to the recognition of sales for Dover Hill amounting to P365 million.

Revenue from the Group's hotel business comprising of room revenues, sale of food and beverages, and others reached P688 million accounting for 40% of the total revenue. The increase was due to the full year operations against last year's nine-month operations of Makati Diamond Residences (MDR).

Cost of rentals, hotel operations and real estate sold rose from P535 million to P1 billion mainly due to the increase in the cost incurred in relation to MDR's full operations and recognition of cost related to sale of Dover Hill units during the year amounting to P184.5 million and P241.2 million, respectively.

The Group's operating expenses slightly increased by 4% due to increase in real property taxes paid for the year, payment of filing fees and DST relating to the increase in authorized capital stock of E-fare (as mentioned under paragraph b of item I) amounting to around P14 million.

Share in net earnings of associates increased by P238 million as against last year mainly due to the higher net income earned by Bank of Commerce (BOC).

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Finance cost decreased from P341 million to P308 million mainly due to the settlement of the outstanding loans of the Group amounting to P4.3 billion.

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Finance income increased by P43 million due to the higher short term placements resulting from the increase in collection of interest on in-house receivables and funds received from SMC in its subscription of capital stock.

There were no gain on rescission of donation and gain on sale of noncurrent asset classified as held for sale recognized in 2016 as compared to last year resulting to full reduction of both accounts.

Miscellaneous income increased from P5 million to P27 million mainly due to income from forfeitures of initial payments related to backout sales during the year.

The Group recognized tax expense of P72 million, lower by P29 million compared to last year mainly because of the utilized net loss carry over (NOLCO) during the year.

Net loss attributable to NCI decreased to P0.4 million mainly due to the decrease in the share in the net loss of Geosolutions during the year.

#### **2015 vs. 2014**

The Group ended 2015 with P273 million net profit attributable to the owners of the parent company, lower by P90 million as compared to 2014, mainly attributable to the increase in operating expenses and decrease in share in profit of associates.

Real estate sales increased by P83 million attributable to the increase in sales booking for Maravilla and Asian Leaf Projects in General Trias, Cavite, and Two Dover View Project in Mandaluyong City.

Revenue from the Group's hotel business reached P283 million resulting from the operations of MDR which has partially opened in March 2015.

Cost of real estate sold decreased by about 38% mainly due to the backout sales for the period. On the other hand, cost of rental increased by 12% mainly due to the increase in the Company's share in common utilities for SMPC Building for the first three quarters of the year, resulting from the charges absorbed by the Group for the leased space vacated last September 2014. In addition, cost incurred

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in relation to MDR's initial operations contributed around P311 million to the overall increase in cost of revenue.

The Group's operating expenses increased by P114 million on account of the increase in commission expense and higher sales-related expenses to support the pre-selling activities in the pipeline. The increase in contracted and outside services, and materials and supplies resulting from the initial operation of MDR also contributed to the increase in operating expenses for 2015.

The Group recognized a gain of P495 million which is equivalent to the fair value of the Montemaria Property at the time of the rescission of donation and reconveyance of property. The Montemaria Property is a 33-hectare parcel of land donated by the Company to the Philippine Foundation of the Blessed Mary Mother of the Poor in 2011.

Finance costs increased by P62 million on account of loan availments to fund the last stage of MDR's construction and acquisition of various prime properties for future land development in 2014.

Share in profit of associates decreased to P71 million as compared to P466 million in 2014 mainly due to the decrease in the net profit of BOC.

The Group recognized a gain from the sale of its investment in Prestigio Realty, Inc. which was classified as held for sale, amounting to P22 million.

Finance income decreased to P17 million as compared to P40 million in 2014 mainly due to the decrease in amortization discount on long-term receivables of P16 million and improved collection efficiency for 2015, thereby reducing income from late payments of buyers.

The Group recognized tax expense of P101 million as compared to tax benefit of P38 million in 2014 mainly due to the gain recognized from the rescission of donation and reconveyance of the Montemaria Property.

Net loss attributable to non-controlling interest decreased by P15 million mainly due to the net loss of Excel, a subsidiary of the Company.

#### 2014 vs. 2013

The Group's total revenue increased by P42 million as compared to 2013 on account of the increase in retail real estate sales of P33 million, equivalent to 9% with the introduction of new model units for the real estate projects in General Trias, Cavite (collectively referred to as "Gen Tri Projects") mainly, Asian Leaf, Maravilla and Bel Aldea and the new executive townhouse development project in Wack Wack, Mandaluyong City, the One Dover View project.

Rental income increased to P354 million in 2014 from P335 million in 2013 due to the incremental increase in rental rates in 2014.

Management fees decreased by P11 million due to the substantial reduction in the management services for property and project management provided by the Group to San Miguel Corporation and various subsidiaries.

Cost of real estate sold increased to P235 million in 2014 from P193 million in 2013 due to the relative increase in retail real estate sales of 9% and lower gross margin rate for the One Dover View Project, thereby diluting the overall gross margin rate and increase in house construction cost for 2014.

Cost of rentals slightly increased in 2014 as compared to 2013 due to the increase in business taxes and real property taxes for 2014.

Operating expenses increased to P355 million in 2014 from P313 million in 2013 on account of higher commission and caused by the increase in sales reservations for the year and higher sales-related expenses to support the pre-selling activities in the pipeline. Likewise, contracted/outside services and materials and supplies incurred in preparation for the opening of MDR in 2015, contributed to the increase in operating expenses. Dues and subscriptions increased in view of the implementation of the collection dues by the homeowners' association of the various projects.

Other income (charges) slightly increased in 2014 as compared to 2013 mainly due to the offsetting effect of the following: (a) decrease in share in profit of associates by 3%; (b) decrease in financing income by 24% due to interest income and amortization of long term receivables; (c) gain on sale of the EL Tower units; and, (d) donation to SMC Foundation amounting to P9 million.

The Group's tax benefit increased to P38 million in 2014 as against P23 million in 2013 brought about by the increase in the Group's operating expenses thereby, increasing the NOLCO recognized for the year. Consequently, the Group's net loss for 2014 decreased by P44 million.

Non-controlling interest decreased to P8 million in 2014 from P13 million in 2013 mainly due to the decrease in sales of Wedge Woods Project in 2014.

#### **IV. FINANCIAL POSITION**

##### **2016 vs. 2015**

Cash and cash equivalents increased to P575 million from P345 million in 2015 due to the higher short term placements resulting from the funds received from SMC on the subscription of capital stock, reduced by the settlement of advances from SMC, payment of loans and payment for acquisitions of properties during the year.

Receivable decreased to P1.06 billion from P1.28 billion due to the improvement in collection and the reversal of receivables related to back out sales for the period.

Real estate projects increased to P2.4 billion from P2.2 billion mainly because of the increase in development cost of the Group's Dover Hill, Emerald 88 and Gen Tri Projects.

Deposits on land for future development increased by 20% mainly due to the advances made for the acquisition of prime properties for future land development.

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Investment property increased to P5.1 billion from P2.8 billion mainly due to the acquisition of properties by Rapidshare in Mandaluyong and by E-fare in Central Luzon for future land development.

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Other assets decreased by 5%, mainly due to the reclassification of initial payments made for the purchase of interest in a joint arrangement and the acquisition of a certain property for the development of a certain project in Western Visayas to Investment Property and Intangible Assets. Such reclassification resulted to the increase in intangible asset from P17 million to P179 million in 2016.

Deferred tax asset decreased by 32% compared to last year mainly due to the usage of net operating loss carry-over (NOLCO).

Interest-bearing loans and borrowings decreased from P12.2 billion to P8.6 billion mainly due to settlement of loans amounting to P4.3 billion and additional availments amounting to P0.7 billion during the period.

Trade and other payables increased by 41% because of the recognition of liabilities for the outstanding balance related to the acquisition of land in Central Luzon and Mandaluyong, outstanding payable for the purchase of the additional shares of Geosolutions and accrual of construction cost amounting to P54 million.

The increase brought about by the collection of the down payments for General Trias and Dover hill projects resulted to the 6% increase in customers' deposit.

Due to related parties decreased by 97% mainly due to settlement of advances from SMC.

Income tax payable decreased to P0.5 million mainly due to the lower taxable income for the period.

Upon subscription by SMC to additional shares of the Company, deposit for future stock subscription amounting to P692 million was reclassified to equity in 2016.

Retirement benefit liability increased by P3 million or 14% due to the recognition of retirement expense of P7 million reduced by the Company's contribution of P4 million.

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Deferred tax liabilities increased to P52 million from P44 million last year mainly due to the recognition of future taxable amount arising from deferred gross profit on real estate sold.

Capital stock and additional paid-in capital increased by P9 billion due to the additional subscription of SMC.

Other reserves increased due to the excess of the total consideration and the acquired NCI of Geosolutions amounting to P182 million which was paid in 2016.

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Movement in NCI was mainly due to the impact of the increase in SMPT's ownership of Geosolutions from 51% to 68.3%.

#### **2015 vs. 2014**

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Cash and cash equivalents increased to P345 million from P323 million in 2014 attributable mainly to increase in collection efficiency of outstanding receivables, the receipt of deposits for future stock subscription and proceeds from the sale of investment property. The increase was partially offset by the funding requirements for the development cost of the Group's various projects, payment of the outstanding balance of the acquired property in 2014 allocated for future land improvement.

Real estate projects increased by P315 million or 17% due to the additional development costs incurred by the Group during the year amounting to P220 million attributed to the Group's Dover, Sixto and Gen Tri Projects.

Raw land decreased by P236 million mainly due to the reclassification of certain parcels of land amounting to P233 million.

Other assets increased by 44%, mainly due to the deposit made for the purchase of interest in a joint arrangement for the development of a certain project and property in Western Visayas, increase in tax credit certificates and prepaid real property taxes and business permits amounting to P30 million and unapplied input taxes amounting to approximately P94 million resulting from higher purchases during the year.

Deposit on land for future development increased by 8% mainly due to the advances given for the acquisition of prime properties in Batangas for future land development amounting to P104 million.

Investment property increased to P2.8 billion from P1.3 billion, mainly due to the acquisition of land in Makati City for future land development, and return of donated property from the Philippine Foundation of Blessed Mary Mother of Poor (as done), which is valued at P495 million, back to the Company (as donor).

Property and equipment increased to P4.3 billion from P3.6 billion last year mainly due to acquisition of office and hotel furniture of P321 million and additional construction cost for the MDR project amounting to P737 million.

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Intangible assets increased to P17 million from P7 million mainly due to the acquisition of hotel management system, accounting system, and software licenses for the MDR project amounting to P12 million.

Deferred tax asset decreased to P102 million from P185 million last year mainly due to the usage of NOLCO in the current year.

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Interest-bearing loans and borrowings increased by 12% as a result of higher availment of loans to fund the Group's current projects, acquisition of various properties for future land development and the ongoing construction of MDR.

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Accounts payable and accrued expenses increased by 25%, mainly due to the increase in retention payable related to the Group's ongoing project development in General Trias and ongoing MDR construction amounting to approximately P65 million.

Advance rental and deposit increased by P16 million as compared with last year due to the adjustment on the required advance rental and security deposit in view of the increase in rental rate for 2015.

Customers' deposits increased to P133 million or 60% due to down payments collected for the Group's Gen Tri and Dover Projects.

The Company received P692 million which was treated as advances to future stock subscription in relation to the intention of both SMC and the Company to increase its subscription and authorized capital stock.

Income tax payable decreased by P1 million mainly due to the payment of income tax for the year.

Retirement benefit liability decreased by P1 million or 5% due to the contribution to the Company's retirement plan.

Deferred tax liability decreased to P44 million from P53 million mainly due to realized gross profit of a certain subsidiary.

#### **2014 vs. 2013**

Cash and cash equivalents increased to P323 million, or 109% from 2013, mainly due to the receipt of the amount in escrow fund of P245 million, collection of current receivables from rental and real estate sales, sale and acquisition of investment properties and availment and repayment of loans and borrowings.

Receivables decreased by P136 million mainly due to the release of the escrow fund net of the increase in real estate retail sales booking in 2014.

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Real estate projects increased by P360 million or 22% due to the additional development costs incurred by the Group in 2014 amounting to P214 million, P50 million and P230 million for Dover, Sixto and Gen Tri Projects, respectively.

Deposits on land for future development increased by P135 million or 10% mainly due to the advances for the acquisition of various prime properties in Batangas amounting to P149 million.

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Equity advances and investments in associates increased by P892 million or 9% mainly due to advances for the future acquisition of a new company and share in profit of NLI and BOC amounting to P833 million, net of dividend received of P5 million.

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Investment property decreased by P1,851 million or 58% mainly due to the reclassification of the MDR project to Property, Plant and Equipment account amounting to P1.9 billion and the sale of EL Tower units with carrying value of P33.3 million. However such decrease was reduced by the reclassification of a property in Boracay to investment property amounting to P270 million and additional land acquisitions for Pasig, Manila and Bel Air.

Property and equipment significantly increased by P3,571 million in 2014 mainly due to the reclassification of the balance of capital projects in progress of Investment Property account attributable to the construction cost of MDR as of December 31, 2013 and the cost of land and equipment related to this project. The total cost of MDR project of P3,446 includes additional construction cost incurred during the year of P1,086 million.

Intangible assets account increased mainly on account of the capitalization of the development cost and acquisition of software licenses during the year.

Deferred tax assets increased by P55 million or 42% in 2014 as compared to 2013 mainly due to the increase in NOLCO, minimum corporate income tax and customers' deposit in 2014.

Other assets increased by P210 million or 48% mainly due to the increase in tax credit certificates amounting to P175 million and increase in unapplied/excess input taxes amounting to approximately P27 million.

Interest-bearing loans increased by P2,181 million or 25% from 2013, as a result of the availment of additional loans for funding of current projects, acquisitions of various prime properties for future land development and the ongoing construction of MDR.

Accounts payable and accrued expenses increased by P291 million or 62% mainly due to the increase in retention payable related to the ongoing developments of the Group's Gen Tri, Dover and Sixto Projects amounting to approximately P94 million and recognition of outstanding payable for the purchase of prime properties amounting to P77 million.

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Advance rentals and deposits decreased by P10 million or 5% on account of the refund of deposit to a tenant due to lease termination in 2014.

Customers' Deposits increased by P143 million or 186% due to the increase in reservation and down payments for the Group's Gen Tri and Dover Projects.

The decrease in income tax payable was due to the payment of annual income tax for 2013.

## V. EQUITY

The increase in equity attributable to owners of the parent company for the years 2016 and 2015 are due to:

<i>(In thousands)</i>	December 31	
	2016	2015
Capital stock	P 4,500,000	P -
Additional paid-in capital	4,449,785	-
Net profit for the year	217,695	272,521
Other reserves	( 182,099)	
Accumulated fair value gains (losses)	( 60,892)	( 333,046)
Reserve for retirement	23,397	6,992
Cumulative translation adjustment	519	( 344)
	(P 8,948,405)	(P 53,877)

## VI. SOURCES AND USES OF CASH

A brief summary of cash flow movement is shown below:

<i>(In thousands)</i>	December 31		
	2016	2015	2014
Net cash used in operating activities	P 594,058	(P 126,473)	(P 183,018)
Net cash used in investing activities	( 2,677,301)	( 1,484,988)	( 1,523,209)
Net cash from financing activities	2,313,168	1,633,049	1,874,920

Net cash from operations basically consists of income for the period less changes in noncash current assets, certain current liabilities and others.

Net cash used in investing activities includes the following:

<i>(In thousands)</i>	December 31		
	2016	2015	2014
Acquisition of a subsidiary	(P 1,213,958)	P -	P -
Additions to investment property	( 919,139)	( 712,272)	( 1,469,524)
Acquisition of NCI of a subsidiary	( 290,700)	-	-
Acquisitions of property and equipment	( 179,783)	( 741,283)	( 13,952)
Acquisition of intangible assets	( 89,783)	( 14,512)	( 2,799)
Interest received	11,268	3,563	3,003
Dividends received	7,134	6,595	5,190
Additions to equity advances	( 2,920)	( 136,836)	( 54,382)
Proceeds from redemption of available-for-sale financial assets	580	5,296	-
Repayments of equity advances	-	50,117	-
Proceeds from sale of investment property	-	37,021	9,255
Proceeds from sale of noncurrent asset classified as held for sale	-	17,323	-
Net cash used in investing activities	(P 2,677,301)	(P 1,484,988)	(P 1,523,209)

Net cash used in financing activities includes the following:

<i>(In thousands)</i>	December 31		
	2016	2015	2014
Repayments of borrowings	(P85,264,832)	(P 131,827,428)	(P125,615,815)
Proceeds from borrowings	81,654,614	133,175,630	127,796,572
Proceeds from issuance of stock	8,308,043	-	-
Receipts (payments) of due to related parties	( 2,035,495)	10,966	22,133
Interest paid	( 334,418)	( 418,076)	( 327,970)
Share issuance costs paid	( 50,215)	-	-
Increase in NCI	35,471	-	-
Deposits received for future stock subscription	-	691,957	-
Net cash from financing activities	P 2,313,168	P 1,633,049	P 1,874,920

## V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The following items are not available for declaration as dividends:

<i>(In thousands)</i>	December 31	
	2016	2015
Accumulated equity in net earnings of subsidiaries and associates	P 5,000,000	P5,000,000
Treasury shares (included in the unappropriated retained earnings balance)	( 9,515)	( 9,515)
Accumulated share in profit of associates	1,498,565	1,240,871

## VI. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurement based on the financial data of the current periods against the same period of previous year. Please refer to Item III - Financial Performance of the MD&A for the discussion of the computed Key Performance Indicators.

Key Performance Indicators	For the Years Ended December 31	
	2016	2015
Current Ratio	0.69 : 1.00	0.42 : 1.00
Total Assets to Equity Ratio	1.57 : 1.00	2.67 : 1.00
Debt to Equity Ratio	0.56 : 1.00	1.68 : 1.00
Return on Average Equity Attributable to Owners of the Parent Company	2.00%	3.00%
	For the Years Ended December 31	
	2016	2015
Volume Growth		
Lease	(2.48%)	0.00%
Real Estate Sales	(40.43%)	10.11%
Revenue Growth	53.41%	47.93%
Operating Margin	12.25%	10.25%
Interest Coverage Ratio	2.62 : 1.00	1.38 : 1.00

The manner by which the Group calculates the above indicators is as follows:

Key Performance Indicators	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Total Assets to Equity Ratio	$\frac{\text{Total Assets}}{\text{Equity} + \text{Non-Controlling Interest}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Excluding deferred tax liabilities)}}{\text{Total Equity (Excluding Accumulated Fair Value Loss, CTA, Dilution Loss and Treasury Shares)}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Owners of the Parent Company}^*}{\text{Average Equity Attributable to Owners of the Parent Company}}$
Volume Growth	$\left( \frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left( \frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$
Interest Rate Coverage Ratio	$\frac{\text{EBITDA}}{\text{Interest Expense and Other Financing Charges}}$

## VII. OTHER MATTERS

### a. Events After the Reporting Period

On March 14, 2017, the Group's BOD reversed the appropriation amounting to P5 billion as the purpose for which such appropriations were made has been completed. Also on the same date, the Group's BOD approved the appropriation of P4.5 billion of the Group's retained earnings to be used for development of future projects.

### b. Commitments and Contingencies

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

#### i. *Operating Leases – Group as Lessor*

The Group is a lessor under operating leases covering certain real estate properties. The leases have terms ranging from one to five years, with renewal options, and include annual escalation rates of 5% to 10%.

The future minimum lease collections receivable under these operating leases as of December 31 are presented below.

<i>(In Thousands)</i>	2016	2015
Within one year	P 69,588	P 53,457
After one year but not more than five years	41,628	51,468
After five years but not more than ten years	10,091	16,414
	P 121,307	P 121,339

*ii. Operating Lease – Group as Lessee*

The Group is a lessee under an operating lease agreement covering a certain parcel of land. The lease has a lease term of 10 years, with renewal options and is not subject to escalation clauses. Rental expense recorded in the Group's books amounted to P5.8 million, P5.1 million, and P4.9 million in 2016, 2015, and 2014, respectively, and is presented as part of Cost of Rentals account in the consolidated statements of comprehensive income.

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*iii. Legal Claims*

There are pending claims and legal actions filed by the Group or against the Group arising from the normal course of business.

In 2007, a provision amounting to P4.6 million in connection with Excel Unified's pending settlement of a dispute regarding a right of way in Wedgewoods was recognized. The provision remains outstanding as of the reporting periods. The Group's management, based on the advice of its legal counsels, believes that the recognized provision with regard to its legal case is reasonable and additional liabilities or losses, if any, that may arise from other claims will not have material effect on its consolidated financial statements.

*iv. Others*

There are other contingencies that arise in the normal course of business that are not recognized in the Group's financial statements. As of December 31, 2015, the Group's management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Group's consolidated financial statements.

- c. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Performance.
  - d. There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
  - e. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
  - f. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- 
- g. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent

assets since the last annual balance sheet date. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

- h. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period.
  - i. The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
-

# COVER SHEET

Annex "D"

## for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0 0 0 0 0 0 3 7 3 3 8

### COMPANY NAME

S A N M I G U E L P R O P E R T I E S , I N C .  
A N D S U B S I D I A R I E S  
.  
.  
.

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

3 F S A N M I G U E L H E A D O F F I C E  
C O M P L E X 4 0 S A N M I G U E L A V E N U E  
W A C K W A C K M A N D A L U Y O N G C I T Y  
.

Form Type

A A F S

Department requiring the report

.

Secondary License Type, If Applicable

.

