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S.E.C. Registration Number

STARMALLS, INC. (FORMERLY: POLAR PROPERTY HOLDINGS CORPORATION)

(Company's Full Name)

3RD LEVEL STARMALL LAS PINAS, CV STARR AVENUE, PHILAMLIFE VILLAGE, PAMPLONA, LAS PINAS CITY

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

**Jo L. Ilijay**
Contact Person

**571-5948 / 871-4001**
Company Telephone Number

**1 2** | **3 1**
*Month* *Day*
Calendar Year

**17-Q**
FORM TYPE

*Month* *Day*
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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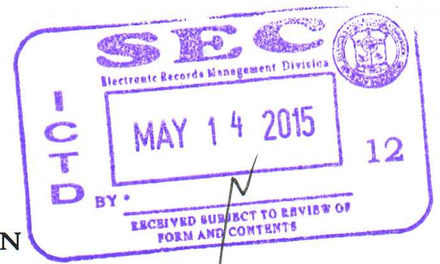
To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier




**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarter ended March 31, 2015

2. SEC Identification Number 39587

3. BIR Tax Identification No. 000-806-396

4. STARMALLS, INC.
Exact name of the registrant as specified in its charter

5. Metro Manila, Philippines
Province,country or other jurisdiction of incorporation

6. Industry Classification Code [          ] (SEC Use Only)

7. 3rd Level Starmall Las Piñas, CV Starr Avenue, Philamlife Avenue, Pamplona, Las Piñas City — 1746
Address of Principal Office — Postal Code

8. (02) 571-5948 / (02) 871-4001
Registrant's telephone number, including area code

9. Polar Property Holdings Corp.
Former name, former address and former fiscal year, if change since last report.

10. Securities registered pursuant to Sections 4 and 8 of the RSA

| Title of each Class | Number of Shares of common stock outstanding |
|---|---|
| **Common stock** | **8,425,981,155 shares** |
| **Preferred stock** | **2,350,000,000 shares** |

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

Yes [x] No [ ]

12. Check whether the registrant:

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

Yes [ x ] No [ ]

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

Yes [ x ] No [ ]

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**STARMALLS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS OF MARCH 31, 2015 AND DECEMBER 31, 2014**
*(In Thousand Pesos)*

| | *Unaudited* 03/31/2015 | *Audited* 2014 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | 647,935 | 1,960,277 |
| Trade and other receivables - net | 652,858 | 608,167 |
| Due from related parties | 816,879 | 860,675 |
| Real estate properties for sale - net | 324,327 | 323,441 |
| Available-for-sale financial assets | 370,657 | 340,657 |
| Prepayments and other current assets | 1,863,881 | 1,372,957 |
| Total Current Assets | 4,676,537 | 5,466,173 |
| **NON-CURRENT ASSETS** | | |
| Due from related parties | 3,511,787 | 3,189,816 |
| Available-for-sale financial assets | 3,204 | 3,204 |
| Investment properties | 20,446,265 | 19,445,196 |
| Property and equipment - net | 32,873 | 210,668 |
| Other non-current assets - net | 160,121 | 150,036 |
| Total Non-current Assets | 24,154,251 | 22,998,919 |
| **TOTAL ASSETS** | 28,830,787 | 28,465,093 |
| **LIABILITIES AND EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Liability for land acquisition | 157,002 | 246,757 |
| Interest-bearing loans and borrowings | 1,393,946 | 1,383,864 |
| Trade and other payables | 1,060,390 | 1,507,428 |
| Due to related parties | 26,715 | 25,936 |
| Income tax payable | 12,919 | 55,870 |
| Other current liabilities | 275 | 275 |
| Total Current Liabilities | 2,651,248 | 3,220,129 |
| **NON-CURRENT LIABILITIES** | | |
| Liability for land acquisition | 23,473 | 23,473 |
| Interest-bearing loans and borrowings | 4,316,538 | 3,518,035 |
| Retirement benefit obligation | 50,819 | 50,819 |
| Due to related parties | 154,919 | 154,919 |
| Deferred tax liabilities - net | 85,365 | 71,894 |
| Other noncurrent liabilities | 565,669 | 548,300 |
| Total Non-current Liabilities | 5,196,783 | 4,367,441 |
| Total Liabilities | 7,848,032 | 7,587,571 |
| **EQUITY** | | |
| Equity attributable to parent company's shareholders | | |
| Capital Stock | 8,449,481 | 8,449,481 |
| Additional paid-in capital | 976,059 | 976,059 |
| Treasury shares | (1,578,228) | (1,578,228) |
| Revaluation reserves | 6,987 | 2,001 |
| Retained earnings | 12,869,377 | 12,770,742 |
| Total equity attributable to parent company's shareholders | 20,723,675 | 20,620,056 |
| Non-controlling interest | 259,080 | 257,467 |
| Total Equity | 20,982,756 | 20,877,522 |
| **TOTAL LIABILITIES AND EQUITY** | 28,830,787 | 28,465,093 |

**STARMALLS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014**
*(In Thousand Pesos)*

| | *Unaudited* *Jan - Mar* Q1 - 2015 | *Unaudited* *Jan - Mar* 2015 | *Unaudited* *Jan - Mar* Q1 - 2014 | *Unaudited* *Jan - Mar* 2014 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Rent revenue | 373,643 | 373,643 | 334,113 | 334,113 |
| Common usage and service area charges | 70,511 | 70,511 | 61,001 | 61,001 |
| Parking fees | 10,711 | 10,711 | 9,724 | 9,724 |
| Real estate sales | - | - | 32,460 | 32,460 |
| Other operating income | 17,792 | 17,792 | 16,582 | 16,582 |
| | 472,656 | 472,656 | 453,881 | 453,881 |
| **COSTS AND EXPENSES** | | | | |
| Depreciation & Amortization | 169,907 | 169,907 | 145,448 | 145,448 |
| Occupancy expenses | 36,439 | 36,439 | 40,549 | 40,549 |
| Outside services | 50,309 | 50,309 | 39,858 | 39,858 |
| Repairs and maintenance | 11,782 | 11,782 | 10,683 | 10,683 |
| Advertising and promotions | 4,719 | 4,719 | 4,618 