### COMPANY INFORMATION

Company's Email Address

mgeronimo@smg.sanmiguel.com.ph

Company's Telephone Number/s

632-3000

Mobile Number

No. of Stockholders

909

Annual Meeting (Month/Day)

2ND WEDNESDAY OF MAY

Fiscal Year (Month/Day)

12/31

### CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

MARIA ALMA C. GERONIMO

Email Address

mgeronimo@smg.sanmiguel.com.ph

Telephone Number/s

632-3000

Mobile Number

### CONTACT PERSON'S ADDRESS

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

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



STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR CONSOLIDATED FINANCIAL STATEMENTS

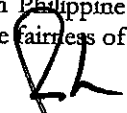
The management of San Miguel Properties, Inc. and Subsidiaries (The Group), is responsible for the preparation and fair presentation of the financial statements including the schedules therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

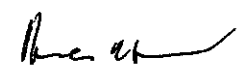
In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to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

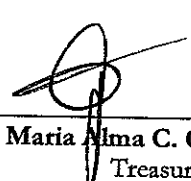
The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the 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 financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
Ramon S. Ang  
Chairman of the Board and President

  
Karen V. Ramos  
General Manager

  
Maria Alma C. Geronimo  
Treasurer

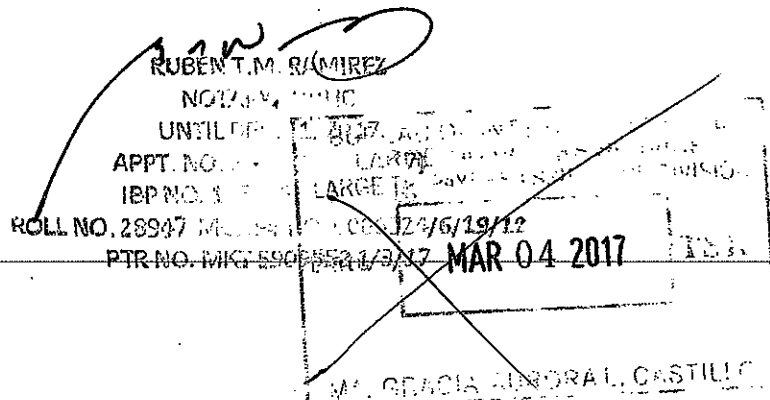
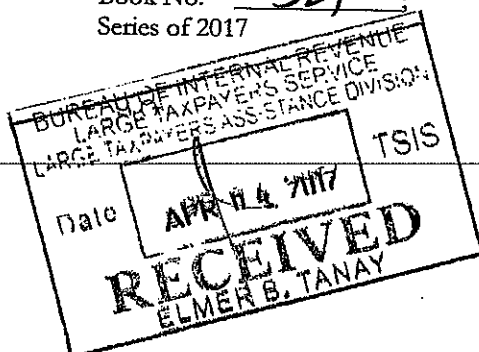
Signed this 24 FEB 2017

REPUBLIC OF THE PHILIPPINES )  
MANDALUYONG CITY ) S.S.

SUBSCRIBED AND SWORN TO BEFORE ME, this 24 FEB 2017, the following  
having presented to me their Passport:

	Passport No.	Expiry Date	Place of Issuance
Ramon S. Ang	XX0492943	02/21/18	Manila
Karen V. Ramos	EC8286356	07/14/21	Manila
Maria Alma C. Geronimo	EC0948179	04/26/19	Manila

Doc. No. 333  
Page No. 37  
Book No. 527  
Series of 2017







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Consolidated Financial Statements and  
Independent Auditors' Report

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**San Miguel Properties, Inc. and Subsidiaries**

December 31, 2016, 2015 and 2014  
*(With Corresponding Figures as of January 1, 2015)*



# Grant Thornton

An instinct for growth™

Punongbayan & Araullo  
20<sup>th</sup> Floor, Tower I  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

## Report of Independent Auditors

T +63 2 988 2288  
F +63 2 886 5506  
grantthornton.com.ph

**The Board of Directors and Stockholders**  
**San Miguel Properties, Inc. and Subsidiaries**  
**(A Subsidiary of San Miguel Corporation)**  
3<sup>rd</sup> Floor, San Miguel Head Office Complex  
No. 40 San Miguel Ave., Mandaluyong City

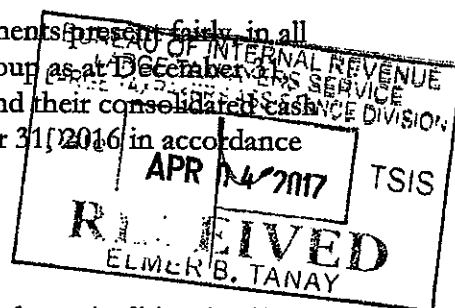
### Opinion

We have audited the consolidated financial statements of San Miguel Properties, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the 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, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2016 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.



**Certified Public Accountants**  
Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002  
SEC Accreditation No. 0002-FR-4

**Emphasis of Matter**

We draw attention to Note 2 to the consolidated financial statements, which provides the details and describes the effects of the restatement of the 2015 consolidated financial statements to correct the classification of raw land and certain expenses. Our opinion is not modified with respect to this matter.

**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.

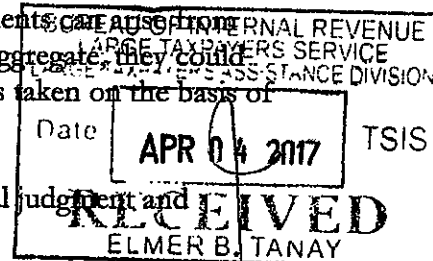
Those charged with governance are responsible for overseeing the Group's financial reporting process.

**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.

**PUNONGBAYAN & ARAULLO**

By: **Renan A. Piamonte**  
Partner

CPA Reg. No. 0107805

TIN 221-843-037

PTR No. 5908630, January 3, 2017, Makati City

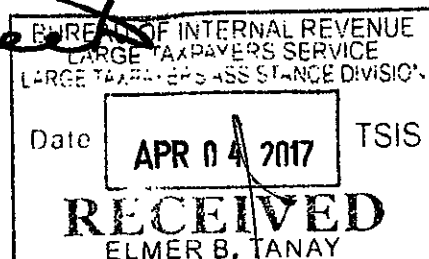
SEC Group A Accreditation

Partner - No. 1363-AR-1 (until Mar. 1, 2020)

**MAR 04 2017** - No. 0002-ER-4 (until Apr. 30, 2018)

BIR AN 08-002511-37-2016 (until Oct. 3, 2019)

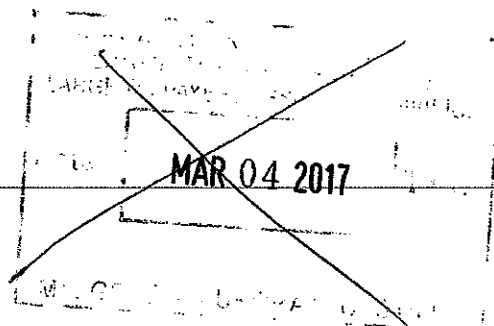
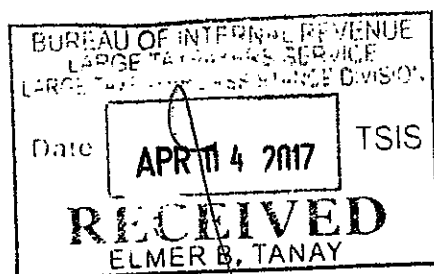
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)



March 14, 2017

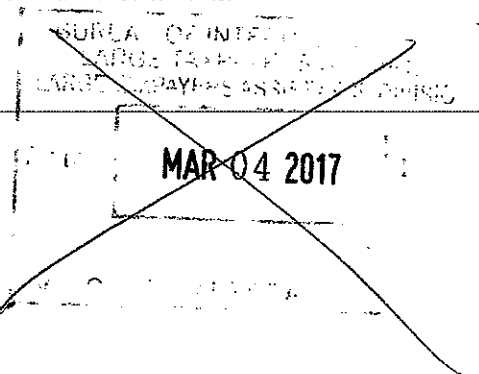
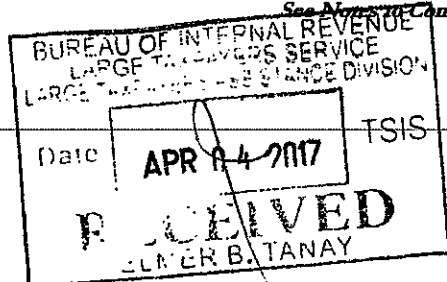
(A Subsidiary of San Miguel Corporation)  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**  
*(With Corresponding Figures as of January 1, 2015)*  
*(Amounts in Thousand Philippine Pesos)*

	Notes	December 31, 2016	December 31, 2015 (As Restated - See Note 2)	January 1, 2015 (As Restated - See Note 2)
<b>A S S E T S</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	6	P 574,767	P 344,842	P 323,254
Receivables - net	7	1,008,601	1,091,181	1,055,411
Real estate projects	8	2,380,495	2,204,078	1,889,403
Raw land inventory	9	2,527,566	2,525,108	2,760,905
Other current assets - net	15	815,434	737,247	582,765
Total Current Assets		7,306,863	6,902,456	6,611,738
<b>NONCURRENT ASSETS</b>				
Receivables	7	50,510	185,674	283,094
Deposits on land for future development	10	1,847,598	1,546,084	1,432,770
Equity advances and investments in associates	11	10,597,442	10,461,838	10,634,905
Investment property - net	12	5,064,718	2,807,921	1,344,392
Property and equipment - net	13	4,278,839	4,261,656	3,586,455
Intangible assets - net	14	179,235	17,251	7,121
Deferred tax assets - net	22	69,249	101,930	185,030
Other noncurrent assets - net	15	37,358	192,049	63,019
Total Noncurrent Assets		22,124,949	19,574,403	17,536,786
<b>NONCURRENT ASSETS CLASSIFIED AS HELD FOR SALE</b>				
	5, 11	-	-	12,500
<b>TOTAL ASSETS</b>		P 29,431,812	P 26,476,859	P 24,161,024



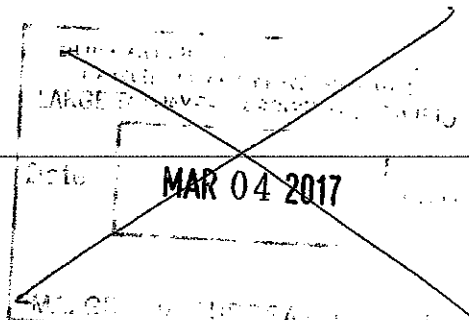
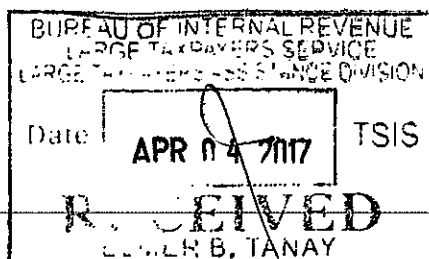
			December 31, 2015 (As Restated - See Note 2)	January 1, 2015 (As Restated - See Note 2)
	Notes	December 31, 2016		
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Interest-bearing loans and borrowings	16	P 8,596,265	P 12,206,483	P 10,858,281
Trade and other payables	17	1,326,084	941,443	762,921
Due to related parties	23	54,152	2,089,647	2,078,257
Advance rentals and deposits	23	218,149	212,513	185,541
Customers' deposits	2	378,592	353,173	220,169
Deposits for future stock subscription	24	-	691,957	-
Income tax payable		460	560	1,794
Total Current Liabilities		10,573,702	16,495,776	14,106,963
<b>NONCURRENT LIABILITIES</b>				
Accounts payable	17	2,808	8,865	-
Advance rentals and deposits	23	-	3,351	13,970
Retirement benefit liability	21	25,952	22,682	23,892
Deferred tax liabilities - net	22	52,126	43,849	53,101
Total Noncurrent Liabilities		80,886	78,747	90,963
Total Liabilities		10,654,588	16,574,523	14,197,926
<b>EQUITY</b>				
Equity attributable to owners of the parent company				
Capital stock	24	5,720,109	1,220,109	1,220,109
Additional paid-in capital	24	5,226,246	776,461	776,461
Treasury shares - at cost	24	( 9,515 )	( 9,515 )	( 9,515 )
Accumulated fair value gains (losses)	11, 15	( 271,992 )	( 211,100 )	( 121,946 )
Cumulative translation adjustment	11	( 10,748 )	( 11,267 )	( 10,923 )
Reserve for retirement plan	11, 21	( 96,310 )	( 119,707 )	( 126,699 )
Other reserves	- 5, 24	( 270,299 )	( 88,200 )	( 88,200 )
Retained earnings	24	8,123,454	7,905,759	7,633,238
Total equity attributable to owners of the parent company		18,410,945	9,462,540	9,516,417
Noncontrolling interest	5	366,279	439,796	446,681
Total Equity		18,777,224	9,902,336	9,963,098
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 29,431,812</b>	<b>P 26,476,859</b>	<b>P 24,161,024</b>

See Notes to Consolidated Financial Statements.



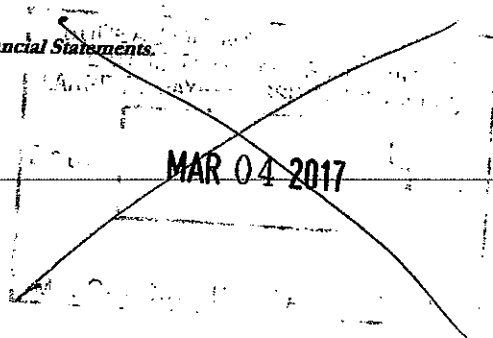
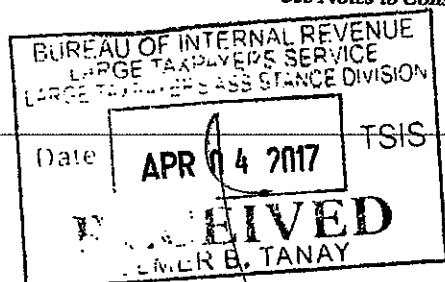
(A Subsidiary of San Miguel Corporation)  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
*(Amounts in Thousand Philippine Pesos, Except Per Share Data)*

	Notes	2016	2015 (As Restated - See Note 2)	2014
<b>REVENUES</b>				
Real estate sales	4			
Rental income	23	P 680,439	P 483,939	P 401,183
Room revenues	23, 26	343,346	350,113	353,576
Sale of food and beverages	23	501,470	199,232	-
Management fees	23	163,278	80,630	-
Others	23	4,074	1,284	1,483
		<u>23,616</u>	<u>3,538</u>	<u>-</u>
		<u>1,716,223</u>	<u>1,118,736</u>	<u>756,242</u>
<b>COSTS OF SALES AND SERVICES</b>				
Real estate sold	18, 19	431,096	144,865	234,652
Room services		328,659	196,723	-
Food and beverages sold		167,280	114,667	-
Rentals		90,955	78,423	69,771
		<u>1,017,990</u>	<u>534,678</u>	<u>304,423</u>
<b>GROSS PROFIT</b>		<u>698,233</u>	<u>584,058</u>	<u>451,819</u>
<b>OTHER OPERATING EXPENSES</b>	19	<u>487,924</u>	<u>469,347</u>	<u>355,095</u>
<b>OPERATING PROFIT</b>		<u>210,309</u>	<u>114,711</u>	<u>96,724</u>
<b>OTHER INCOME (CHARGES)</b>				
Share in profit of associates	11	309,270	70,828	465,911
Finance costs	20	( 308,477 )	( 340,987 )	( 279,380 )
Finance income	20	60,481	17,225	39,552
Donation		( 9,072 )	( 17,066 )	( 9,071 )
Gain on rescission of donation	9	-	495,000	-
Gain on sale of noncurrent asset classified as held for sale	5	-	22,145	-
Gain on sale and retirement of investment property and property and equipment - net	12, 13	-	-	12,762
Miscellaneous income - net	2, 15	<u>27,156</u>	<u>5,055</u>	<u>5,781</u>
		<u>79,358</u>	<u>252,200</u>	<u>235,555</u>
<b>PROFIT BEFORE TAX</b>		<u>289,667</u>	<u>366,911</u>	<u>332,279</u>
<b>TAX EXPENSE (BENEFIT)</b>	22	<u>72,359</u>	<u>101,275</u>	( <u>38,415</u> )
<b>NET PROFIT</b>		<u>217,308</u>	<u>265,636</u>	<u>370,694</u>
<i>Balance carried forward</i>		P <u>217,308</u>	P <u>265,636</u>	P <u>370,694</u>



	Notes	2016	2015 (As Restated - See Note 2)	2014
Balance brought forward		P 217,308	P 265,636	P 370,694
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Items that will not be reclassified</b>				
<b>to profit or loss</b>				
Equity reserve for retirement plan	21	( 5,058 )	( 3,272 )	( 2,988 )
Tax benefit	22	1,517	982	896
		( 3,541 )	( 2,290 )	( 2,092 )
Share in other comprehensive income (loss)				
of associates	11	26,938	9,282	( 29,133 )
		23,397	6,992	( 31,225 )
<b>Items that will be reclassified</b>				
<b>to profit or loss</b>				
Share in other comprehensive income (loss)				
of associates	11	( 71,381 )	( 333,300 )	406,300
Fair value losses on available-for-sale				
financial assets	15			
Losses during the year		( 50 )	( 90 )	( 30 )
Fair value losses reclassified to profit or loss		11,058		
		11,008	( 90 )	( 30 )
		( 60,373 )	( 333,390 )	406,270
		( 36,976 )	( 326,398 )	375,045
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		P 180,332	( P 60,762 )	P 745,739
Net profit (loss) attributable to:				
Equity holders of the parent company		P 217,695	P 272,521	P 362,268
Noncontrolling interest		( 387 )	( 6,885 )	8,426
		P 217,308	P 265,636	P 370,694
Total comprehensive income (loss) attributable to:				
Equity holders of the parent company		P 180,719	( P 53,877 )	P 737,313
Noncontrolling interest		( 387 )	( 6,885 )	8,426
		P 180,332	( P 60,762 )	P 745,739
<b>Earnings Per Share - Basic and Diluted</b>	25	P 0.44	P 2.24	P 2.98

See Notes to Consolidated Financial Statements.

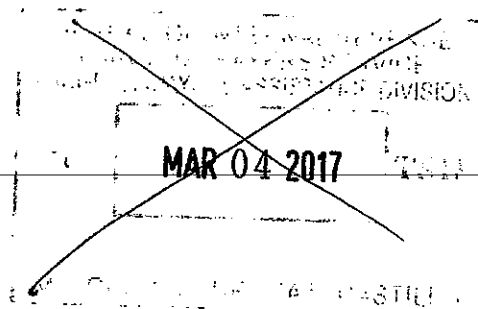
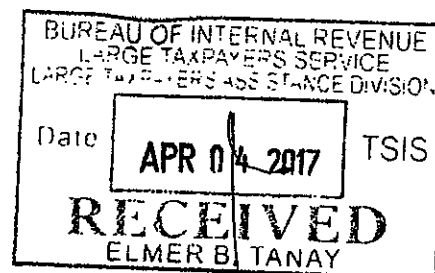




**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
(A Subsidiary of San Miguel Corporation)  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
(Amounts in Thousand Philippine Pesos)

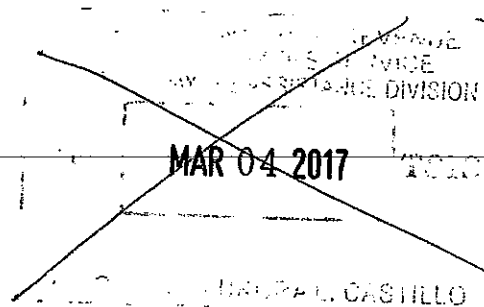
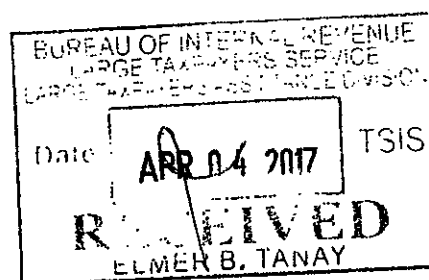
	Attributable to Owners of the Parent Company										Total Equity
	Capital Stock (See Note 24)	Additional Paid-in Capital (See Note 24)	Treasury Shares - at Cost (See Note 24)	Accumulated Gain (Losses) (See Notes 11 and 15)	Translation Adjustment (See Note 11)	Reserve for Retirement Plan (See Notes 11 and 21)	Other Reserve (See Note 24)	Appropriated Retained Earnings (See Note 24)	Unappropriated Retained Earnings (See Note 24)	Total	
Balance at January 1, 2016	P 1,220,109	P 776,461	(P 9,515)	P 211,100	(P 11,267)	(P 119,707)	(P 88,200)	P 5,000,000	P 2,905,759	P 9,462,540	P 9
Transactions with owners											
Issuance of share of stock	4,500,000	4,449,785	-	-	-	-	(182,099)	-	-	8,949,785	8
Acquisition of noncontrolling interest	-	-	-	-	-	-	-	-	-	182,099	(
Additional investments of noncontrolling interest	4,500,000	4,449,785	-	-	-	-	(182,099)	-	-	8,767,686	8
Total comprehensive income (loss) for the year	-	-	-	(60,892)	519	23,397	-	-	217,698	180,719	-
Balance at December 31, 2016	P 5,720,109	P 5,226,246	(P 9,515)	P 271,992	(P 10,748)	(P 96,310)	(P 270,299)	P 5,000,000	P 3,123,454	P 18,410,945	P 18
Balance at January 1, 2015	P 1,220,109	P 776,461	(P 9,515)	P 121,546	(P 10,923)	(P 126,699)	(P 88,200)	P 5,000,000	P 2,633,238	P 9,516,417	P 0
Total comprehensive income (loss) for the year	-	-	-	(331,046)	(34)	6,992	-	-	217,521	(53,277)	(
Balance at December 31, 2015	P 1,220,109	P 776,461	(P 9,515)	P 211,100	(P 11,267)	(P 119,707)	(P 88,200)	P 5,000,000	P 2,850,759	P 9,462,540	P 0
Balance at January 1, 2014	P 1,220,109	P 776,461	(P 9,515)	P 286,981	(P 8,246)	(P 95,474)	(P 88,200)	P 5,000,000	P 2,270,970	P 8,779,104	P 0
Total comprehensive income (loss) for the year	-	-	-	(498,927)	(2,657)	(31,225)	-	-	(362,868)	(737,313)	(
Balance at December 31, 2014	P 1,220,109	P 776,461	(P 9,515)	P 121,946	(P 10,923)	(P 126,699)	(P 88,200)	P 5,000,000	P 2,633,238	P 9,516,417	P 0

See Notes to Consolidated Financial Statements.



**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
*(Amounts in Thousand Philippine Pesos)*

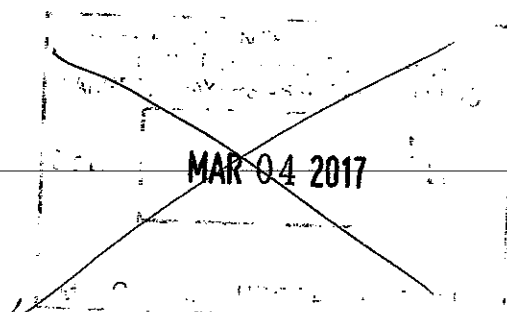
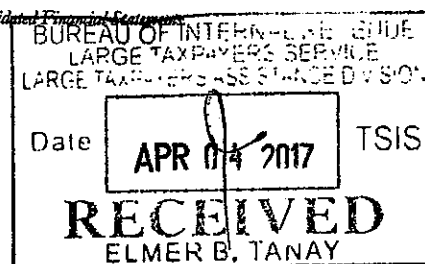
	Notes	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		P 289,667	P 366,911	P 332,279
Adjustments for:				
Share in profit of associates	11	( 309,270 )	( 70,828 )	( 465,911 )
Interest expense	20	296,881	339,123	278,446
Depreciation and amortization	19	208,774	104,792	48,618
Interest income	20	( 60,481 )	( 17,225 )	( 39,552 )
Impairment loss on available-for-sale financial assets (AFS)	15	11,596	-	-
Fair value losses - net	7, 20	4,239	12,673	8,278
Loss (gain) on redemption of AFS	15	1,302	( 90 )	-
Gain on rescission of donation	9	-	( 495,000 )	-
Gain on sale of noncurrent asset classified as held for sale	5	-	( 22,145 )	-
Gain on sale and retirement of investment property and property and equipment - net	12, 13	-	-	( 12,762 )
Operating profit before working capital changes		442,708	218,211	149,396
Decrease in receivables		277,179	19,392	190,269
Increase in real estate projects		( 23,915 )	( 282,851 )	( 345,376 )
Decrease (increase) in raw land inventory		( 119,697 )	2,977	( 215,839 )
Increase in other assets		( 65,966 )	( 288,809 )	( 209,555 )
Increase in deposits on land for future development		( 301,514 )	( 113,314 )	( 164,346 )
Increase in trade and other payables		381,966	196,046	290,780
Increase (decrease) in advance rentals and deposits		2,285	16,353	( 10,406 )
Increase in customers' deposits		25,419	133,004	143,285
Decrease in retirement benefit liability		( 2,898 )	( 6,031 )	( 2,746 )
Cash generated (used in) in operations		615,567	( 105,022 )	( 174,538 )
Interest received		8,475	6,227	10,858
Cash paid for income taxes		( 29,984 )	( 27,678 )	( 19,338 )
Net Cash From (Used in) Operating Activities		594,058	( 126,473 )	( 183,018 )
Balance brought forward		P 594,058	( P 126,473 )	( P 183,018 )



	Notes	2016	2015	2014
<i>Balance carried forward</i>		P 594,058	( P 126,473 )	( P 183,018 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of a subsidiary, net of cash received from newly-acquired subsidiary amounting to P261,032	11	( 1,213,958 )	-	-
Additions to investment property	12	( 919,139 )	( 712,272 )	( 1,469,524 )
Acquisition of noncontrolling interest in a subsidiary	5, 24	( 290,700 )	-	-
Acquisitions of property and equipment	13	( 179,783 )	( 741,283 )	( 13,952 )
Acquisition of intangible assets	14	( 89,783 )	( 14,512 )	( 2,799 )
Interest received		11,268	3,563	3,003
Dividends received	11	7,134	6,595	5,190
Additions in equity advances	11	( 2,920 )	( 136,836 )	( 54,382 )
Proceeds from redemption of available-for-sale financial assets	15	580	5,296	-
Repayments of equity advances	11	-	50,117	-
Proceeds from sale of investment property	12	-	37,021	9,255
Proceeds from sale of noncurrent asset classified as held for sale	5	-	17,323	-
<b>Net Cash Used in Investing Activities</b>		( 2,677,301 )	( 1,484,988 )	( 1,523,209 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayments of borrowings		( 85,264,832 )	( 131,827,428 )	( 125,615,815 )
Proceeds from borrowings		81,654,614	133,175,630	127,796,572
Proceeds from issuance of shares of stock	24	8,308,043	-	-
Receipts (payments) of due to related parties		( 2,035,495 )	10,966	22,133
Interest paid		( 334,418 )	( 418,076 )	( 327,970 )
Share issuance costs paid	24	( 50,215 )	-	-
Increase in noncontrolling interest	5	35,471	-	-
Deposits received for future stock subscription	24	-	691,957	-
<b>Net Cash From Financing Activities</b>		2,313,168	1,633,049	1,874,920
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		229,925	21,588	168,693
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		344,842	323,254	154,561
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		P 574,767	P 344,842	P 323,254

See Notes to Consolidated Financial Statements.

Supplemental Information on Noncash Activities is disclosed in Note 31 to the Consolidated Financial Statements.



**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
**(A Subsidiary of San Miguel Corporation)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016, 2015 AND 2014**  
**(Amounts in Thousand Philippine Pesos, Except Per Share Data and**  
**Number of Shares)**

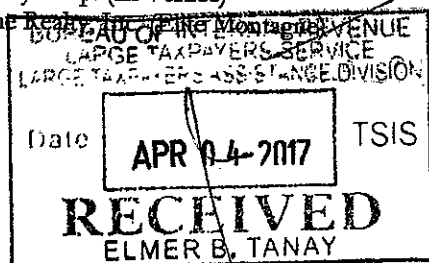
**1. CORPORATE INFORMATION**

San Miguel Properties, Inc. (SMPI or the Company) was incorporated in the Philippines on December 18, 1990 and is 98.45% owned by San Miguel Corporation (SMC or the Intermediate Parent Company). The Company is a public domestic company whose shares of stock were listed in the Philippine Stock Exchange (PSE) until May 6, 2013, when it voluntarily delisted from the PSE. SMC, on the other hand, is a publicly listed domestic company and, through its subsidiaries and associates, is presently engaged in different lines of business including, but not limited to, production, processing and marketing of beverage, food and packaging products, energy, mining, fuel and oil, infrastructure, and management and development of real estate properties. Top Frontier Investment Holdings, Inc. (TFHI), a publicly listed domestic company, is the ultimate parent company.

The Company was incorporated to acquire by purchase, lease, donation and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop and hold investments in real estate of all kinds, and to improve, manage or otherwise deal with or dispose of buildings, houses, apartments and other structure of whatever kind.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively referred to hereafter as the Group). As of December 31, 2016 and 2015, the Company holds interests in the following subsidiaries and associates, which were all incorporated in the Philippines:

Company Name	Explanatory Notes	Percentage of Ownership	
		2016	2015
Subsidiaries:			
512 Acacia Holdings Corp. (Acacia)	(a)	100%	100%
Apice Solare Resources Corp. (Apice)	(a)	100%	100%
Bright Ventures Realty, Inc. (Bright Ventures)		100%	100%
Brillar Realty Development Corporation (Brillar)	(a)	100%	100%
Bulalacao Property Holdings, Inc. (Bulalacao)	(a)	100%	100%
Busuanga Bay Holdings, Inc. (Busuanga)	(a)	100%	100%
Calamian Prime Holdings, Inc. (Calamian)	(a)	100%	100%
Carnell Realty, Inc. (Carnell)		100%	100%
Coron Islands Holdings, Inc. (Coron)	(a)	100%	100%
Dimanyan Wakes Holdings, Inc. (Dimanyan)	(a)	100%	100%
E-Fare Investment Holdings, Inc. (E-Fare)		100%	100%
El Montañas Realty Corporation (El Montañas)	(a)	100%	100%
El Vertice Realty Corp. (El Vertice)	(c)	100%	100%
Elite Montagne Realty, Inc. (Elite Montagne)	(a)	100%	100%



Company Name	Explanatory Notes	Percentage of Ownership	
		2016	2015
Subsidiaries:			
Estima Alta Realty Corporation (Estima)	(c)	100%	100%
Excel Unified Land Resources Corporation (Excel Unified)		51.50%	51.50%
First HQ Ayala Business Centers, Inc. (First HQ)	(a), (d)	60%	60%
First Monte Sierra Realty Corporation (First Monte)	(a)	100%	100%
Grandioso Realty Corporation (Grandioso)	(a)	100%	100%
HQ Business Centers Phil., Inc. (HQ)	(a), (d)	100%	100%
Integrated Geosolutions, Inc. (Geosolutions)	(a), (f)	68.30%	51%
Kingsborough Realty Inc. (Kingsborough)	(a)	100%	100%
Lanes & Bi-ways Realty Corporation (Lanes)	(c)	100%	100%
La Belle Plume Realty, Inc. (La Belle)	(a)	100%	100%
La Verduras Realty Corporation (La Verduras)	(c)	100%	100%
Legacy Homes, Inc. (Legacy)		100%	100%
Maison 17 Properties, Inc. (Maison)	(a), (e)	100%	100%
Palawan White Sands Holdings Corporation (Palawan)	(a)	100%	100%
Picanto De Alta Realty Corp. (Picanto)	(a)	100%	100%
Premiata Realty Inc. (Premiata)	(a)	100%	100%
Rapidshare Realty Development Corporation (Rapidshare)	(a)	100%	100%
Roca Pesada Realty Corporation (Roca Pesada)	(a)	100%	100%
Silang Resources, Inc. (Silang)	(a)	100%	100%
SMC Originals, Inc. (SMC Originals)		100%	100%
SMPI Makati Flagship Realty Corp. (SMPI Flagship)	(e)	100%	100%
Sta. Cruz Resource Management, Inc. (Sta. Cruz)		100%	100%
Tanauan Resources, Inc. (Tanauan)		100%	100%
Zobel Polo Club Inc.	(b)	70%	
Associates:			
Bank of Commerce (BOC)	(g)	39.93%	39.93%
Northpine Land, Inc. (NLI)		20%	20%

**Explanatory Notes:**

- (a) These subsidiaries were acquired or incorporated in prior years and have not yet started commercial operations as of December 31, 2016.
- (b) These subsidiaries were acquired through subscription of controlling interest or incorporated in 2016 and have not yet started commercial operations as of December 31, 2016.
- (c) These subsidiaries were acquired or incorporated in prior years but only started commercial operations in 2015.
- (d) First HQ is 60% owned by HQ. First HQ has temporarily ceased its operations since June 1, 2003 and has not yet resumed commercial operations as of December 31, 2016.
- (e) In prior years, the Company's equity ownership over these subsidiaries became 100% when the Government Service Insurance System (GSIS) exercised the put option which required the Company to acquire the equity ownership of GSIS over SMPI Flagship (see Note 24.4). Maison is an indirect subsidiary of the Company through SMPI Flagship.
- (f) In 2016, the Company's ownership interest in Geosolutions increased from 51% to 68.30% after it acquired the issued shares from individual stockholders and subscribed to additional shares in the subsidiary (see Notes 5.2 and 24.4).
- (g) In 2015, the Company's management decided not to sell the investment in BOC. Consequently, the Company ceased to classify the investment as Noncurrent Assets Classified as Held for Sale account and reclassified the investment as part of Investment in associates under Equity Advances and Investments in Associates account in the 2015 consolidated statement of financial position (see Note 11.1).

As at December 31, 2016, the Group's primary real estate projects are the following:

<u>Project</u>	<u>Location</u>
Makati Diamond Residences (MDR)	Makati City
Asian Leaf	General Trias, Cavite
Bel Aldea	General Trias, Cavite
Maravilla	General Trias, Cavite
Wedgewoods	Silang, Cavite
Villa de Calamba	Calamba, Laguna
Buenavista Homes	Consolacion, Cebu
Primavera Hills	Liloan, Cebu
Dover Hill	San Juan City
One Dover View	Mandaluyong City
Two Dover View	Mandaluyong City
Emerald 88	Pasig City

The subsidiaries and associates of the Company were also incorporated to engage in the development, sale and lease of real estate properties, except for the following:

<u>Name of Subsidiary or Associate</u>	<u>Primary Purpose</u>
BOC	Commercial banking services
First HQ, HQ and Sta. Cruz	Business support services
Silang	Trading of goods, such as food and beverage, on wholesale and retail basis
SMPI Flagship	Development, management and administration of condominiums, hotels, condominium hotels, serviced apartments, residential or buildings, and other horizontal and vertical developments

The registered office of the Company and SMC, which is also their principal place of business, is located at the 3<sup>rd</sup> Floor, San Miguel Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City. The registered office of TFHI, which is also its principal place of business, is located at 5<sup>th</sup> Floor, ENZO Building, 399 Sen. Gil J. Puyat Avenue, Makati City.

The place of incorporation and the place of operations of the subsidiaries are similar with that of the Company, except for the following associates and subsidiaries that have different registered offices:

<u>Name of Subsidiary or Associate</u>	<u>Registered Address</u>
BOC	San Miguel Properties Centre, No.7 St. Francis Street, Mandaluyong City
E-Fare	Suite 2404 Discovery Center, 25 ADB Avenue, Ortigas Center, Pasig City
Elite Montagne	Block 5 Lot 1, Maravilla Subdivision San Francisco, General Trias, Cavite
First HQ	6 <sup>th</sup> Floor, Locsin Building, Makati Avenue corner Ayala Avenue, San Lorenzo Makati City
La Belle	Block 42 Lot 03, Asian Leaf Subdivision San Francisco, General Trias, Cavite
Legacy	GSMI Building, Subangdaku, Mandaue City
Maison	Ground Floor P&L Building 116 Legaspi Street, Legaspi Village, Makati City
NLI	15 <sup>th</sup> Floor, The Taipan Place, F. Ortigas, Jr. Rd, Ortigas Center, Pasig City
SMPI Flagship	118 Legaspi St., Legaspi Village, Makati City

The consolidated financial statements of the Group as of and for the year ended December 31, 2016 (including the comparative consolidated financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014 and the corresponding figures as of January 1, 2015) were authorized for issue by the Company's Board of Directors (BOD) on March 14, 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized in the succeeding pages. The 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 (IASB) and approved by 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.

In applying the equity method on the Company's investment in BOC, adjustments to BOC's audited financial statements were made to conform its accounting policies to that of the Group's accounting policies in accordance with PFRS (see Note 2.3).

### **(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 all items of income and expenses and other comprehensive income or loss in a single consolidated statement of comprehensive 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.

In 2016, the Group restated its 2015 financial statements to correct the classification of raw land and certain cost and expenses. Accordingly, the Group presents a third consolidated statement of financial position as of January 1, 2015 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The following are the details of the various prior period adjustments made:

- In 2016, the Group changed the classification of a parcel of land amounting to P117,239 from Subdivision house and lots under Real Estate Projects account to Raw Land Inventory account to conform to the presentation and account classification of the asset in the separate financial statements of the subsidiary since December 31, 2014 (see Notes 8 and 9).
- In 2016, management had noted that certain costs and expenses pertaining to the Group's hotel operations were presented as part of Other Operating Expenses in the 2015 consolidated statement of comprehensive income. Accordingly, these costs and expenses were reclassified to the Cost of Room Services and Cost of Food and Beverages Sold to conform with the current year presentation (see Notes 18 and 19).



The effects of the restatement in the consolidated statement of financial position as of December 31, 2015 and the corresponding figures for January 1, 2015 are summarized below.

		<u>As Previously Reported</u>	<u>Adjustment</u>		<u>As Adjusted</u>
<u>As of December 31, 2015</u>					
<i>Changes in assets:</i>					
Real estate projects	P	2,321,317	(P 117,239)	P	2,204,078
Raw land inventory		2,407,869	117,239		2,525,108

<u>As of January 1, 2015</u>					
<i>Changes in assets:</i>					
Real estate projects	P	2,006,642	(P 117,239)	P	1,889,403
Raw land inventory		2,643,666	117,239		2,760,905

The effects of the reclassification in the 2015 consolidated statement of comprehensive income are summarized below.

		<u>As Previously Reported</u>	<u>Adjustment</u>		<u>As Adjusted</u>
<i>Changes in costs of sales and services:</i>					
Costs of room services	P	105,844	P 90,879	P	196,723
Costs of food and beverages sold		80,447	<u>34,220</u>		114,667
Increase in costs of sales and services			<u>P 125,099</u>		
<i>Changes in other operating expenses –</i>					
Other operating expenses	P	<u>594,446</u>	(P <u>125,099</u> )	P	<u>469,347</u>

The restatement and reclassification have no significant impact in the consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2015 and 2014. It also does not have an impact in the earnings per share presented in the 2015 and 2014 consolidated statements of comprehensive income.

(c) *Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values are stated in thousands except when otherwise indicated.

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

## 2.2 Adoption of New and Amended PFRS

### (a) Effective in 2016 that are Relevant to the Group

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2016:

PAS 1 (Amendments)	:	Presentation of Financial Statements – Disclosure Initiative
PAS 16 and 38 (Amendments)	:	Property, Plant and Equipment, and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 16 and 41 (Amendments)	:	Property, Plant and Equipment, and Agriculture – Bearer Plants
PFRS 10, PFRS 12 and PAS 28 (Amendments)	:	Consolidated Financial Statements, Disclosure of Interests in Other Entities, and Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception
PFRS 11 (Amendments)	:	Joint Arrangements – Accounting Acquisitions of Interests in Joint Operations
Annual Improvements	:	Annual Improvements to PFRS (2012-2014 Cycle)

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

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure Initiative*. The amendments encourage entities to apply professional judgment in presenting and disclosing information in the consolidated financial statements. Accordingly, they clarify that materiality applies to the whole consolidated financial statements and an entity shall not reduce the understandability of the consolidated financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendments clarify that the Group's share in other comprehensive income of associates and joint ventures accounted for using the equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to consolidated profit or loss. They further clarify that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the consolidated financial statements. The amendments did not have material impact on the Group's consolidated financial statements.

- (ii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 38 (Amendments), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendments in PAS 16 clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendments to PAS 38 introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendments also provide guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.
- (iii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 41 (Amendments), *Agriculture – Bearer Plants*. The amendments define a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendments further clarify that produce growing on bearer plants remains within the scope of PAS 41.
- (iv) PFRS 10 (Amendments), *Consolidated Financial Statements*, PFRS 12 (Amendments), *Disclosure of Interests in Other Entities*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception*. These amendments address the concerns that have arisen in the context of applying the consolidation exception for investment entities. They clarify which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of PFRS 10 and clarify whether the exemption to present consolidated financial statements, set out in paragraph 4 of PFRS 10, is available to a parent entity that is a subsidiary of an investment entity. These amendments also permit a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries. The amendments did not have material impact on the Group's consolidated financial statements.
- (v) PFRS 11 (Amendments), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*. These amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3, *Business Combinations*, to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11. The amendments did not have material impact on the Group's consolidated financial statements.

(vi) Annual Improvements to PFRS (2012-2014 Cycle). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify the existing requirements:

- PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*. The amendments clarify that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.
- PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*. The amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. They also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.
- PFRS 7 (Amendments), *Financial Instruments: Disclosures – Servicing Contracts*. The amendments provide additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(b) *Effective in 2016 that are not Relevant to the Group*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2016 but are not relevant to the Group's consolidated financial statements:

PAS 27 (Amendments)	:	Separate Financial Statements – Equity Method in Separate Financial Statements
PFRS 14	:	Regulatory Deferral Accounts
Annual Improvements to PFRS (2012-2014 Cycle)	:	
PFRS 7 (Amendments)	:	Financial Instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
PAS 34 (Amendments)	:	Interim Financial Reporting – Disclosure of Information “Elsewhere in the Interim Financial Report”

(c) *Effective Subsequent to 2016 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2016 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). 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.
- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). 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.
- (iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Recognition 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 loss 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 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.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management is currently assessing the impact of PFRS 9 (2014) on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (iv) PFRS 15, *Revenue from Contracts with Customers* (effective from 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, *Transfers 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.

Relative to the adoption of PFRS 15 in the Philippines, the FRSC also approved the issuance of Philippine Interpretations Committee Question & Answer No. 2016-04, *Application of PFRS 15, "Revenue from Contracts with Customers," on Sale of Residential Properties under Pre-completion Contracts*, which provides that sales of residential properties under pre-completion stage can be recognized over time until completion of construction.

Management is currently assessing the impact of this standard on the Group's consolidated financial statements.

- (v) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

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 similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability 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.

- (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 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, the Group shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. In December 2015, the IASB deferred the mandatory effective date of these amendments (i.e. from January 2016) indefinitely.

### **2.3 *Basis of Consolidation, Investments in Subsidiaries and Associates and Jointly Controlled Operations***

The Group's consolidated financial statements comprise the accounts of the Company and its subsidiaries as enumerated in Note 1, after the elimination of material intercompany transactions. All intercompany assets and liabilities, equity, income, expense 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.

Acquisition of interest in a business entity which does not constitute a business is accounted for as an acquisition of an asset or asset group. Under the asset purchase accounting, the costs of identifiable assets and liabilities are allocated to individual items based on relative fair values, goodwill or gain on bargain purchase is not recognized and transaction costs are capitalized.

The financial statements of subsidiaries and associates are prepared for the same reporting period as the Group and, except for BOC, using consistent accounting policies.

Certain accounting policies applied by BOC in the preparation of its financial statements are not consistent with the accounting policies applied by the Group. In computing for the Group's share in net profit or loss and in other comprehensive income or loss of BOC, the Company made certain adjustments to the audited financial statements of BOC to be consistent with the Group's accounting policies (see Note 11.2).

The Group accounts for its investments in subsidiaries and associates, joint venture and noncontrolling interests as follows:

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

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when 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 Company obtains control.

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

#### **(b) *Investment in Associates***

Associates are entities over which the Group is able to exercise significant influence but which are neither subsidiaries nor interests in a jointly controlled operation. Investment in associates are initially recognized at cost and subsequently accounted for using the equity method in the consolidated financial statements.

Acquired investment in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as investment in associates.



Impairment loss is provided when there is an objective evidence that the investment in associates will not be recovered (see Note 2.20).

All subsequent changes to the share in the equity of the associate are recognized in the carrying amount of the Group's investment. Changes resulting from the profit or loss generated by the associate are reported as Share in Profit of Associates in the profit or loss section of the Group's consolidated statement of comprehensive income.

Changes resulting from other comprehensive income of the associate or items that have been directly recognized in the associate's equity are recognized in the consolidated other comprehensive income of the Group. Any distributions received from the associate (e.g., dividends) are recognized as reduction in the carrying amount of investment in associate. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group recognizes its share on those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

In computing the Group's share in net profit or loss of an associate, unrealized gains or losses on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Where unrealized losses are eliminated, the underlying asset is also tested for impairment from a group perspective.

(c) *Transactions with Noncontrolling Interests (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 consolidated profit or loss. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in consolidated 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 consolidated other comprehensive income are reclassified to consolidated profit or loss.

*(d) Interests in Jointly Controlled Operations*

For interests in jointly controlled operations, the Group recognizes in its consolidated financial statements its share of the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. No adjustment or other consolidation procedures are required since the assets, liabilities, income and expenses of the joint venture are recognized in the separate financial statements of the venturers.

The Company holds interest in various subsidiaries and associates as presented in Notes 1 and 11.

**2.4 Business Combinations**

Business acquisitions are accounted for using the acquisition method of accounting. 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 and the equity interest issued by the Group, 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 consolidated 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 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. Goodwill on acquisitions of subsidiaries is presented under Other Noncurrent Assets – net account in the consolidated statement of financial position. On the other hand, 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 the profit or loss section of the consolidated statement of comprehensive income.

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. Goodwill is tested annually for impairment (see Note 2.20). Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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 the consolidated profit or loss or consolidated 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 consolidated profit or loss or as a change to consolidated other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

## 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 available-for-sale (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 related transaction costs are recognized in the consolidated profit or loss. A more detailed description of the Group's categories of financial assets is shown below.

#### (i) *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 reporting period which are classified as noncurrent assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents and Receivables (except Advances to contractors) 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 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.

(ii) *AFS Financial Assets*

This category includes nonderivative 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 as part of Other Noncurrent Assets – net account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the end of the reporting period.

The Group's AFS financial assets include equity securities and golf club shares.

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. Gains and losses from changes in fair value are recognized in the consolidated other comprehensive income, net of any income tax effects, and are reported as part of the Accumulated Fair Value Gains (Losses) account in the consolidated statement of changes in equity.

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 losses recognized in the consolidated other comprehensive income is reclassified from Accumulated Fair Value Gains (Losses) account to Impairment loss on AFS financial assets under Finance Costs and is presented as reclassification adjustment within consolidated 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 on loans and receivables 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 receivables. 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 the consolidated 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 amount of the reversal is recognized in the consolidated 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 consolidated 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 consolidated profit or loss – is reclassified from Accumulated Fair Value Gains (Losses) account to consolidated profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in consolidated profit or loss on equity instruments are not reversed through consolidated profit or loss. Reversal of impairment losses are recognized in consolidated other comprehensive income, except for financial assets that are debt securities which are recognized in consolidated 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 any impairment losses, relating to financial assets that are recognized in consolidated profit or loss are presented as part of Finance Income or Finance Costs in the consolidated statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Noncompounding interest and other cash flows resulting from holding financial assets are recognized in consolidated 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 financial 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 Real Estate Projects**

The acquisition costs of properties and other costs and expenses incurred to develop the properties are classified as part of Construction-in-progress (CIP) under the Real Estate Projects account when the development of the property starts. The related property development costs, including related borrowing costs, are then accumulated in this account (see Note 2.22). When the development of the property has been completed, the accumulated costs of the project are transferred as part of Subdivision houses and lots which is also presented under the Real Estate Projects account in the consolidated statement of financial position. Costs of properties and projects classified under Real Estate Projects account are assigned using specific identification of their individual costs. These properties and projects are carried at the lower of accumulated development cost incurred and net realizable value. Net realizable value is the selling price in the ordinary course of business, less estimated costs of completion and costs to sell.

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known. Any probable loss from a real estate project is charged to operations during the period in which the loss is determined.

**2.7 Raw Land Inventory**

Acquisition costs of raw land intended for sale or development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to Raw Land Inventory account in the consolidated statement of financial position. When the development of the property starts, the cost of related raw land inventory is then transferred to CIP under Real Estate Projects account in the consolidated statement of financial position (see Note 2.6).

Advance payments for raw land acquisitions intended for sale or development that are still in process of completing the transfer of title of the property to the Group are charged to Deposits on Land for Future Development account.

Costs of raw land inventory are assigned using specific identification of their individual costs. This inventory is carried at the lower of the acquisition cost of the land and net realizable value. Net realizable value for raw land inventory is the estimated selling price in the ordinary course of business, less the estimated costs to sell. Valuation allowance, if any, is provided when the net realizable value of the property is lower than its carrying amount.

## **2.8 Inventories**

Inventories, presented as part of Other Current Assets – net account, are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. The cost of inventories includes 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 is the estimated selling price in the ordinary course of business, less the estimated costs of conversion and the estimated costs necessary to make the sale. Net realizable value of raw materials is the current replacement cost.

## **2.9 Other Assets**

Other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized and classified as current assets 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 other noncurrent assets.

## **2.10 Investment Property**

Properties held for lease under operating lease agreements to earn rental income or for capital appreciation or for both, which comprise mainly of land and buildings and related improvements, are classified as investment property. Buildings and improvements and land improvements are carried at cost, net of accumulated depreciation and amortization and any impairment loss. Land, on the other hand, is carried at cost less any impairment in value.

The cost of investment property comprises the acquisition cost or construction cost and other directly attributable costs for bringing the asset to working condition for its intended use. Expenditures for additions and major improvements are capitalized while expenditures for repairs and maintenance are charged to expense when incurred.

Except for land which is not depreciated, depreciation and amortization is computed using the straight-line method over the following estimated useful lives of the assets:

Building and improvements	10 – 50 years
Land improvements	5 – 10 years

Capital projects-in-progress under Investment Property pertains to the accumulated costs of putting up assets, additions or improvements. Cost is recognized when materials purchased and services performed in relation to construction have been delivered or rendered. When the asset become available for use, the accumulated cost is transferred to the appropriate investment property account, and depreciation or amortization is recognized based on the estimated useful life of such asset.

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

Fully depreciated and amortized investment property is retained in the accounts until this is no longer in use and no further charge for depreciation and amortization is made in respect of this asset.

Transfers from other accounts (such as property and equipment or raw land inventory) are made to investment property when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party, while transfers from investment property are made when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use.

If an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property and Equipment account up to the date of change in use (see Note 2.11).

The carrying amount of investment property is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (see Note 2.20).

Policies on rental income and operating expenses from investment property, reported within Revenues and Cost of Rentals, respectively, are described in Notes 2.17 and 2.18.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in profit or loss in the consolidated statement of comprehensive income in the period of retirement or disposal.

### ***2.11 Property and Equipment***

Property and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any impairment losses. As no finite useful life for land can be determined, related carrying amount (which is cost less any impairment losses) is not depreciated.

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 and amortization is computed on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of property and equipment are as follows:

Building and improvements	10 – 50 years
Machineries and transportation equipment	5 – 15 years
Furniture, fixtures and other equipment	5 years



Capital projects-in-progress under Property and Equipment pertains to the accumulated costs of putting up assets, additions or improvements. Cost is recognized when materials purchased and services performed in relation to construction have been delivered or rendered. When the asset become available for use, the accumulated cost is transferred to the appropriate property and equipment account, and depreciation is recognized based on the estimated useful life of such asset.

~~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.~~

~~Fully depreciated and amortized property and equipment are retained in the accounts until these 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 2.20).

An item of property and equipment, including the related accumulated depreciation and amortization and any impairment loss, 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 consolidated profit or loss in the year the item is derecognized.

## ***2.12 Noncurrent Assets Classified as Held for Sale***

Noncurrent assets classified as held for sale pertain to assets to which the Group intends to sell within one year from the date of classification as held for sale.

The Group classifies a noncurrent asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset.

Noncurrent asset held for sale is measured at the lower of their carrying amount, immediately prior to their classification as held for sale, or their fair value less costs to sell. The Group shall recognize an impairment loss for any initial or subsequent writedown of the asset at fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation and amortization.

If the Group has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the Group shall cease to classify the asset as held for sale.

The gain or loss arising from the sale or remeasurement of held for sale asset is recognized in profit or loss and included in the consolidated statement of comprehensive income.

### **2.13 Intangible Assets**

Intangible assets, except goodwill, pertain to software licenses, software development costs and land use rights, which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Software licenses are amortized on a straight-line basis over the estimated useful lives (ranging from three to five years) as the lives of these intangible assets are considered finite. For land use rights, amortization shall start once the development of the project to which the land use rights relate has been started, over the estimated length of the development.

In addition, intangible assets are subject to impairment testing as described in Note 2.20.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are recognized as expense in consolidated profit or loss as incurred.

Costs that are directly attributable to the development phase of new customized software for information technology and telecommunications systems are recognized as intangible assets if, and only if, the Group can demonstrate all of the following recognition requirements:

- (i) technical feasibility of completing the prospective product for internal use or sale;
- (ii) the intangible asset will generate probable economic benefits through internal use or sale;
- (iii) intention and ability to complete, i.e., availability of sufficient technical, financial and other resources necessary for completion, and use or sell the asset; and,
- (iv) ability to measure reliably the expenditure attributable to the intangible asset during development.

Development costs not meeting these criteria for capitalization are expensed as incurred. Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs, if any.

The costs of internally generated software developments are recognized as intangible assets; they are subject to the same subsequent measurement method as externally acquired software licenses. Any capitalized internally developed software that is not yet complete is not amortized but is subject to impairment testing in Note 2.20. When the asset has been completed or becomes available for use, the accumulated cost is transferred to the appropriate intangible asset account and amortization is recognized based on the estimated useful life of the asset.

When these assets are retired or otherwise disposed of, the cost and the related accumulated amortization and any impairment loss are removed from the accounts. Any resulting gain or loss on derecognition is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income.

#### **2.14 Financial Liabilities**

Financial liabilities, which include Interest-bearing Loans and Borrowings, Trade and Other Payables (excluding provisions and tax-related liabilities), Due to Related Parties, and Rental deposits (presented as part of Advance Rentals and Deposits account), are measured at amortized cost using effective interest rate method. Financial liabilities are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as expense in profit or loss as part of Finance Costs in the consolidated statement of comprehensive income.

Interest-bearing loans and borrowings are raised for funding of operations. These are recognized at proceeds received, net of direct issue costs. Finance charges, including direct issue costs, are charged to consolidated statement of comprehensive income on an accrual basis (except for capitalizable borrowing costs which are added as part of the cost of qualifying assets) using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

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

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group'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 liabilities for at least 12 months after the reporting period. Otherwise, these are presented as noncurrent liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligation is 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 consolidated profit or loss.

### ***2.15 Offsetting of 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 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.

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### ***2.16 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 the 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.

### ***2.17 Revenue and Cost Recognition***

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

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the 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) *Sale of real estate* – For financial reporting purposes, revenues from transactions covering sale of real estate projects are recognized under the full accrual method. Under this method, the Group recognizes the revenue and cost from sale of real estate in full when 10% or more of the contract price is received and development of the real estate property (i.e., lot, house and lot or townhouse) has reached 100% completion at which point the buyer may already use the property.

Payments received from buyers which do not meet the revenue recognition criteria are presented as Customers' Deposits account under the liabilities section of the consolidated statement of financial position.

Revenue and cost relative to forfeited or back-out sales are reversed in the current year as they occur. The resulting gain or loss from the back-out sales are presented as part of Miscellaneous Income – net in the consolidated statement of comprehensive income.

For tax reporting purposes, revenue on sales and cost of real estate sold are recognized in full when at least 25% of the selling price is collected within the taxable year; otherwise, revenue and cost of real estate sold are recognized based on the percentage of collections over selling price.

- (b) *Sale of undeveloped land* – Revenues from transactions covering sale of undeveloped land or raw land are recognized under the full accrual method. Under this method, the Group recognizes the revenue and cost from sale of undeveloped land in full when 10% or more of the contract price is received.

Payments received from buyers which do not meet the revenue recognition criteria are presented as Customers' Deposits account under the liabilities section of the consolidated statement of financial position.

For tax reporting purposes, revenue on sales and cost of undeveloped land are recognized in full when at least 25% of the selling price is collected within the taxable year; otherwise, revenue and cost of undeveloped land sold are recognized based on the percentage of collections over selling price.

- (c) *Room revenues* – Revenue is recognized upon actual room occupancy.
- (d) *Sale of food and beverage* – Revenues are recognized when services are rendered and upon delivery to and receipt of goods by customer.
- (e) *Rental* – Lease income from operating lease is recognized on a straight-line basis over the lease term for financial reporting purposes (see Note 2.18).

For tax reporting purposes, revenue is recognized based on the rental revenue indicated on the lease contract. Advance rentals and rental deposits are immediately recognized as income and subjected to tax in the year received.

- (f) *Management fees* – Revenue is recognized when the contractually agreed tasks have been substantially rendered.

- (g) *Interest* – Revenue is recognized as the interest accrues, taking into account the effective yield on the asset, unless the probability of collection is doubtful.
- (h) *Others* – These revenues pertain to health and laundry services rendered by the Group. Revenue from these transactions are recognized when services are rendered and upon delivery to the customer.

The costs of real estate sold include the acquisition cost of the land and development costs incurred for the project (see Notes 2.6 and 2.7).

Other costs and expenses are recognized in the consolidated statement of comprehensive income upon receipt of goods, utilization of goods or services or at the date such costs and expenses are incurred. All finance costs are reported in consolidated statement of comprehensive income on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.22).

### **2.18 Leases**

The Group accounts for its leases as follows:

#### **(a) Group as Lessor**

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in consolidated profit or loss on a straight-line basis over the lease term (see Note 2.17).

#### **(b) Group as Lessee**

Leases, which do not transfer to the Group substantially all the risks and benefits 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 consolidated profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

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.

### **2.19 Foreign Currency Transactions and Translation**

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency of the Group at exchange rates which approximate those prevailing on transaction dates.

Foreign currency 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 consolidated profit or loss.

## **2.20 Impairment of Nonfinancial Assets**

The Group's investments in associates and equity advances, goodwill (presented as part of Other Noncurrent Assets – net account), deposits on land for future development, investment property, property and equipment, intangible assets and other nonfinancial assets are subject to impairment testing. Except for goodwill which is tested annually for impairment, all other nonfinancial assets or cash-generating units are tested for impairment 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, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Impairment loss is recognized in consolidated profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal evaluation of discounted cash flow.

Impairment loss is charged pro-rata to other assets in the cash-generating unit. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effect of asset enhancements. Discount factors determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset specific factors.

Nonfinancial assets other than goodwill are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

## **2.21 Employee Benefits**

The Company provides retirement benefits to all permanent employees under a defined benefit retirement plan and other benefits which are recognized as follows:

### **(a) Defined Benefit Retirement Plan**

A defined benefit plan is a plan that defines an amount of 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 plan remains with the Company, 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 Company's defined benefit retirement plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The net defined benefit retirement liability recognized in the consolidated statement of financial position is the defined benefit obligation (DBO) less the fair value of plan assets at the end of the reporting period. The DBO is the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. The DBO is the present value of the amount of future benefit. 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 using a discount rate derived from the interest rates of a zero coupon government bonds as published by the Philippine Dealing & Exchange Corp., that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement 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 recognized in consolidated 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 into account 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 Finance Costs or Finance Income in the consolidated statement of comprehensive income.

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

(b) *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.

(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 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 reporting period are discounted to their present value.

(d) *Bonus Incentives*

The Group recognizes a liability and an expense for bonuses and profit-sharing upon discretionary approval from management, 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) *Stock Purchase Plan*

Under SMC's Employee Stock Purchase Plan, employees of the Company who have been employed for a continuous period of one year prior to subscription period shall be allowed, at the discretion of management with the option of the employee, to subscribe at 15% discount of the market price equal to the weighted average of the daily close prices for three months prior to offer period.

Share-based transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions. SMC charges the Company for the costs related to such transactions with its employees as part of management fee billed every month which the Company records as part of Salaries and employee benefits under Other Operating Expenses in the consolidated statement of comprehensive income.

**2.22 Borrowing Costs**

For financial reporting purposes, 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 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 tax reporting purposes, capitalized borrowing costs are recognized as expense in the period they are incurred. When the qualifying assets, in which the borrowing costs are capitalized, are subsequently sold or depreciated, the capitalized borrowing costs are added back in the profit before tax for the purpose of computing the taxable income.

**2.23 Income Taxes**

Tax expense (benefit) recognized in consolidated statement of comprehensive income comprises the sum of deferred tax and current tax expense (benefit) not recognized in the consolidated 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 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 consolidated profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the 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 difference 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 in 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 reflect 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.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in consolidated profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in consolidated other comprehensive income or directly in consolidated equity are recognized in consolidated other comprehensive income or directly in consolidated 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.

## ***2.24 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 Company's funded post-employment benefit plan for its employees.

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

### ***2.25 Deposits for Future Stock Subscription***

Deposits for future stock subscription represent the amount of money received from the Intermediate Parent Company as deposits on the subscription relative to the Company's application for increase in authorized capital stock. Based on the requirements of the Securities and Exchange Commission (SEC), the Company recognizes a deposit for future stock subscription as part of consolidated equity if all of the criteria discussed below are met as at the end of the reporting period:

- (a) Lack or insufficiency of authorized unissued shares of stock to cover for the deposit;
- (b) Approval by the BOD and stockholders for the increase in authorized capital stock to cover the shares corresponding to the amount of the deposit; and,
- (c) Application for the approval of the increase in authorized capital stock has been filed with the SEC.

If any of the foregoing criteria is not met at the end of the reporting period, the deposit on future stock subscription is recognized as a liability.

The Company applied for the approval of the increase in authorized capital stock on February 12, 2016, which was subsequently approved by the SEC on March 11, 2016. Consequently, the deposits received from the Intermediate Parent Company, which were previously presented as Deposits for Future Stock Subscription account under current liabilities section, were reclassified to Capital Stock and Additional Paid-in Capital accounts under equity section in the 2016 consolidated statement of financial position (see Note 24.1).

### ***2.26 Equity***

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

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

Accumulated fair value gains (losses) comprise net gains and losses arising from revaluation of AFS financial assets measured at fair value.

Cumulative translation adjustment represents the Group's share in the translation adjustment recognized in the other comprehensive income of an associate.

Reserve for retirement plan pertains to current and prior year actuarial gains or losses of the defined benefit retirement plan.

Other reserves include the difference between the costs of acquiring an NCI over the carrying value of the additional Group share in the net assets of subsidiaries. These acquisitions and disposals of part of investment in subsidiaries did not result in gaining or losing of control by the Group.

Retained earnings, both restricted and available for dividend declaration, include all current and prior period results of operations as reported in the profit or loss section of the consolidated statement of comprehensive income.

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NCI is the equity in subsidiaries that are not attributable, directly or indirectly, to the Group.

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### ***2.27 Earnings Per Share***

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Basic earnings per share is computed by dividing net profit attributable to equity holders of the Company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted earnings per share are computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

Currently, the Company does not have dilutive potential shares outstanding, hence, the diluted earnings per share is equal to the basic earnings per share.

### ***2.28 Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Management Committee (ManCom), its chief operating decision maker. The ManCom 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, which represent the main products and services provided by the Group.

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The activities undertaken by the leasing segment includes the leasing of office and commercial spaces (collectively referred to as investment property) to the Intermediate Parent Company, related parties under common control and third parties. Real estate sales segment includes sale of subdivision house and/or lots and raw land inventory while management and other services segment includes the management of properties owned by the Intermediate Parent Company and other services rendered to other related parties which includes project and property management and architectural services. Hotel operations segment, on the other hand, include revenues from room and other services, and sale of food and beverages to customers, in relation to their use of the Group's serviced apartment.

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The measurement policies for segment reporting under PFRS 8, *Operating Segment*, are the same as those used in the preparation of the consolidated financial statements, except that, share in net profit of associates, finance costs, finance income, gain on sale of assets, tax benefit or expense and miscellaneous income are not included in arriving at the operating profit of the operating segment. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

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There have been no changes from prior years in the measurement methods used to determine reported segment profit or loss.

Financial information on operating segments is presented in Note 4.

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### ***2.29 Events After 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 ESTIMATES AND JUDGMENTS**

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 circumstances. Actual results may ultimately vary 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) 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, and operational and financing cash flows. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

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As of December 31, 2016 and 2015, the fair values of AFS financial assets, presented as part of Other Noncurrent Assets – net in the consolidated statements of financial position, is disclosed in Note 15.2.

(b) *Determination of Departmental Cost Allocation*

Management in hotel industry uses estimates and judgments in properly allocating the fixed charges and undistributed expenses between the cost of room services, cost of food and beverages and other operating expenses. The Group, being described as labor intensive, allocates a big percentage of their expense to direct cost. However, the amount of costs charged to other departments would differ if the Group utilized a different allocation base. Changes in allocated cost would affect the cost reported for each department.

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(c) *Distinction Between Investment Property and Owner-occupied Property*

The Group determines whether a property qualifies as investment property.

In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the marketing or administrative functions. Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in marketing or for administrative purposes. If the portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(d) *Distinction Between Raw Land Inventory and Investment Property*

The Group's management identifies the proper classification of parcels of land acquired as either raw land inventory or investment property at the time of acquisition following the approved plan of the Company and the subsidiaries' respective BODs, and at the end of each reporting period. A property is classified as raw land inventory when management intends to develop the property into real estate project, while it is classified as investment property when management intends to hold the property to earn rentals or for capital appreciation or for both.

Parcels of land identified as Raw Land Inventory are disclosed in Note 9 while those identified as Investment Property are presented in Note 12.

In 2015, management assessed that the intention for holding certain parcels of land of the Group is to earn rental income. Accordingly, the related raw land inventories were reclassified from Raw Land Inventory account to the Investment Property account in the 2015 consolidated statement of financial position. There were no similar transactions that occurred in 2016 (see Notes 9 and 12).

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(e) *Distinction Between Operating and Finance Leases*

The Group has entered into various lease agreements as either 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.

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Management has assessed that the lease agreements of the Group are all operating leases.

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(f) *Fair Value Used in Allocating the Cost of Items of Property and Equipment and Investment Property Bought in Lump Sum Price*

The acquisition cost of certain items of Property and Equipment and Investment Property were derived from the allocated purchase price of the acquired properties. The Group determines the cost of an item of property and equipment and investment property purchased in lump sum price using the relative fair values of the acquired identifiable assets at the date of acquisition. Critical judgments were exercised by management to determine the fair value of these assets. Failure to make the right judgment will result to either overstatement or understatement of asset or expense in the future.

The amounts of allocated costs of properties bought in lump sum recorded under Investment Property and Property and Equipment are disclosed in Notes 12 and 13, respectively.

(g) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recording of provisions and contingencies are discussed in Note 2.16 and disclosures on relevant provisions and contingencies are presented in Note 26.

**3.2 Key Sources of Estimation Uncertainty**

Discussed below and in the succeeding pages 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) *Basis for Revenue Recognition Benchmark*

As discussed in Notes 2.17(a) and 2.17(b), the Group recognizes its revenue from sale of real estate and undeveloped land in full when 10% or more of the total contract price is received and when development of the real estate property is 100% completed. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history from customers and number of back-out sales in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 10% of the contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

(b) *Determination of Net Realizable Value of Raw Land Inventory and Real Estate Projects*

In determining the net realizable value of raw land inventory and real estate projects, management takes into account the most reliable evidence such as recent sale of adjacent properties and appraisal of the asset available at the time the estimate is made. Changes in the sources of estimation may cause significant adjustments to the Group's assets within the next reporting period.

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As indicated in Notes 8 and 9, management assessed that the respective net realizable values of the Group's real estate projects and raw land inventory are higher than their respective costs.

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(c) *Determination of Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. The Group's inventories, which include perishable goods and supplies inventory, are affected by certain factors, which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories as presented in Note 15 is affected by price changes in different market segments of the food industry.

Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next reporting period.

(d) *Fair Value Measurement of Raw Land Inventory and Investment Property*

Raw land inventory is measured at the lower of cost and net realizable value, while the investment property is measured using the cost model. The fair value of raw land inventory and investment property held for capital appreciation or to earn rentals are disclosed in the consolidated financial statements is determined by the Group based on the appraisal reports of professional and independent appraisers, existing bid or offer prices and recent sale of adjacent properties. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property, quantity of comparable properties in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets.

The fair value of the Group's raw land inventory and investment property as of December 31, 2016 and 2015 is disclosed in Notes 9 and 12, respectively.

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(e) *Estimation of Useful Lives of Investment Property, Property and Equipment and Intangible Assets*

The Group estimates the useful lives of investment property, property and equipment and intangible assets, except goodwill, based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Based on management's assessment as of December 31, 2016 and 2015, there is no change in the estimated useful lives of those assets during those years.

~~Analyses of the carrying amounts of investment property, property and equipment and intangible assets are presented in Notes 12, 13 and 14, respectively. Actual results, however, may vary due to changes in factors mentioned above.~~

(f) *Impairment of Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, 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 estimates and actual loss experience.

The carrying value of receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7.

(g) *Valuation of AFS Financial Assets*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. The fair value measurements were determined using quoted market price of equity securities as of the end of the reporting period. However, the amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets would affect consolidated equity.

Certain AFS financial assets are carried at cost because the fair value of these investments cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Fair value losses recognized on AFS financial assets in 2016, 2015 and 2014, are presented under Fair Value Losses account under the Other Comprehensive Income (Loss) section in the consolidated statements of comprehensive income (see Note 15).

(h) *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 assets to be utilized.

Management assessed that the deferred tax assets as of December 31, 2016 and 2015 will be fully utilized within the prescribed periods, except for the related benefits of net operating loss carry-over (NOLCO), minimum corporate income tax (MCIT) and other temporary differences of certain subsidiaries, as it is expecting that the Group will generate sufficient taxable profits in the future against which the assets can be applied (see Note 22).

(i) *Impairment of Nonfinancial 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 2.20). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these 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.

No impairment losses were necessary to be recognized on the Group's deposit on land for future development, investment property, intangible assets, investments in associates and equity advances and other nonfinancial assets in all the years presented based on management's assessment.

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

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 21.2 and include, among others, discount rates, salary increase rate and employee turnover rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in the next reporting period.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post-employment benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related post-employment defined benefit liability.

Other key assumptions for retirement benefit liability are based in part on current market conditions. While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension and other pension obligations.

#### 4. SEGMENT INFORMATION

As described in Note 2.28, management currently has four operating segments namely: leasing, sale of real estate, management services and hotel operations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

##### 4.1 Analysis of Segment Information

Segment information can be analyzed below and in the succeeding page for the years ended December 31, 2016, 2015 and 2014.

		<u>Leasing</u>	<u>Sale of Real Estate</u>	<u>Management Services</u>	<u>Hotel Operations</u>	<u>Total</u>
<b>2016</b>						
Segment revenues	P	343,346	P 680,439	P 4,074	P 688,364	P 1,716,223
Cost of real estate sold	-	( 431,096)	-	-	-	( 431,096)
Cost of rentals	(	90,955)	-	-	-	( 90,955)
Cost of room services	-	-	-	-	( 328,659)	( 328,659)
Cost of food and beverage sold	-	-	-	-	( 167,280)	( 167,280)
Other operating expenses	(	119,942)	( 237,699)	( 1,423)	( 128,860)	( 487,924)
Segment Operating Profit	<u>P</u>	<u>132,449</u>	<u>P 11,644</u>	<u>P 2,651</u>	<u>P 63,565</u>	<u>P 210,309</u>
Total Segment Assets	<u>P</u>	<u>5,115,863</u>	<u>P 8,704,100</u>	<u>P 2,345</u>	<u>P 4,756,650</u>	<u>P 18,578,958</u>
Total Segment Liabilities	<u>P</u>	<u>218,149</u>	<u>P 6,934,345</u>	<u>P -</u>	<u>P 3,369,404</u>	<u>P 10,521,898</u>
<b>2015 [As Restated – see Note 2.1(b)]</b>						
Segment revenues	P	350,113	P 483,939	P 1,284	P 283,400	P 1,118,736
Cost of real estate sold	-	( 144,865)	-	-	-	( 144,865)
Cost of rentals	(	78,423)	-	-	-	( 78,423)
Cost of room services	-	-	-	-	( 196,723)	( 196,723)
Cost of food and beverage sold	-	-	-	-	( 114,667)	( 114,667)
Other operating expenses	(	146,906)	( 203,039)	( 469)	( 118,933)	( 469,347)
Segment Operating Profit (Loss)	<u>P</u>	<u>124,784</u>	<u>P 136,035</u>	<u>P 815</u>	<u>(P 146,923)</u>	<u>P 114,711</u>
Total Segment Assets	<u>P</u>	<u>2,842,940</u>	<u>P 8,108,453</u>	<u>P 261</u>	<u>P 4,762,054</u>	<u>P 15,713,708</u>
Total Segment Liabilities	<u>P</u>	<u>215,864</u>	<u>P 10,154,638</u>	<u>P -</u>	<u>P 3,355,326</u>	<u>P 13,725,828</u>
<b>2014</b>						
Segment revenues	P	353,576	P 401,183	P 1,483	P -	P 756,242
Cost of real estate sold	-	( 234,652)	-	-	-	( 234,652)
Cost of rentals	(	69,771)	-	-	-	( 69,771)
Other operating expenses	(	188,377)	( 166,022)	( 696)	-	( 355,095)
Segment Operating Profit	<u>P</u>	<u>95,428</u>	<u>P 509</u>	<u>P 787</u>	<u>P -</u>	<u>P 96,724</u>
Total Segment Assets	<u>P</u>	<u>5,109,921</u>	<u>P 8,070,095</u>	<u>P 285</u>	<u>P -</u>	<u>P 13,180,301</u>
Total Segment Liabilities	<u>P</u>	<u>2,469,000</u>	<u>P 9,571,882</u>	<u>P -</u>	<u>P -</u>	<u>P 12,040,882</u>

Currently, the Group's operations are concentrated in few locations which are in close proximity with each other; hence, it has no geographical segment. The Group, however, continues to acquire properties in different regions of the country, as potential locations for its real estate projects, investment properties or hotels and serviced apartments.

In 2015, the Group sold certain raw land inventories to The Purefoods Hormel Company, Inc. (Purefoods Hormel), a related party under common control. The revenue earned from this transaction accounts for 35% of the total real estate sales reported in the 2015 consolidated statement of comprehensive income [see Note 23.2(b)]. There were no sales made by the Group to any customer which exceeded 10% of the Group's real estate sales in 2016 and 2014.

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, real estate projects, raw land inventory, investment property, property and equipment and deposits on land for future development. Excluded from segment assets are deferred tax assets, noncurrent assets classified as held for sale, equity advances and investments in associates, and other assets which are considered corporate assets and are not allocated to any segment's assets. Segment liabilities include all operating liabilities incurred by management in each particular segment. Excluded from segment liabilities are due to related parties, retirement benefit liability, income tax payable, deposits for future stock subscription and deferred tax liabilities.

#### 4.2 Reconciliations

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

	2016	2015	2014
Segment operating profit	P 210,309	P 114,711	P 96,724
Share in profit of associates	309,270	70,828	465,911
Finance costs	( 308,477)	( 340,987)	( 279,380)
Finance income	60,481	17,225	39,552
Donation	( 9,072)	( 17,066)	( 9,071)
Gain on rescission of donation	-	495,000	-
Gain on sale of noncurrent asset classified as held for sale	-	22,145	-
Gain on sale and retirement of investment property and property and equipment – net	-	-	12,762
Miscellaneous – net	27,156	5,055	5,781
Tax benefit (expense)	( 72,359)	( 101,275)	38,415
<b>Group Net Profit</b>	<b>P 217,308</b>	<b>P 265,636</b>	<b>P 370,694</b>
Total segment assets	P 18,578,958	P 15,713,708	P 13,180,301
Equity advances and investments in associates	10,597,442	10,461,838	10,634,905
Receivables – net	148,805	133,849	92,223
Deferred tax assets – net	69,249	101,930	185,030
Goodwill	27,463	27,463	27,463
Noncurrent assets classified as held for sale	-	-	12,500
Other assets	9,895	38,071	28,602
<b>Group Total Assets</b>	<b>P 29,431,812</b>	<b>P 26,476,859</b>	<b>P 24,161,024</b>

	2016	2015	2014
Total segment liabilities	P 10,521,898	P 13,725,828	P 12,040,882
Due to related parties	54,152	2,089,647	2,078,257
Deferred tax liabilities – net	52,126	43,849	53,101
Retirement benefit liability	25,952	22,682	23,892
Income tax payable	460	560	1,794
Deposits for future stock subscription	-	691,957	-
Group Total Liabilities	P 10,654,588	P 16,574,523	P 14,197,926

The segment revenues, costs of sales and services and other operating expenses equal the Group revenues, costs and expenses for each of the reporting periods presented; hence, a reconciliation is no longer presented.

The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices. In 2016, 2015 and 2014, there were no intersegment sales and transfers.

## 5. INTEREST IN SUBSIDIARIES

### 5.1 Subsidiary with Material NCI

The following shows the subsidiaries of the Group with material NCI.

Name	Proportion of Ownership Interest and Voting Rights Held by NCI		Profit (Loss) Allocated to NCI		Accumulated NCI	
	2016	2015	2016	2015	2016	2015
Geosolutions –						
Individual stockholders	31.70%	49.00%	(P 7,061)	(P 3,475)	P 192,011	P 278,704
Excel Unified:						
Pet Plans, Inc.	42.65%	42.65%	6,374	( 2,871)	146,947	140,573
Individual stockholders	5.85%	5.85%	874	( 394)	20,155	19,281

The summarized financial information of Excel Unified and Geosolutions, before intragroup eliminations, is shown below.

	2016	2015
Current assets	P 1,041,184	P 879,370
Noncurrent assets	39,041	172,667
Total assets	P 1,080,225	P 1,052,037
Current liabilities	P 83,772	P 96,214
Noncurrent liabilities	28,474	42,595
Total liabilities	P 112,246	P 138,809
Equity attributable to owners of the parent company	P 607,955	P 474,671

	2016	2015
NCI	<u>P 360,024</u>	<u>P 438,557</u>
Gross sales	<u>P 10,013</u>	<u>P 4,838</u>
Forfeited sales	<u>( 27,758)</u>	<u>-</u>
Net sales	<u>(P 17,745)</u>	<u>P 4,838</u>
Total comprehensive loss for the year		
attributable to owners of the parent company	(P 4,555)	(P 7,085)
Total comprehensive income (loss) for the year		
attributable to NCI	<u>187</u>	<u>( 6,740)</u>
Total comprehensive loss for the year	<u>(P 4,368)</u>	<u>(P 13,825)</u>

The NCI of Excel Unified and Geosolutions did not have any cash inflow or outflow over the years presented.

### **5.2 Transactions of Noncontrolling Interest**

In 2016, the Company made additional investments in Geosolutions amounting to P290,700, when it acquired the subsidiary's issued shares from its individual stockholders. Such transaction increased the Company's ownership interest in Geosolutions from 51% in 2015 to 70% in 2016. NCI amounting to P108,601 was transferred to the Group as a result of the transaction. The resulting excess of the total consideration and the acquired NCI, which amounted to P182,099 is presented as part of Other Reserves account in the 2016 consolidated statement of financial position (see Note 24.4).

Subsequently, the Company and NCI of Geosolutions subscribed additional shares in the subsidiary, which decreased the Company's ownership interest from 70% to 68.30%. The total consideration paid by NCI for the additional subscription amounted to P28,969.

### **5.3 Loss of Control over a Subsidiary**

In prior years, the Company's control over Prestigio Realty Inc. (Prestigio), a former subsidiary, ceased due to dilution of the Company's equity ownership and was deconsolidated from the consolidated financial statements. Subsequently, in 2013, the Company entered into a memorandum of agreement for the sale of Prestigio shares to a certain individual. Accordingly, management reclassified the investment amounting to P12,500 as Noncurrent Assets Classified as Held for Sale account.

Management determined that the carrying amount of investment in Prestigio is fully recoverable upon its sale, thus, no impairment loss was recognized in the 2014 consolidated statement of comprehensive income.

In 2015, both parties completed the sale of the investment for a total contract price of P34,645, exclusive of taxes. The gain on sale from the transaction amounted to P22,145, and is presented as Gain on Sale of Noncurrent Assets Classified as Held for Sale account in the 2015 consolidated statement of comprehensive income. Total consideration was fully collected in 2015.

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31 are as follows [see Note 23.3(a)]:

		<u>2016</u>		<u>2015</u>
Cash on hand and in banks	P	391,964	P	341,754
Short-term placements		<u>182,803</u>		<u>3,088</u>
	P	<u>574,767</u>	P	<u>344,842</u>

Cash in banks are unrestricted and readily available for use in the operations of the Group. These generally earn interest at rates based on daily bank deposit rates (see Note 20.2).

The Group's short-term placements are made for varying periods of up to one month depending on the immediate cash requirements of the Group and earn effective annual interest ranging from 0.25% to 2.00%, 1.50% to 2.55% and 1.00% to 1.75% in 2016, 2015 and 2014, respectively (see Note 20.2)

## 7. RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Current:			
Contract receivables	7.1, 23.2(b)	P 648,822	P 665,544
Advances to contractors		177,458	293,068
Rental receivables	23.1(a), 23.2(a)	51,145	20,273
Accounts receivable	23.1(b), 23.1(c), 23.2(c), 23.2(e)	33,917	40,315
Due from related parties	23.2(f)	17,658	17,658
Other receivables	7.2	<u>148,805</u>	<u>123,527</u>
		1,077,805	1,160,385
Allowance for impairment		( 69,204)	( 69,204)
		1,008,601	1,091,181
Noncurrent –			
Contracts receivable	23.2(b)	<u>50,510</u>	<u>185,674</u>
		<u>P 1,059,111</u>	<u>P 1,276,855</u>

All of the Group's receivables have been reviewed for indications of impairment. Certain receivables were found to be impaired and allowance for impairment has been recognized accordingly. The impaired receivables are mostly due from various third parties with past due accounts.

A reconciliation of the allowance for impairment at the beginning and end of 2016 and 2015 is shown below.

	Note	2016	2015
Balance at beginning of year		P 69,204	P 67,576
Impairment loss during the year	20.1	-	1,628
Balance at end of year		<u>P 69,204</u>	<u>P 69,204</u>

### 7.1 Contract Receivables

Contract receivables generally arise from sale of real estate projects and certain raw land inventories of the Group.

The contract receivables of the Group are collectible over a maximum period of ten years and are classified as either interest-bearing, the interest rate of which ranges from 9.0% to 18.0% per annum, or noninterest-bearing, which are measured at amortized cost using the discount rate ranging from 7.0% to 9.0% or 10.5% to 11.5% based on the interest charged by certain financial institutions to retail borrowers.

The fair value of sales on noninterest-bearing contracts are determined by calculating the present value of the cash inflows anticipated to be received until the end of the contract term using the effective interest rate. This resulted in the recognition of fair value losses, charged to Real Estate Sales account for the portion pertaining to contract price, of P4,239, P12,673 and P7,344 in 2016, 2015 and 2014, respectively. The accompanying fair value losses on portion of receivables pertaining to output VAT is presented as part of Fair value losses – net under Finance Costs section of the consolidated statements of comprehensive income (see Note 20.1).

Interest income from unwinding the fair value losses on sales of noninterest-bearing contract receivables are presented as part of Interest income under Finance Income section in the consolidated statements of comprehensive income (see Note 20.2).

The corresponding titles to the units sold under this arrangement are transferred to the buyers only upon full payment of the contract price. Management believes that these receivables are fully recoverable through collection of the accounts or repossession of the properties considering that the title has not yet been transferred to the buyers.

### 7.2 Other Receivables

Other receivables represent receivables from various individuals and companies arising from transactions related to the sale and lease of properties such as penalties and interest, claims from the homeowners' associations of their real estate projects for security, and other expenses paid by the Group on behalf of the said associations.



## 8. REAL ESTATE PROJECTS

This account, which are all stated at cost, consists of:

	<u>2016</u>	<u>2015</u> [As Restated – see Note 2.1(b)]
Subdivision houses and lots	P 1,203,848	P 754,773
CIP	<u>1,176,647</u>	<u>1,449,305</u>
	<u>P 2,380,495</u>	<u>P 2,204,078</u>

The movements in the CIP as of December 31 are shown below.

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Balance at beginning of year		P 1,449,305	P 1,500,571
Additional construction during the year	16	607,513	453,182
Reclassification to subdivision houses and lots		( 880,171)	( 504,448)
Balance at end of year		<u>P 1,176,647</u>	<u>P 1,449,305</u>

The movements in the subdivision houses and lots as of December 31 are shown below.

	<u>Notes</u>	<u>2016</u>	<u>2015</u> [As Restated – see Note 2.1(b)]
Balance at beginning of year		P 754,773	P 388,832
Reclassification from CIP		880,171	504,448
Cost of subdivision house and lots sold	18, 19	( 431,096)	( 138,507)
Balance at end of year		<u>P 1,203,848</u>	<u>P 754,773</u>

The carrying value of real estate projects includes unamortized capitalized borrowing costs amounting to P62,273 and P62,667 as of December 31, 2016 and 2015, respectively (see Note 16).

The net realizable value of real estate projects is higher than its carrying value as of December 31, 2016 and 2015, based on management's assessment.

## 9. RAW LAND INVENTORY

Below is a summary of the aggregate cost of raw land inventory as of December 31.

	Notes	2016	2015 [As Restated – see Note 2.1(b)]
SMPI	9.1, 18	P 1,303,285	P 1,303,136
Geosolutions	9.1	605,319	604,718
Rapidshare		229,806	229,806
Excel Unified		117,239	117,239
Grandioso	9.1	70,251	68,913
Brillar		45,584	45,584
First Monte	9.1	43,290	42,920
Coron		36,662	36,662
Busuanga		22,096	22,096
Dimanyan		16,259	16,259
Elite Montagne		11,609	11,609
Legacy		10,319	10,319
Bulalacao		7,656	7,656
Calamian		5,202	5,202
Palawan		2,989	2,989
		<b>P 2,527,566</b>	<b>P 2,525,108</b>

An analysis of the carrying amounts of raw land inventory is presented below.

	Notes	2016	2015 [As Restated – see Note 2.1(b)]
Balance at beginning of year		P 2,525,108	P 2,760,905
Additions	9.1	2,458	3,381
Disposals	18	-	( 6,358)
Reclassification – net	9.3, 12	-	( 232,820)
Balance at end of year		<b>P 2,527,566</b>	<b>P 2,525,108</b>

Management determined that these properties have a total fair value of P10,225,383 and P9,740,047 as of December 31, 2016 and 2015, respectively. Fair value is determined by independent appraisers through appraisal reports, from existing bid or offer prices, and from recent sale of adjacent properties.

Information about the fair value measurement and disclosures related to raw land inventories are presented in Note 29.4.

### 9.1 Raw Land Additions

In 2016 and 2015, the Company and certain subsidiaries incurred costs to effect transfer of the titles of certain properties, amounting to P2,458 and P3,381, respectively, which were capitalized as part of the costs of raw land inventory in the consolidated statements of financial position.

## ***9.2 Donation to Philippine Foundation of the Blessed Mary Mother of Poor***

On January 11, 2011, the Company entered into a contract with the Philippine Foundation of the Blessed Mary Mother of Poor, Inc. (the Foundation), a nonprofit religious organization, for the donation of a 33-hectare parcel of land owned by the Company (the Montemaria Property), with a book value of P141,168 at the time of donation. The land title of the Montemaria Property was transferred in the name of the Foundation on April 28, 2011.

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In accordance with the Deed of Donation, the Montemaria Property shall be used and devoted exclusively by the Foundation for the construction, operation and maintenance of its project, the Montemaria Oratory of the Blessed Virgin Mary (the Montemaria Project). The Montemaria Project was planned to consist of the Shrine of the Blessed Virgin Mary, churches and chapels, Way of the Cross and such other structures and facilities for Roman Catholic religious purposes, and socio-civic and nonprofit activities and programs of the Foundation. Furthermore, the Deed of Donation required that the Montemaria Project must be at least 50.0% completed by January 11, 2016 and fully completed by January 11, 2021. If the Foundation is not able to comply with this requirement, the Montemaria Property shall revert to the Company.

On February 24, 2014, the Board of Trustees (BOT) of the Foundation had resolved to return the donated property to the Company. However, the Foundation has not formally returned the donated property as of December 31, 2014.

On October 2, 2015 and October 13, 2015, the Company and the Foundation executed a Deed and an Amended Deed of Rescission and Reconveyance of Property, respectively, wherein the ownership over the Montemaria Property was reverted to the Company. Consequently, the land title over the Montemaria Property was transferred back to the Company on November 9, 2015. Accordingly, the Group recognized a gain amounting to P495,000, equivalent to the fair value of the Montemaria Property at the time of rescission of donation and reconveyance of property, and is presented as Gain on Rescission of Donation in the 2015 consolidated statement of comprehensive income.

The Group does not have a definite plan yet for the use of the Montemaria Property; hence, management classified it as part of Investment Property – net account in the consolidated statements of financial position (see Note 12).

## ***9.3 Reclassifications to Investment Property***

In 2015, certain parcels of land amounting to P232,820 were reclassified from Raw Land Inventory account to Investment Property – net account as management intends to lease these properties to third parties (see Note 12).

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# 10. DEPOSITS ON LAND FOR FUTURE DEVELOPMENT

This account includes the Group's advance payments for certain land acquisitions which are intended for future development.

In prior years, the Group made contributions to a real estate project with other domestic companies for the development of two parcels of subdivided lots in two separate locations. The contributions to this project, which amounted to P561,111, are being administered by a trustee bank, the real estate manager. The Group, through its property consolidator and legal consultant (the Consultant) has already completed the documentations, consolidation and transfer of title under its name of a portion of one of the two parcels of subdivided lots. Those subdivided lots amounting to P50,500 were presented under Raw Land Inventory in prior years.

Based on the advice by the Consultant, management believes that it will take a long period of time to complete the documentation process, consolidation of the titles and other activities relative to the acquisition of the remaining portion of subdivided lots. These activities are not yet completed as of December 31, 2016. Accordingly, the Group presented the outstanding balance of deposits as of December 31, 2016 and 2015 amounting to P569,944 and P569,635, respectively, as part of Deposits on Land for Future Development account under the Noncurrent Assets section of the consolidated statements of financial position.

The movements in the carrying amounts as of December 31, 2016 and 2015 of deposits on land for future development are presented below.

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	P 1,546,084	P 1,432,770
Additions	<u>301,514</u>	<u>113,314</u>
Balance at end of year	<u>P 1,847,598</u>	<u>P 1,546,084</u>

Based on management's evaluation, the recoverable value of deposits on land for future development is higher than its carrying amount as of December 31, 2016 and 2015.

# 11. EQUITY ADVANCES AND INVESTMENTS IN ASSOCIATES

The composition of equity advances and investments in associates account is as follows as of December 31:

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Investments in associates	11.1, 11.2	P 9,532,061	P 9,274,367
Equity advances	11.3	<u>1,065,381</u>	<u>1,187,471</u>
		<u>P 10,597,442</u>	<u>P 10,461,838</u>

### **11.1 Investment in BOC**

The Company made a series of acquisitions of BOC shares in prior years. At the end of 2011, the Company held 44,817,164 shares of BOC, representing 39.93% equity ownership interest, for a total acquisition cost of P7,801,496. A portion of the acquisition cost was paid by San Miguel Corporation Retirement Plan (SMCRP) and SMC. The related outstanding payable amounted to P2,032,307 as of December 31, 2015 (nil as of December 31, 2016) and is presented as part of Due to Related Parties account in the 2015 consolidated statement of financial position [see Note 23.1(e)].

In line with its plan of increasing its equity in BOC, the Company, in 2011, placed its advance payments to selling stockholders the amount of P221,070 under escrow pending the consummation of the share purchase transaction. However, in 2012, the Company and the sellers agreed to cancel the purchase agreement.

In 2014, the Company received the amount placed under the escrow fund, including the accumulated interest from prior years, amounting to P244,711. The interest income earned from the escrow fund was recognized and presented as part of Interest income under Finance Income section in the 2014 consolidated statement of comprehensive income (see Note 20.2).

In 2012, the Company, through SMC, started the negotiation for the sale its ownership interest in BOC. Accordingly, the Company's investment in BOC, amounting to P8,785,469 at that time, which includes the accumulated share of the Company from BOC's total comprehensive income of P983,973, was reclassified from Equity Advances and Investments in Associates account to Noncurrent Assets Classified as Held for Sale account.

No sale transpired in 2012, 2013 and 2014 but the Company remained committed to sell its equity ownership interest in BOC by engaging the services of a deal adviser, through SMC, to handle the process of negotiating the sale and by SMC issuing public statements about the intended sale.

In 2015, SMC terminated the services of the deal adviser and the Company's management has determined that there are no active buyers of its investment. Consequently, the Company ceased to classify the investment as part of Noncurrent Assets Classified as Held for Sale account. Accordingly, the Company recognized and brought back the investment in BOC to its carrying value, using the equity method, as if the reclassification in 2012 did not occur, and classified the investment as part of Investments in associates under Equity Advances and Investments in Associates account in the consolidated statements of financial position.

Management determined that the carrying amount of investment in BOC as of December 31, 2016, 2015 and 2014 is fully recoverable, thus, no impairment loss was recognized during those years in the consolidated statements of comprehensive income.

The following table shows a reconciliation of the net retirement benefit liability and its components:

	Present value of retirement benefit liability		Fair value of plan assets		Net retirement benefit liability	
	2016	2015	2016	2015	2016	2015
Balance at beginning of year	P 28,201	P 44,943	P 37,046	P 21,051	P 22,682	P 22,769
Recognized in profit or loss:						
Current service cost	2,160	3,262	-	-	2,160	3,262
Interest expense	1,551	2,198	-	-	1,551	2,198
Interest income	-	-	-	649	( 443)	( 649)
Settlement loss	-	20,939	-	-	-	20,939
	<u>3,711</u>	<u>26,399</u>	<u>4,459</u>	<u>649</u>	<u>3,268</u>	<u>25,750</u>
						<u>3,706</u>
Recognized in other comprehensive income:						
Remeasurements:						
Actuarial losses (gains) arising from:						
Experience adjustments	3,405	3,479	-	-	3,405	3,479
Changes in financial assumptions	281	( 812)	-	-	281	( 812)
Changes in demographic assumptions	1,947	-	-	-	1,947	-
Return on plan asset (excluding amounts included in net interest)	-	-	-	-	-	-
	<u>5,633</u>	<u>2,667</u>	<u>3,438</u>	<u>605</u>	<u>5,058</u>	<u>3,272</u>
						<u>2,988</u>
Others:						
Contributions	-	-	5,056	30,232	( 5,056)	( 30,232)
Benefits paid	-	( 45,808)	-	( 45,808)	-	-
	<u>-</u>	<u>( 45,808)</u>	<u>5,056</u>	<u>( 15,576)</u>	<u>( 5,056)</u>	<u>( 30,232)</u>
						<u>( 5,571)</u>
Balance at end of year	P 37,545	P 28,201	P 44,943	P 5,519	P 25,952	P 22,682
						<u>23,892</u>

The current service cost and settlement loss amounting to P2,160, P24,201 and P2,825 in 2016, 2015 and 2014 is presented as part of Salaries and employee benefits under Other Operating Expenses section in the consolidated statements of comprehensive income (see Notes 19 and 21.1).

The net interest expense amounting to P1,108, P1,549 and P881 in 2016, 2015 and 2014, respectively, is included in Finance Costs account in the consolidated statements of comprehensive income (see Note 20.1).

Amounts recognized in consolidated other comprehensive income were included within items that will not be reclassified to consolidated profit or loss.

As of December 31, 2016 and 2015, net retirement liabilities recognized under Retirement Benefit Liability account in the consolidated statements of financial position amounted to P25,952 and P22,682, respectively.

The carrying amount of the Group's retirement fund approximate fair values as of December 31, 2016 and 2015.

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below in percentages:

	<u>2016</u>	<u>2015</u>
Interest in pooled funds:		
Fixed-income portfolio (FIP)	74.3%	95.5%
Stock trading portfolio (STP)	25.4%	3.9%
Others	0.3%	0.6%
	<u>100.0%</u>	<u>100.0%</u>

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

*a) Interest in Pooled Funds*

Investment in pooled funds were established mainly to put together all the retirement funds of the SMC Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The plan's interests in the net assets of the pooled funds were 0.23% and 0.69% of FIP and 0.12% and 0.04% of STP as of December 31, 2016 and 2015, respectively. Investment income and expense are allocated to the plan based on its pro-rata share in net assets of the pooled funds.

Investments in FIP consist of investments in money market placements, government securities, corporate notes and convertible preferred shares of stock, acquired to match the obligation of the retirement plan.

Investments in STP consist mainly of investments in shares of stock of publicly-listed companies that are carried at fair value based on the closing quoted market prices obtained from the PSE as at the end of the statement of net asset available for plan benefits dates.

Plan assets include shares of stock and debt securities issued by public entities within SMC Group, as disclosed in Note 23.4.

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*b) Others*

Others include the Retirement Plan's cash and cash equivalents which earns interest.

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The plan assets earned a return of P1,018, P44 and P1,203 in 2016, 2015 and 2014, 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.

In determining the amounts of the retirement benefit obligation, the following significant actuarial assumptions were used:

	<u>2016</u>	<u>2015</u>
Discount rates	5.32%	5.5%
Expected rates of salary increases	7.0%	7.0%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working life of an individual retiring at the age of 55 is 19 and 20 for males and females as of December 31, 2016 and 2015, respectively. 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 bonds with terms to maturity approximating to the terms of the retirement 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 Rate 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.

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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 comprises of investments in STP and FIP. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.



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.

(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 DBO as of December 31, 2016 and 2015:

	<u>Impact on Retirement Benefit Liability</u>			
	<u>Change in Assumption</u>	<u>Discount Rate</u>	<u>Salary Increase Rate</u>	
<b><u>December 31, 2016</u></b>				
Decrease in assumption	+4.4%/-3.6%	P	1,639 (P	1,361)
Increase in assumption	-4.0%/+3.8%	(	1,515)	1,439
<b><u>December 31, 2015</u></b>				
Decrease in assumption	+4.8%/-4.0%	P	1,352 (P	1,138)
Increase in assumption	-4.4%/+4.3%	(	1,250)	1,201

The above sensitivity analysis 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 post-employment DBO liability 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*

The Retirement Plan Trustee has no specific matching strategy between the retirement fund assets and the defined benefit liabilities under the Plan. However, the 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 assets as of December 31, 2016 and 2015 is invested in FIP which consists of money market placements, government securities, corporate notes and convertible preferred shares of stock. The Group believes that these securities offer a good return over the long term with an acceptable level of risk.

There has been no change in the Group's strategies to manage its risks from previous periods.

iii. *Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P25,952 based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 20 years' time when a significant number of employees is expected to retire.

The Group's contribution to the plan in 2017 is yet to be determined.

The maturity profile of undiscounted expected benefits payments from the plan follows:

		<u>2016</u>		<u>2015</u>
Within one year	P	10,467	P	6,230
More than one year to five years		20,786		18,810
More than five years		65,597		57,741

The weighted average duration of the DBO at the end of the reporting period is eight years.

## 22. CURRENT AND DEFERRED TAXES

The major components of tax expense (benefit) reported in the consolidated statements of comprehensive income are as follows for the years ended December 31:

	2016	2015	2014
<i>Reported in profit or loss</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	P 12,540	P 8,052	P 6,995
MCIT at 2%	16,175	15,691	8,423
Final tax at 20% and 7.5%	1,169	131	503
Capital gains tax at 5% and 10%	-	2,571	-
	<u>29,884</u>	<u>26,445</u>	<u>15,921</u>
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	<u>42,475</u>	<u>74,830</u>	<u>( 54,336)</u>
	<u>P 72,359</u>	<u>P 101,275</u>	<u>(P 38,415)</u>
<i>Reported in other comprehensive income</i>			
Deferred tax benefit relating to origination and reversal of temporary differences	<u>(P 1,517)</u>	<u>(P 982)</u>	<u>(P 896)</u>

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense (benefit) reported in consolidated profit or loss (shown as percentages) is as follows:

	2016	2015	2014
Tax on pretax profit	30.00%	30.00%	30.00%
Income subjected to lower income tax rates	( 0.20%)	( 1.13%)	( 0.07%)
Tax effects of:			
Share in profit of associates	( 32.03%)	( 5.79%)	( 42.06%)
Unrecognized deferred tax assets	22.95%	10.83%	( 9.17%)
Nontaxable income	( 8.50%)	( 11.53%)	( 2.83%)
Reversal of previously recognized deferred tax asset	7.07%	-	-
Expiration of excess MCIT	2.65%	2.24%	-
Nondeductible expenses	1.93%	2.43%	1.01%
Benefits from previously unrecognized NOLCO	-	-	0.24%
Others	1.11%	0.55%	11.32%
	<u>24.98%</u>	<u>27.60%</u>	<u>( 11.56%)</u>

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

	<u>2016</u>		<u>2015</u>	
Deferred tax assets:				
NOLCO	P	82,367	P	164,496
Customers' deposits		32,056		35,573
MCIT		4,352		31,596
Unearned rentals		-		26,253
Allowance for impairment of receivables		280		19,706
Accrued expenses		-		20,474
Retirement benefit liability		-		6,805
Rental deposits		-		2,413
Unrealized foreign currency loss		-		1,737
Decline in market value of AFS financial assets		-		1,602
		<u>119,055</u>		<u>310,655</u>
Deferred tax liabilities:				
Accrued rental receivables	(	37,133)	(	4,604)
Deferred gross profit	(	12,465)	(	54,904)
Unrealized foreign exchange gain	(	208)	(	91)
Unamortized capitalized interest		-	(	42,976)
Unrealized fair value gain on investment property		-	(	106,150)
		<u>(49,806)</u>		<u>(208,725)</u>
Deferred tax assets -- net	P	<u>69,249</u>	P	<u>101,930</u>

The net deferred tax liabilities of the Company and certain subsidiaries having net deferred tax liabilities position as of December 31 relates to the following:

	<u>2016</u>		<u>2015</u>	
Deferred tax assets:				
NOLCO	P	41,806	P	2,342
MCIT		35,846		125
Unearned rentals		26,878		-
Allowance for impairment of receivables		19,994		567
Retirement benefit liability		7,786		-
Customers' deposits		4,239		27
Decline in market value of AFS financial assets		1,763		-
Unrealized foreign currency loss		1,737		-
Provision for loss on contingent contingent liability		<u>1,369</u>		<u>1,369</u>
Balance carried forward	P	<u>141,418</u>	P	<u>4,430</u>

	2016	2015
<i>Balance carried forward</i>	<b>P 141,418</b>	<b>P 4,430</b>
Past service costs	782	-
Rental deposits	<b>111</b>	-
	<b>142,311</b>	<b>4,430</b>

Deferred tax liabilities:

Unrealized fair value gain on investment property	( 106,150)	-
Deferred gross profit	( 68,199)	( 39,670)
Unamortized capitalized interest	( 18,682)	( 8,609)
Accrued rental receivables	( 1,406)	-
	<b>( 194,437)</b>	<b>( 48,279)</b>

Deferred tax liabilities – net	<b>(P 52,126)</b>	<b>(P 43,849)</b>
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The components of net deferred tax expense (benefit) reported in the consolidated statements of comprehensive income are as follows:

	Profit or loss			Other comprehensive income		
	2016	2015	2014	2016	2015	2014
Deferred tax assets:						
NOLCO	P 42,665	(P 61)	(P 67,533)	P -	P -	P -
Accrued expenses	20,474	( 20,474)	-	-	-	-
MCIT	( 8,476)	( 7,475)	( 8,398)	-	-	-
Rental deposits	2,303	( 3,873)	2,647	-	-	-
Unearned rentals	( 626)	( 2,380)	1,571	-	-	-
Past service costs	( 782)	-	-	-	-	-
Customers' deposits	( 695)	( 14,634)	( 16,751)	-	-	-
Retirement benefit liability	536	1,345	559	( 1,517)	( 982)	( 896)
Decline in market value of AFS financial assets	( 161)	-	-	-	-	-
Allowance for impairment of receivables	-	( 488)	-	-	-	-
Unrealized foreign currency loss	-	14	( 14)	-	-	-
	<b>55,238</b>	<b>( 48,026)</b>	<b>( 87,919)</b>	<b>( 1,517)</b>	<b>( 982)</b>	<b>( 896)</b>
Deferred tax liabilities:						
Deferred gross profit	( 13,910)	( 5,679)	16,001	-	-	-
Unamortized capitalized interest	4,228	23,739	18,657	-	-	-
Accrued rental receivables	( 3,198)	( 1,427)	( 1,075)	-	-	-
Unrealized foreign currency gain	117	91	-	-	-	-
Unrealized fair value gain on investment property	-	106,150	-	-	-	-
	<b>( 12,763)</b>	<b>122,856</b>	<b>33,583</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Deferred Tax Expense (Benefit)	<b>P 42,475</b>	<b>P 74,830</b>	<b>(P 54,336)</b>	<b>(P 1,517)</b>	<b>(P 982)</b>	<b>P 896</b>

Net deferred tax assets of the Company are not allowed to be offset against net deferred tax liabilities of other subsidiaries, or vice versa, for purposes of consolidation.

No deferred tax has been recognized on the Group's accumulated share in net profit and other comprehensive income (loss) of associates in all the years presented. The Group has no liability for tax should the amounts be declared as dividends since dividend income received from domestic corporations by a domestic corporation is not subject to income tax.

Presented below are the details of the Group's NOLCO.

<u>Year</u>		<u>Original Amount</u>	<u>Amount Applied</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2016	P	171,238	P -	P -	P 171,238	2019
2015		309,980	-	-	309,980	2018
2014		252,562	-	-	252,562	2017
2013		<u>196,992</u>	<u>( 80,178 )</u>	<u>( 116,814 )</u>	<u>-</u>	
		<u>P 930,772</u>	<u>(P 80,178)</u>	<u>(P 116,814)</u>	<u>P 733,780</u>	

For the years ended December 31, 2016, 2015 and 2014, most of the operating subsidiaries incurred MCIT as it exceeded their respective RCIT. MCIT is equivalent to 2% of gross income, as defined in the tax regulations. The details of the Group's MCIT are as follows:

<u>Year</u>		<u>Original Amount</u>	<u>Amount Applied</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2016	P	4,427	P -	P -	P 4,427	2019
2015		15,691	-	-	15,691	2018
2014		8,423	-	-	8,423	2017
2013		<u>7,642</u>	<u>-</u>	<u>( 7,642 )</u>	<u>-</u>	
		<u>P 36,183</u>	<u>P -</u>	<u>(P 7,642)</u>	<u>P 28,541</u>	

For financial statements purposes, no deferred tax assets relating to NOLCO and MCIT were recognized by the subsidiaries, except for Bright Ventures, Carnell and SMPI Flagship, since management believes that there is no assurance that their related tax benefits will be realized by the subsidiaries within the prescribed period. Since Bright Ventures, Carnell and SMPI Flagship already started their commercial operations, management assessed that the tax benefits for the NOLCO and MCIT will be realized.

In 2016, 2015 and 2014, the Group opted to claim itemized deductions in computing their respective income tax due.

## 23. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

The Group's related parties include intermediate parent company, associates, other entities under common control and the Group's key management and retirement fund plan as described in the succeeding pages. Related parties under common control are subsidiaries and associates of SMC through direct or indirect equity ownership.

The following are the transactions with related parties.

Related Parties	Notes	Year		Revenue From Related Parties		Purchases From Related Parties		Amounts Owed by Related Parties		Amounts Owed to Related Parties
Intermediate Parent Company	23.1	2016	P	107,198	P	51,728	P	19,847	P	155,482
		2015		133,197		59,718		212		2,182,864
		2014		131,727		49,664		34,867		2,180,867
Under Common Control	23.2	2016	P	217,471	P	47,068	P	109,318	P	148,792
		2015		229,489		22,929		173,393		159,036
		2014		195,644		39,551		197,641		154,903
Associates	23.3	2016	P	1,626	P	-	P	169,863	P	-
		2015		349		-		140,429		-
		2014		509		-		165,969		-
		2016	P	326,295	P	98,796	P	299,028	P	304,274
		2015	P	363,035	P	82,647	P	314,034	P	2,341,900
		2014	P	327,880	P	89,215	P	398,477	P	2,335,770

### 23.1 Intermediate Parent Company

#### (a) Lease of Property

The Group leases out its real estate properties to SMC with lease term of one year and renewable annually upon mutual agreement between the parties. As part of the terms of leases, SMC is required to pay advance rentals and security deposits which amounted to P117,525 and P113,576 as of December 31, 2016 and 2015, respectively, and are presented as part of Advance Rentals and Deposits in the consolidated statements of financial position.

The lease income amounting to P102,866, P132,196 and P130,741 in 2016, 2015 and 2014, respectively, are presented as part of Rental Income account while the outstanding balance amounting to P17,650 and P17 as of December 31, 2016 and 2015, respectively, is presented as part of Rental receivables under Current Receivables account in the consolidated statements of financial position (see Note 7).

The receivables arising from the lease properties are generally noninterest-bearing, partially secured by advance rentals and security deposits and payable in cash within 30 days from the date of billing. There is no allowance for impairment provided for the rental receivables from SMC.

#### (b) Management Services

The Group provides management and administrative services for certain properties of SMC.

The total management fees earned from these services amounting to P1,091, P1,001 and P986 in 2016, 2015 and 2014, respectively, is presented as part of Management Fees account in the consolidated statements of comprehensive income while the related total outstanding receivable amounting to P424 and P195 as of December 31, 2016 and 2015, respectively, are presented as part of Accounts receivable under the Current Receivables account in the consolidated statements of financial position (see Note 7). These receivables are generally noninterest-bearing, unsecured, and payable in cash upon demand. There is no allowance for impairment provided for these accounts receivable.

SMC also provides management and other administrative services to the Group. Management fees recognized, amounting to P43,338, P53,413 and P39,305 in 2016, 2015 and 2014, respectively, are presented as part of Outside services under Other Operating Expenses account in the consolidated statements of comprehensive income

(see Note 19). The related outstanding liability amounting to P3,411 and P1,683 as of December 31, 2016 and 2015, respectively, are presented as part of Accounts payable in the Trade and Other Payables account in the consolidated statements of financial position (see Note 17). The obligations are unsecured, noninterest-bearing and payable in cash upon demand.

*(c) Rendering of Services and Sale of Goods*

In 2016, the Group has transactions with SMC, which pertain to sale of rooms, and sale of food and beverages. Revenues arising from these transactions amounting to P3,241 are presented as part of Room Revenues or Sale of Foods and Beverages in the 2016 consolidated statement of comprehensive income. The related outstanding receivable amounting to P1,773, which is unsecured, noninterest-bearing, and payable in cash upon demand, is presented as part of Accounts receivable under Current Receivables account in the 2016 consolidated statement of financial position (see Note 7). There were no similar transactions in 2015.

*(d) Purchases of Goods and Services*

In 2016, the Group has transactions with SMC which include, among others, charges billed to the Group in consideration of advertising services, implementation of computer software, and other services such as administration of construction projects. Total amount incurred by the Group in 2016 amounted to P5,359. The related outstanding payable as of December 31, 2016 amounting to P982 is shown as part of Accounts payable under Trade and Other Payables account in the consolidated statements of financial position (see Note 17). There were no similar transactions in 2015 and 2014.

*(e) Due to SMC*

The Group obtains advances from SMC to finance capital expenditures, working capital requirements and acquisition of additional shares of associates (see Note 11.1). In 2016, 2015 and 2014, SMPI Flagship obtained certain materials through SMC for the development of the MDR project. Accordingly, the total cost related to these transactions amounted to P3,031, P6,305 and P10,359 which is presented as part of the Property and Equipment – net account in the consolidated statements of financial position (see Note 13). The related outstanding obligation amounted to P33,564, P2,067,605 as of December 31, 2016 and 2015, respectively, is presented as part of Due to Related Parties account in the consolidated statements of financial position. These advances are unsecured, noninterest-bearing and payable in cash upon demand.



## **23.2 Related Parties Under Common Control**

### ***(a) Lease of Property***

The Group leases out various real estate properties to other related parties within the SMC group with lease term that ranges from one to five years, subject to escalation rates and renewable upon mutual agreement between the parties. As part of the terms of the leases, each lessee is required to pay advance rentals and security deposits which amounted to P92,648 and P100,945 as of December 31, 2016, 2015 and 2014, respectively, and are presented as part of Advance Rentals and Deposits account in the consolidated statements of financial position.

The lease income amounting to P201,844, P212,796 and P195,644 in 2016, 2015 and 2014, respectively, are presented under Rental Income while the outstanding balance amounting to P33,359 and P17,654 as of December 31, 2016 and 2015, respectively, are presented as part of Rental receivables under the Current Receivables account in the consolidated statements of financial position (see Note 7).

The receivables arising from the leased properties are generally noninterest-bearing, partially secured by advance rentals and security deposits and payable in cash within 30 days from the date of billing. There is no allowance for impairment provided for the rental receivables from the related parties.

### ***(b) Sale of Raw Land Inventory***

In 2016, the Group sold a subdivision house and lot unit to San Miguel Brewery Inc. (SMB), a related party under common control, for a total consideration of P11,750. The receivable from the sale transaction is noninterest-bearing and payable in 12 months. The total outstanding receivable which amounted to P10,528 as of December 31, 2016 is presented as part of current Contract receivables under Receivables account in the 2016 consolidated statement of financial position (see Note 7).

In 2015, the Group sold parcels of raw land inventory to Purefoods Hormel, a related party under common control, for a total consideration of P170,464. The receivable from this sale transaction is noninterest-bearing and payable in 18 months. The total outstanding receivable which amounted to P45,226 and P135,679 as of December 31, 2016 and 2015, respectively, is presented as part of current and noncurrent Contract receivables under Receivables account in the consolidated statements of financial position (see Notes 4 and 7).

In 2012, the Group sold certain parcels of land to New Ventures Realty Corporation, a related party under common control, for a total consideration of P160,000. The receivable from the sale transaction shall be settled in four years subject to annual interest rate of 5%. However, on December 22, 2015, the Group and NVRC mutually agreed to cancel the sale and return the property back to the Group. Accordingly, the parcel of land amounting to P146,273, which is equivalent to the cost of the land at the time of sale, was recorded as part of Subdivision house and lots under Real Estate Projects account in the 2015 consolidated statement of financial position. Revenue, which amounted to P160,000, and cost related to the forfeited or back-out sale are reversed in 2015.

There was no allowance for impairment provided for the contract receivables from SMB and Purefoods Hormel in 2016 and 2015. Aside from the sale of subdivision house and lot to SMB, there were no similar transactions that occurred in 2016.

*(c) Rendering of Services and Sale of Goods*

In 2016 and 2015, the Group has transactions with related parties under common control, which pertain to the use of hotel rooms and sale of food and beverages. ~~Revenues arising from this transaction in 2016 and 2015, amounting to P1,855 and P6,034, respectively, are presented as part of Room Revenues or Sale of Food and Beverages in the 2016 and 2015 consolidated statements of comprehensive income. The outstanding receivable, which amounted to P625 and P2,337 as of December 31, 2016 and 2015, respectively, are unsecured, noninterest-bearing, and payable in cash upon demand, and is presented as part of Accounts receivable under Current Receivables account in the consolidated statement of financial position (see Note 7).~~

*(d) Purchases of Goods and Services*

The Group has transactions with other related parties that are under common control which include, among others, charges billed to the Group in consideration of advertising services, implementation of computer software, purchase of raw materials and other services such as administration of the construction of real estate projects amounting to P47,068, P22,929 and P39,551 in 2016, 2015 and 2014, respectively. The related outstanding payable as of December 31, 2016 and 2015 amounting to P35,733 and P36,049, respectively, are shown as part of Accounts payable under Trade and Other Payables account in the consolidated statements of financial position (see Note 17). The obligations are unsecured, noninterest-bearing and payable in cash upon demand.

*(e) Management Services*

The Group also provides management and administrative services for certain properties owned by related parties under common control.

The total management fees earned from these services amounting to P2,022, P195 and P497 in 2016, 2015 and 2014, respectively, is presented as part of Management Fees account in the consolidated statements of comprehensive income while the total outstanding receivable amounting to P1,922 and P65 as of December 31, 2016 and 2015, respectively, are presented as part of Accounts receivable under the Receivables account in the consolidated statements of financial position. These receivables are generally noninterest-bearing, unsecured and payable in cash upon demand. There is no allowance for impairment provided for these receivables (see Note 7).

*(f) Due from and to Related Parties Under Common Control*

The Group obtains from and grants advances to other related parties under common control to finance capital expenditures and working capital requirements. These advances are unsecured, noninterest-bearing and payable in cash upon demand.

The receivables arising from these transactions as of December 31, 2016 and 2015 amounted to P17,658 and are shown as Due from related parties under Current Receivables account (see Note 7).

On the other hand, liabilities, which are unsecured, noninterest-bearing and payable in cash upon demand, are presented as part of Due to Related Parties account in the consolidated statements of financial position. The movements in due to other related parties are as follows:

	<u>2016</u>		<u>2015</u>
Balance at beginning of year	P 22,042	P	12,590
Additions	-		9,452
Payments	<u>1,631</u>		<u>-</u>
Balance at end of year	<u>P 20,411</u>	P	<u>22,042</u>

### **23.3 Associates**

#### **(a) Deposits and Placements in BOC**

The Group's cash deposits in BOC amounted to P169,863 and P137,421, respectively as of December 31, 2016 and 2015, while money market placements amounted to P3,008 (nil as of December 31, 2016) as of December 31, 2015 (see Note 6). The total interest income earned by the Group, amounting to P1,626, P349 and P509 in 2016, 2015 and 2014, respectively, from cash deposits and money market placements, is presented as part of Finance Income account in the consolidated statements of comprehensive income (see Note 20.2). The interest income from cash deposits are based on daily bank deposit rates which are also available to other depositors of BOC.

#### **(b) Memorandum of Agreement (MOA) with NLI**

On December 21, 2009, the Company entered into a MOA with NLI for the development of the Company's parcels of land located at General Trias, Cavite, into a middle income residential subdivision (the Cavite Project). Moreover, on that same date, the parties agreed to prepare the business plan for the Project and form a joint venture for its development. As of December 31, 2016, preparation of the Cavite Project is still in the planning phase and the joint venture agreement has not yet been executed.

### **23.4 SMCRP**

The Group maintains a partially funded, noncontributory post-employment defined benefit plan that is being administered by the BOT of the Group's Retirement Plan. The fair value of the Group's retirement plan assets totaled P11,593 and P5,519 as of December 31, 2016 and 2015, respectively. The Group's plan assets includes shares of stock and debt securities issued by public entities within SMC Group which accounts for 0.05% and 0.01% of the STP and 0.16% and 0.44% of the total FIP as of December 31, 2016 and 2015, respectively. The details of the retirement plan are presented in Note 21.2. The Group has no transaction with the retirement plan other than contribution and benefit payments.

### 23.5 Key Management Personnel Compensation

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

	2016	2015	2014
Short-term employee benefits	P 26,895	P 39,955	P 41,062
Post-employment benefit	1,850	17,082	4,903
Share-based compensation	-	267	435
	<u>P 28,745</u>	<u>P 57,304</u>	<u>P 46,400</u>

For SMPI Flagship, there were no expenses recognized for employee benefits since the subsidiary's accounting, manpower and administrative activities are being handled by MDR Management Partners, Inc. (MMPI). In consideration of the said services rendered by MMPI, SMPI Flagship agrees to pay a fixed monthly fee of P7,000. The total amount of service fees incurred in both 2016 and 2015 amounted to P84,000, and these are presented as part of Outside services under Costs of Room Services, Cost of Food and Beverages Sold and Other Operating Expenses accounts in the 2016 and 2015 consolidated statements of comprehensive income (see Notes 18 and 19), while the unpaid service fee, which amounted to P26,189 and P32,615 are presented as part of Accounts payable under Trade and Other Payables account in the consolidated statements of financial position (see Note 17).

## 24. EQUITY

### 24.1 Capital Stock and Deposits for Future Stock Subscription

The Company's capital stock consists of:

	Shares		Amount	
	2016	2015	2016	2015
Capital stock – P10 par value				
Authorized	<u>1,500,000,000</u>	<u>128,000,000</u>	<u>P 15,000,000</u>	<u>P 1,280,000</u>
Issued and outstanding:				
Balance at beginning of year	122,010,940	122,010,945	1,220,109	1,220,109
Issued during the year	<u>450,000,000</u>	-	<u>4,500,000</u>	-
Balance at end of year	572,010,940	122,010,945	5,720,109	1,220,109
Treasury stock – at cost	( <u>315,771</u> )	( <u>315,771</u> )	( <u>9,515</u> )	( <u>9,515</u> )
Total outstanding	<u>571,695,169</u>	<u>121,695,174</u>	<u>P 5,710,594</u>	<u>P 1,210,594</u>

On January 30, 1998, San Miguel Properties Philippines, Inc. (SMPPI) and Monterey Farms Corporation (MFC) executed a merger, which made MFC as the surviving entity. Prior to the merger, the shares of MFC totaling 115,919,850 was already listed and approved by PSE on January 30, 1986. These shares were initially issued at an offer price of P10 per share. There were no additional shares listed subsequent to the initial listing. On July 14, 1998, the SEC approved the change of corporate name from MFC to San Miguel Properties, Inc.

On January 3, 2012, the PSE issued Memorandum Circular No. 2012-0003, announcing the effectivity of the Amended Rule on Minimum Public Ownership. Under this memorandum, all listed companies are required to maintain a minimum public ownership of 10% of all issued and outstanding shares. On December 28, 2012, the Company received a letter from PSE imposing trading suspension until June 30, 2013 due to failure to comply with the minimum public ownership requirement.

On February 5, 2013, the BOD approved the filing of the petition for voluntary delisting and conduct of a tender for the acquisition of common shares held by the minority shares. On March 4, 2013, the Company filed with the PSE the petition for voluntary delisting with May 6, 2013 as the effective date of the delisting of the Company's common shares from the PSE. On April 25, 2013, the PSE approved the voluntary delisting of the Company following the completed tender offer made to acquire 1,072 shares from minority shareholders of which 309 shares was transferred and recorded as treasury shares for an equivalent transaction value of P41.

The BOD and stockholders of the Company, in their meetings held on November 5, 2015 and December 17, 2015, respectively, approved the increase in the authorized capital stock of the Company from P1,280,000 divided into 128,000,000 common shares with P10 par value to P15,000,000 divided into 1,500,000,000 common shares with P10 par value.

Based on the certification issued by more than a majority of the Company's BOD, SMC shall subscribe to 450,000,000 common shares from the proposed increase in authorized capital stock for an equivalent amount of P9,000,000 at a subscription price of P20 per share. As of December 31, 2015, SMC deposited a total of P691,957 which was treated as advances to future stock subscription in relation to the intention of both SMC and the Company to increase its subscription and authorized capital stock, respectively. These deposits were presented as Deposits for Future Stock Subscription account under current liabilities section in the 2015 consolidated statement of financial position. In January 2016, SMC deposited an additional subscription amounting to P1,558,043.

The Company applied for the approval of the increase in authorized capital stock on February 12, 2016, which was subsequently approved by the SEC on March 11, 2016. Consequently, the total advances for future stock subscription amounting to P2,250,000 were treated as Capital Stock and Additional Paid-in Capital accounts under equity section in the 2016 statement of financial position. The remaining subscription receivable from SMC amounting to P6,750,000 were also fully collected in 2016. Accordingly, total additions to Capital Stock and Additional Paid-in Capital accounts arising from the share subscription by the Intermediate Parent Company amounted to P4,500,000 and P4,449,785, respectively. Total costs directly related to the issuance of shares amounting to P50,215 were deducted from the Additional Paid-in Capital account.

The Company has more than 200 stockholders holding shares of the Company's capital stock as of December 31, 2016 and 2015. The Company is still qualified to be a public corporation based on its quasi-public registration with the SEC.

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#### ***24.2 Restriction on Retained Earnings***

Retained earnings is restricted for dividend declaration in the amount of P9,515 equivalent to the cost of the 315,771 shares held in treasury as of December 31, 2016 and 2015, and also, the accumulated share in profit of associates amounting to P1,498,565 and P1,240,871 for the years then ended.

### 24.3 Appropriation of Retained Earnings

In 2011, the BODs approved the appropriation of P5,000,000 of the Group's retained earnings for its existing and pipeline real estate projects. The appropriation is allocated as follows:

<u>Location of Project</u>	<u>Description of Project</u>	<u>Amount</u>	<u>Target Completion Date</u>
Makati	Serviced apartment	P 3,000,000	2016
Pasig, Mandaluyong and San Juan	Executive Townhouses	2,000,000	2014 to 2019
		<u>P 5,000,000</u>	

On March 14, 2017, the Group's BOD reversed the appropriation amounting to P5,000,000 as the purpose for which such appropriations were made has been completed. Also on the same date, the Group's BOD approved the appropriation of P4,500,00 of the Group's retained earnings to be used for development of future projects.

### 24.4 Other Reserves

In 2010, GSIS exercised the put option which gave the Company 100% equity ownership interest in SMPI Flagship. This resulted in the recognition of Other Reserves that pertain to the excess of the exercise price of the put option paid by the Company and its corresponding share in the additional net assets of SMPI Flagship amounting to P88,200.

In 2016, the excess of the total consideration and the acquired NCI of Geosolutions amounting to P182,099 was presented as part of Other Reserves in the 2016 consolidated statement of changes in equity (see Note 5.2).

## 25. EARNINGS PER SHARE

Basic and diluted earnings per share amounts were computed as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net profit attributable to owners of the parent company for the year	P 217,695	P 272,521	P 362,268
Divided by weighted average number of outstanding common shares ( <i>in thousands</i> )	<u>496,695</u>	<u>121,695</u>	<u>121,695</u>
Earnings per share – basic and diluted	<u>P 0.44</u>	<u>P 2.24</u>	<u>P 2.98</u>

The weighted average number of shares as of December 31, 2016 is computed as follows:

	<u>Number of Shares</u>	<u>Months Outstanding</u>	<u>Weighted Number of of Shares</u>
Balance at beginning of year	121,695,169	12	1,460,342,028
Share issuance in March	<u>450,000,000</u>	10	<u>4,500,000,000</u>
Balance at end of year	<u>571,695,169</u>		5,960,342,028
Divided by total months in 2016			<u>12</u>

Weighted average number of shares outstanding	<u>496,695,169</u>
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Diluted earnings per share equal the basic earnings per share since the Company does not have dilutive shares as of December 31, 2016, 2015 and 2014.

## 26. COMMITMENTS AND CONTINGENCIES

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

### 26.1 Operating Leases – Group as Lessor

The Group is a lessor under operating leases covering certain real estate properties. The leases have terms ranging from one to five years, with renewal options, and include annual escalation rates of 5% to 10%.

The future minimum lease collections receivable under these operating leases as of December 31 are presented below.

	<u>2016</u>	<u>2015</u>
Within one year	P 69,588	P 53,457
After one year but not more than five years	41,628	51,468
After 5 years but not more than ten years	<u>10,091</u>	<u>16,414</u>
	<u>P 121,307</u>	<u>P 121,339</u>

The total rentals from these operating leases amounted to P343,346, P350,113 and P353,576 in 2016, 2015 and 2014, respectively, and presented as Rental Income account in the consolidated statements of comprehensive income.

### **26.2 Operating Lease – Group as Lessee**

The Group is a lessee under an operating lease agreement covering a certain parcel of land. The lease has a lease term of 10 years, with renewal options and is not subject to escalation clauses. Rental expense recorded in the Group's books amounted to P5,820, P5,055 and P4,875 in 2016, 2015 and 2014, respectively, and is presented as part of Cost of Rentals account in the consolidated statements of comprehensive income (see Note 18).

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### **26.3 Legal Claims**

There are pending claims and legal actions filed by the Group or against the Group arising from the normal course of business.

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In 2007, a provision amounting to P4,564 in connection with Excel Unified's pending settlement of a dispute regarding a right of way in Wedgewoods was recognized. The provision remains outstanding as of the reporting periods and is presented as Provision under Trade and Other Payables account in the consolidated statements of financial position (see Note 17). The Group's management, based on the advice of its legal counsels, believes that the recognized provision with regard to its legal case is reasonable and additional liabilities or losses, if any, that may arise from other claims will not have material effect on its consolidated financial statements.

### **26.4 Others**

There are other contingencies that arise in the normal course of business that are not recognized in the Group's consolidated financial statements. As of December 31, 2016 and 2015, the Group's management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Group's consolidated financial statements.

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

It is the Group's policy to ensure that capabilities exist for active and prudent management of its financial risks. The Group does not engage in any speculative derivative transactions. The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's principal financial instruments include non-derivative instruments which arise directly from its operations. The financial risks to which the Group is exposed to are described in succeeding page.

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## 27.1 Market Risk

### (a) Foreign Currency Risk

There is no significant exposure to foreign currency risks since most of the Group's transactions are denominated in Philippine pesos which is its functional currency. The Group's financial asset denominated in foreign currency only pertains to cash in bank. However, the amount is insignificant as of December 31, 2016 and 2015. ~~The Group has no financial liabilities denominated in foreign currency.~~

### (b) Interest Rate Sensitivity

The Group's exposure to changes in interest rates relates primarily to the Group's interest-bearing loans and borrowings and cash which are subject to variable interest rates. All other financial assets and financial liabilities have fixed rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

In managing interest rate, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates would have an impact on consolidated earnings.

The table below illustrates the sensitivity of consolidated profit before tax for the years in regards to the Group's cash and cash equivalents and interest-bearing loans and borrowings. These percentages have been determined based on the average market volatility rates, using standard deviation, in the previous 12 months, estimated at 68% level of confidence.

The sensitivity analysis is based on the Group's financial instruments held at end of the reporting periods.

	2016		2015		2014	
	Reasonably possible change in rate	Effect in profit before tax	Reasonably possible change in rate	Effect in profit before tax	Reasonably possible change in rate	Effect in profit before tax
Profit before tax:						
Net increase	+0.16%	(P 14,674)	+0.24%	(P 28,468)	+0.91%	(P 101,703)
Net decrease	-0.16%	14,674	-0.24%	28,468	-0.91%	101,703

### (c) Other Price Risk Sensitivity

The Group's market price risk arises from its AFS financial assets which is considered negligible as the amount of the assets is not material. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investment.

## 27.2 Credit Risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales of real estates are made to customers with appropriate credit history and has internal mechanism to monitor the granting of credit and management of credit exposures. The Group has provided allowance for impairment on receivables, where necessary, for potential losses on credits extended. The Group's contract receivables are effectively collateralized by real estate titles, which are subject to rescission and repossession upon non-payment after reasonable collection effort has been exerted by the Group while the Group's rental receivables are effectively collateralized by security deposits and advance rental which can be applied by the Group upon default of the lessee of its contracted rental payment. Other financial assets are not secured by any collateral or other credit enhancements.

The Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments, net of the value of advance rentals, security deposits and collaterals, if any.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the consolidated statements of financial position as of December 31, 2016 and 2015 (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below.

	Notes	2016	2015
Cash and cash equivalents	6	P 574,767	P 344,842
Receivables - net (excluding advances to contractors)	7	<u>881,653</u>	<u>983,787</u>
		<u>P 1,456,420</u>	<u>P 1,328,629</u>

### (a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

### (b) Receivables

Receivables are subject to credit risk exposure; however, the Group does not identify specific concentrations of credit risk with regard to these receivables, as the amount recognized resemble a large number of customers.

The Group's credit risk on its contract receivables are considered not significant as the title to the properties are only transferred to the buyers upon full payment. Credit risk for accounts receivable, rental receivables and due from related parties are also not significant as these are mainly from SMC and its related parties which are generally financially stable. Further, rental receivable is secured to the extent of advance rental and rental deposit received from the lessees.

The Group's management considers that all the financial assets are not impaired, except those specifically provided with allowance for impairment, as of the end of the reporting periods.

Financial assets that are past due but not impaired are as follows:

	<u>2016</u>		<u>2015</u>	
Not more than 30 days	P	20,160	P	45,044
More than 30 days but not more than 60 days		15,463		18,510
More than 60 days but not more than 90 days		30,736		19,400
More than 90 days		<u>316,958</u>		<u>364,358</u>
	P	<u>383,317</u>	P	<u>447,312</u>

### 27.3 Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstances.

The Group's objectives to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and, (d) to maintain an adequate time spread of refinancing maturities.

The maturity profile of the Group's financial liabilities (excluding unpaid taxes and provisions) as of December 31, 2016 based on contractual undiscounted payments is as follows:

	<u>Current</u>		<u>Noncurrent</u>	
	<u>Within 6 months</u>	<u>6 to 12 months</u>	<u>1 to 3 years</u>	<u>Later than 3 years</u>
Interest-bearing loans and borrowings	P 8,634,857	P -	P -	P -
Trade and other payables	907,856	334,042	2,808	-
Due to related parties	54,152	-	-	-
Rental deposits	<u>121,610</u>	<u>8,640</u>	<u>-</u>	<u>-</u>
	<u>P 9,718,475</u>	<u>P 342,682</u>	<u>P 2,808</u>	<u>P -</u>

The maturity profile of the Group's financial liabilities (excluding unpaid taxes and provisions) as of December 31, 2015 based on contractual undiscounted payments is as follows:

	Current		Noncurrent	
	Within 6 months	6 to 12 months	1 to 3 years	Later than 3 years
Interest-bearing loans and borrowings	P 12,248,954	P -	P -	P -
Trade and other payables	530,468	312,654	8,865	-
Due to related parties	2,089,647	-	-	-
Rental deposits	116,682	10,907	220	1,918
	<u>P 14,985,751</u>	<u>P 323,561</u>	<u>P 9,085</u>	<u>P 1,918</u>

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

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

### 28.1 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.

		2016		2015	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial assets</b>					
Loan and receivables:					
Cash and cash equivalents	6	P - 574,767	P 574,767	P 344,842	P 344,842
Receivables – net (excluding advances to contractors)	7	881,653	881,653	983,787	983,787
AFS financial assets	15	<u>9,895</u>	<u>9,895</u>	<u>12,365</u>	<u>12,365</u>
		<u>P 1,466,315</u>	<u>P 1,466,315</u>	<u>P 1,340,994</u>	<u>P 1,340,994</u>
<b>Financial liabilities</b>					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	16	P 8,596,265	P 8,596,265	P 12,206,483	P 12,206,483
Trade and other payables	17	1,244,706	1,244,706	851,987	851,987
Due to related parties	23	54,152	54,152	2,089,647	2,089,647
Rental deposits	23	<u>128,878</u>	<u>128,878</u>	<u>128,355</u>	<u>128,355</u>
		<u>P 10,024,001</u>	<u>P 10,024,001</u>	<u>P 15,276,472</u>	<u>P 15,276,472</u>

See Notes 2.5 and 2.14 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 27.

## ***28.2 Offsetting of Financial Assets and Financial Liabilities***

The Group has not set-off financial instruments in 2016 and 2015 and does not have relevant offsetting arrangements. Currently, all financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BODs and stockholders. As such, the Group's outstanding receivables from and payables to the same related parties as presented in Notes 7, 23.1(b) and 23.2(e) can be potentially offset to the extent of their corresponding outstanding balances.

## **29. FAIR VALUE MEASUREMENT AND DISCLOSURES**

### ***29.1 Fair Value Hierarchy***

In accordance with PFRS 13, the fair value of financial assets and financial liabilities and nonfinancial 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.

The quoted market price used for financial assets held by the Group is the current bid price.

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

Management considers the hierarchy of disclosed fair values of short-term financial instruments carried in the books at amortized cost to be at Level 1 as their carrying amounts as of December 31, 2016 and 2015 approximate their fair value. For the long-term financial instruments, management considers its hierarchy at Level 3.

The fair values of the financial assets and financial liabilities included in Level 3 which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value 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 rely 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.

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### ***29.3 Fair Value Measurement of Financial Assets***

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The Group's golf club shares classified as AFS financial assets are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

The fair value of these financial assets decreased by P50 in 2016 and P90 in 2015. The changes in fair value is presented as Fair Value Gains (Losses) account in the consolidated statements of comprehensive income and the accumulated changes is presented as part of Accumulated Fair Value Gains (Losses) – net account in the Equity section of the consolidated statements of financial position.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in 2016 and 2015.

The Group has no financial liabilities measured at fair value as of December 31, 2016 and 2015.

### ***29.4 Fair Value Measurement on Nonfinancial Assets***

Management considers the hierarchy of disclosed fair values of raw land inventory and investment property measured at cost and the fair value used to determine the impairment loss on certain property and equipment to be at Level 3. The fair value is determined on the basis of the appraisals performed by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations, from existing bid and offer prices and from recent sale transactions of adjacent properties. To some extent, the valuation process was conducted by the appraiser 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 investment properties and raw land inventory are their current use.

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The Level 3 fair value of raw land inventory and investment properties was derived using the observable recent transaction prices for similar properties in nearby locations adjusted for differences in key attributes such as property size, zoning, and accessibility.

The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

There has been no change to the valuation techniques used by the Group during the year for its investment properties. Also, there were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in 2016 and 2015.

### 30. CAPITAL MANAGEMENT OBJECTIVE, POLICIES AND PROCEDURES

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to stockholders or issue new shares.

The Group defines capital as paid-in capital stock, which includes additional paid-in capital and retained earnings, both the restricted and available for dividend declaration portions. Other components of equity such as treasury shares and revaluation reserves are excluded from capital for purposes of capital management. The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total liabilities (excluding deferred tax liabilities – net) divided by total equity attributable to owners of the Company [excluding accumulated fair value gains (losses) – net, cumulative translation adjustment and reserve for retirement plan]. Capital for the reporting periods as of December 31, 2016, 2015 and 2014 under review is summarized as follows:

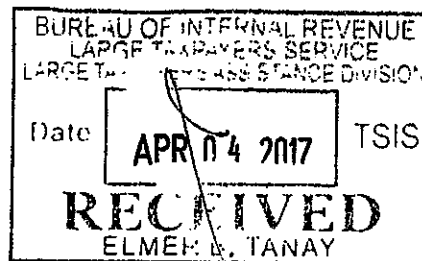
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total adjusted liabilities	P 10,602,462	P 16,530,674	P 14,144,825
Total adjusted equity	<u>18,789,995</u>	<u>9,804,614</u>	<u>9,532,093</u>
Debt-to-equity ratio	<u>0.56:1.00</u>	<u>1.69:1.00</u>	<u>1.48:1.00</u>

The Group, except for BOC which is subject to certain capitalization requirement by the BSP, is not subject to externally imposed capital requirements.

### 31. SUPPLEMENTAL INFORMATION ON NONCASH ACTIVITIES

Discussed in the succeeding page are the supplemental information on noncash operating, investing and financing activities relative to the consolidated statements of cash flows of the Group.

- (a) In 2016, deposits made amounting to P140,000, which were presented under Other Noncurrent Assets account, were reclassified to Intangible Assets – net account and Investment Property – net account amounting to P81,200 and P58,800, respectively, due to the finalization of the Agreement for which the deposits were placed (see Notes 12, 14 and 15).
- (b) In 2015, ownership over a parcel of land which amounted to P495,000 was reverted in the name of the Group from the Foundation through a rescission of donation and was classified as part of Investment Property - net account in the consolidated statements of financial position (see Notes 9 and 12).
- (c) In 2015 and 2014, certain parcels of land amounting to P232,820 and P270,130, respectively, were reclassified from Raw Land Inventory account to Investment Property - net account as management intends to lease these properties to third parties (see Notes 9 and 12).
- (d) In 2015, the Group sold its investment in Prestigio, which was previously recognized as part of Noncurrent Assets Classified as Held for Sale account for a total consideration of P34,645. Of the total consideration, P17,322 was already received in advance in prior years.
- (e) Portion of the total additions to Intangible Assets – net account amounting to P424 in 2015, and in Investment Property – net and Property and Equipment – net accounts amounting to P9,085 and P647 in 2014, respectively, was paid by SMC on behalf of the Group (see Notes 12, 13 and 14).
- (f) In 2016, 2015 and 2014, the Group capitalized borrowing costs specifically attributable to the construction of Investment Property and Real Estate Projects (see Note 16).





**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2016**

- (1) Supplementary Schedules to Consolidated Financial Statements  
*(Annex 68-E, SRC Rule 68)*

<u>Schedule</u>	<u>Content</u>
A	Financial Assets Financial Assets at Fair Value Through Profit or Loss Held-to-maturity Investments Available-for-sale Financial Assets
B	Amounts Receivable/Accounts Payable from/to Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock

- (2) Aging of Receivables
- (3) 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, 2016
- (4) Map Showing the Relationship Between the Company and its Related Entities
- (5) Schedule of Financial Soundness Indicators



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**Report of Independent Auditors  
to Accompany Supplementary Information  
Required by the Securities and Exchange  
Commission Filed Separately from the  
Basic Consolidated Financial Statements**

**Punongbayan & Araullo**  
20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 988 2288  
F +63 2 886 5506  
grantthornton.com.ph

**The Board of Directors and Stockholders  
San Miguel Properties, Inc. and Subsidiaries  
(A Subsidiary of San Miguel Corporation)**  
3<sup>rd</sup> Floor, San Miguel Head Office Complex  
No. 40 San Miguel Ave., Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Properties, Inc. and Subsidiaries (the Group) for the year ended December 31, 2016, on which we have rendered our report dated March 14, 2017. 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) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, as amended, and is 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 the Group's 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 consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

**By: Renan A. Piamonte**  
Partner

MAR 04 2017

GR Reg. No. 0107805  
TIN 221-843-037

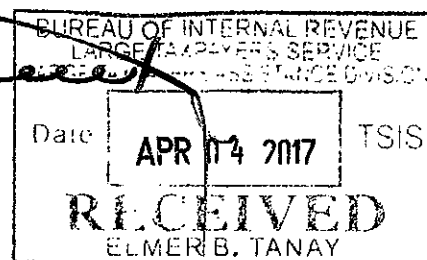
PTR No. 5908630, January 3, 2017, Makati City  
SEC Group A Accreditation

Partner - No. 1363-AR-1 (until Mar. 1, 2020)

Firm - No. 0002-FR-4 (until Apr. 30, 2018)

BIR AN 08-002511-37-2016 (until Oct. 3, 2019)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)



**Certified Public Accountants**

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**Report of Independent Auditors  
to Accompany Supplementary Information  
Required by the Securities and Exchange  
Commission Filed Separately from the  
Basic Consolidated Financial Statements**

**Punongbayan & Araullo**  
20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 988 2288  
F +63 2 886 5506  
grantthornton.com.ph

**The Board of Directors and Stockholders  
San Miguel Properties, Inc. and Subsidiaries  
(A Subsidiary of San Miguel Corporation)**  
3<sup>rd</sup> Floor, San Miguel Head Office Complex  
No. 40 San Miguel Ave., Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Properties, Inc. and Subsidiaries (the Group) for the year ended December 31, 2016, on which we have rendered our report dated March 14, 2017. 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) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, as amended, and is 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 the Group's 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 consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

**By: Renan A. Piamonte**  
Partner

CPA Reg. No. 0107805  
TIN 221-843-037

PTR No. 5908630, January 3, 2017, Makati City  
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

**Certified Public Accountants**

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

**March 14, 2017**

BOA/PRC Cert. of Reg. No. 0002  
SEC Accreditation No. 0002-FR-4

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
**SEC Released Amended SRC Rule 68**

**Annex 68-E**

**Schedule A - Financial Assets (Financial Assets at Fair Value Through Profit or Loss)**  
**December 31, 2016**  
**(Amounts in Thousand Philippine Pesos)**

<i>Name of issuing entity and association of each issue</i>	<i>Number of shares or principal amount of bonds or notes</i>	<i>Amount shown on the balance sheet</i>	<i>Valued based on the market quotation at balance sheet date</i>	<i>Income received and accrued</i>
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**NOT APPLICABLE**

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**

**SEC Released Amended SRC Rule 68**

**Annex 68-E**

**Schedule A - Financial Assets (Held-to-maturity Investments)**

**December 31, 2016**

*(Amounts in Thousand Philippine Pesos)*

<i>Name of issuing entity and association of each issue</i>	<i>Number of shares or principal amount of bonds or notes</i>	<i>Amount shown on the balance sheet</i>	<i>Valued based on the market quotation at balance sheet date</i>	<i>Income received and accrued</i>
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**NOT APPLICABLE**

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
**SEC Released Amended SRC Rule 68**  
**Annex 68-E**  
**Schedule A - Financial Assets (Available-for-sale Financial Assets)**  
**December 31, 2016**  
*(Amounts in Thousand Philippine Pesos)*

<i>Name of issuing entity and association of each issue</i>	<i>Number of shares or principal amount of bonds or notes</i>		<i>Amount shown on the balance sheet</i>		<i>Valued based on the market quotation at balance sheet date</i>		<i>Income received and accrued</i>
Riviera Golf Shares	1	P	3,271	P	3,271	P	-
Sta. Elena Golf	1		2,900		2,900		-
Mimosa Golf	4		1,600		1,600		-
Meralco	91,011		910		910		-
Apo Golf	1		530		530		-
Tagaytay Midlands	1		450		450		-
Metroclub	1		125		125		-
PLDT	41,850		109		109		-
Italian Country Club	89		-		-		-
	<b>132,959</b>	<b>P</b>	<b>9,895</b>	<b>P</b>	<b>9,895</b>	<b>P</b>	<b>-</b>

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
**SEC Released Amended SRC Rule 68**

*Annex 68-E*

**Schedule B - Amounts Receivable/Accounts Payable from/to Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)**  
**December 31, 2016**

*(Amounts in Thousand Philippine Pesos)*

<i>Name and designation of debtor</i>	<i>Balance at beginning of period</i>	<i>Additions</i>	<i>Deductions</i>		<i>Ending Balance</i>		<i>Balance at end of period</i>
			<i>Amounts collected</i>	<i>Amounts written off</i>	<i>Current</i>	<i>Not current</i>	

**NOT APPLICABLE**

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
SEC Released Amended SRC Rule 68

Annex 68-E

**Schedule C - Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements**

December 31, 2016

(Amounts in Thousand Philippine Pesos)

Name and designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance	
			Amounts collected	Amounts written off	Current	Not current
<b>Advances to Subsidiaries:</b>						
1st HQ-AYALA BUSINESS CENTER, INC.	P 63	477 P	-	P	P 540	P
512 ACACIA HOLDINGS CORPORATION	74,777	65,029	-	-	139,806	-
APICE SOLARE RESOURCES CORP	108	22,504	-	-	22,612	-
BRIGHT VENTURES REALTY, INC.	186,668	19,898 (	119,000 )	-	87,566	-
BRILLAR REALTY AND DEVELOPMENT CORPORATION	46,227	4,083	-	-	50,310	-
BULALACAO PROPERTY HOLDINGS INC.	2,095	747	-	-	2,842	-
BUSUANGA BAY HOLDINGS, INC.	5,905	994	-	-	6,899	-
CALAMIAN PRIME HOLDINGS, INC.	1,449	638	-	-	2,087	-
CARNELL REALTY, INC.	103,769	5,956	-	-	109,725	-
CORON ISLANDS HOLDINGS, INC.	11,163	1,414	-	-	12,577	-
DIMANYAN WAKES HOLDINGS, INC.	4,363	864	-	-	5,227	-
E-FARE INVESTMENT HOLDINGS, INC.	-	5,631	-	-	5,631	-
EL MONTAÑAS REALTY CORP	25,651	3,577 (	334 )	-	28,894	-
EL VERTICE REALTY CORPORATION	345,084	21,787	-	-	366,871	-
ELITE MONTAGNE REALTY CORP.	4,649	898	-	-	5,547	-
ESTIMA ALTA REALTY CORP	347,135	18,538	-	-	365,673	-
EXCEL UNIFIED LAND RESOURCES CORP.	113	2,270 (	113 )	-	2,270	-
FIRST MONTE SIERRA REALTY CORP	39,493	13,866	-	-	53,359	-
GRANDIOSO REALTY CORPORATION	70,022	15,061 (	14 )	-	85,069	-
HQ BUSINESS CENTER PHILS., INC.	7,594	-	(	6,908 )	686	-
INTEGRATED GEOSOLUTIONS INC	18,861	20,037	-	-	38,898	-
KINGSBOROUGH REALTY INC	47,814	4,268	-	-	52,082	-
LA BELLE PLUME REALTY INC.	904	50,592	-	-	51,496	-
LANES & BLWAYS REALTY CORP	49,068	35,720	-	-	84,788	-
LEGACY HOMES, INC.	219,834	22,531	-	-	242,365	-
MAISON 17 PROPERTIES, INC.	117,171	17,108	-	-	134,279	-
PALAWAN WHITE SANDS HOLDING CORP.	11,141	2,265	-	-	13,406	-
PICANTO DE ALTA REALTY CORP	869	594	-	-	1,463	-
PREMIATA REALTY INC	140,737	15,027	-	-	155,764	-
RAPIDSHARE REALTY AND DEVELOPMENT CORPORATION	103,456	8,626	-	-	112,082	-
ROCA PESADA REALTY CORP	231,383	345,299	-	-	576,682	-
SILANG RESOURCES, INC.	164	523	-	-	687	-
SMC ORIGINALS, INC.	557	8,924 (	4,000 )	-	5,481	-
SMPI MAKATI FLAGSHIP REALTY CORP.	81,049	10,128	-	-	91,177	-
STA. CRUZ RESOURCE MANAGEMENT, INC.	2,382	-	(	2,382 )	-	-
TANAUAN RESOURCES, INC.	87,886	8,179	-	-	96,065	-
ZOBEL POLO CLUB, INC.	422,400	34,580	-	-	456,980	-
	-	1,556 (	5 )	-	1,551	-
<b>P</b>	<b>2,812,004</b>	<b>790,189</b>	<b>( P 132,756 )</b>	<b>P</b>	<b>P 3,469,437</b>	<b>P</b>
						<b>P 3,469,437</b>



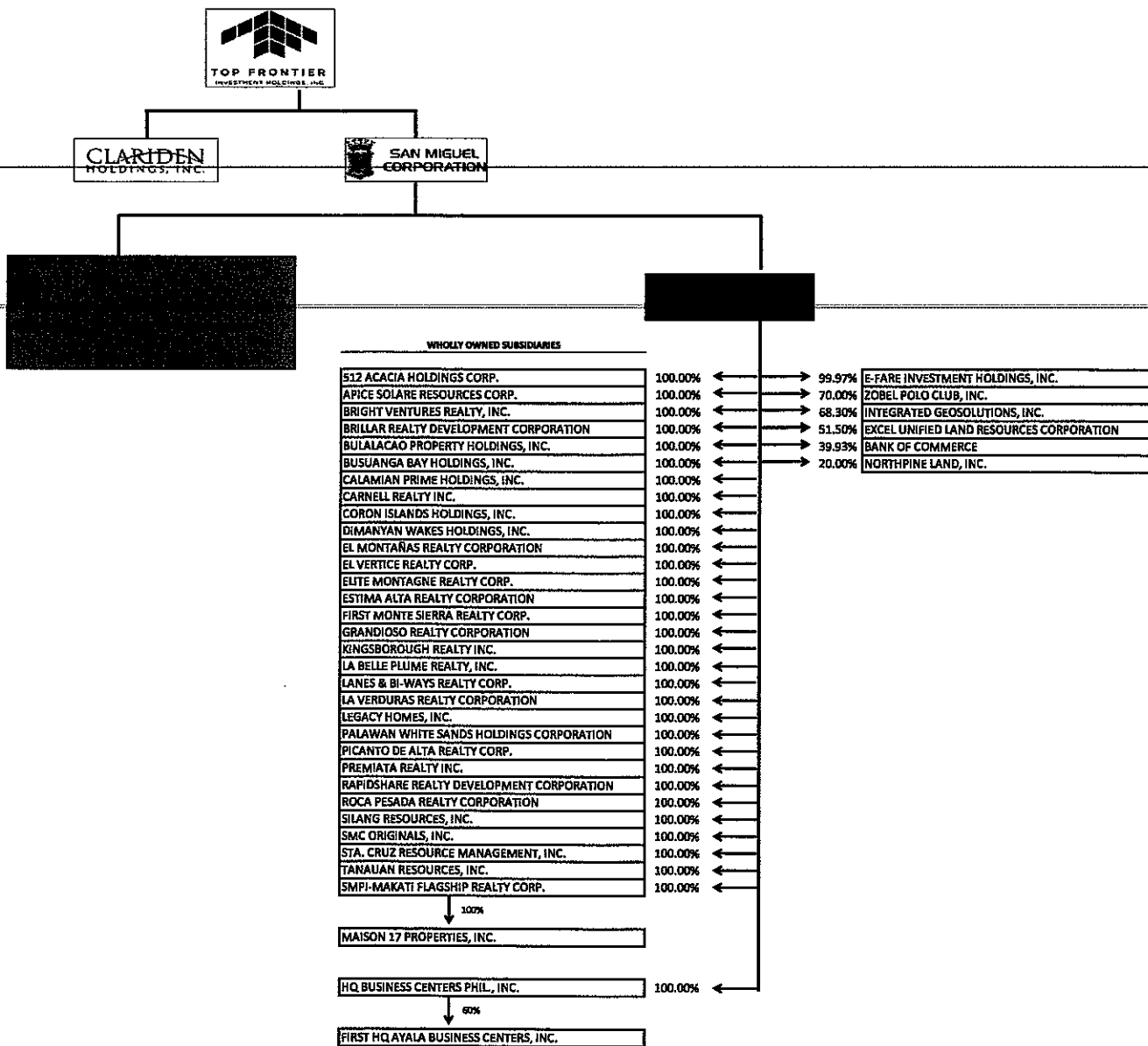
**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
*(A Subsidiary of San Miguel Corporation)*  
**Schedule of Philippine Financial Reporting Standards and Interpretations**  
**Adopted by the Securities and Exchange Commission and the**  
**Financial Reporting Standards Council as of December 31, 2016**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b>		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
<b>Practice Statement Management Commentary</b>			✓	
<b><i>Philippine Financial Reporting Standards (PFRS)</i></b>				
	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
<b>PFRS 1 (Revised)</b>	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	✓		
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* (effective January 1, 2018)			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
<b>PFRS 4</b>	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)			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	✓		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	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)			✓
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments (2014)* (effective January 1, 2018)			✓
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
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 Contract with Customers* (effective January 1, 2018)			✓
PFRS 16	Leases* (effective January 1, 2019)			✓
<b>Philippine Accounting Standards (PAS)</b>				
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* (effective January 1, 2017)			✓
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* (effective January 1, 2017)			✓
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	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
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	✓		
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	✓		
PAS 41	Agriculture	✓		
	Amendments to PAS 41: Bearer Plants	✓		
<b>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
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			✓

**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
*(A Subsidiary of San Miguel Corporation)*  
**MAP SHOWING THE RELATIONSHIP AMONG AND BETWEEN THE COMPANY AND ITS RELATED ENTITIES**  
**DECEMBER 31, 2016**



**SAN MIGUEL PROPERTIES, INC. AND SUBSIDIARIES**  
*(A Subsidiary of San Miguel Corporation)*  
**SEC Released Amended SRC Rule 68**  
**Annex 68, per Bulletin No. 1 dated February 16, 2012**  
**Schedule of Financial Soundness Indicators**  
**For the Years Ended December 31 2016, and 2015**

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurement based on the financial data of the current periods against the same period of previous year.

Key Performance Indicators	For the Years Ended December 31	
	2016	2015
Current Ratio	0.69 : 1.00	0.42 : 1.00
Total Assets to Equity Ratio	1.57 : 1.00	2.67 : 1.00
Debt to Equity Ratio	0.56 : 1.00	1.68 : 1.00
Return on Average Equity Attributable to Owners of the Parent Company	2.00%	3.00%
	For the Years Ended December 31	
	2016	2015
Volume Growth		
Lease	(2.48%)	0.00%
Real Estate Sales	(40.43%)	10.11%
Revenue Growth	53.41%	47.93%
Operating Margin	12.25%	10.25%
Interest Coverage Ratio	2.62 : 1.00	2.38 : 1.00

The manner by which the Group calculates the above indicators is as follows:

Key Performance Indicators	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Total Assets to Equity Ratio	$\frac{\text{Total Assets}}{\text{Equity} + \text{Non-Controlling Interest}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Excluding deferred tax liabilities)}}{\text{Total Equity (Excluding Accumulated Fair Value Loss, CTA, Reserve for Retirement Plan, Treasury Shares and NCI)}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Owners of the Parent Company}^*}{\text{Average Equity Attributable to Owners of the Parent Company}}$
Volume Growth	$\left[ \frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right] - 1$
Revenue Growth	$\left[ \frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right] - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$
Interest Rate Coverage Ratio	$\frac{\text{EBITDA}}{\text{Interest Expense and Other Financing Charges}}$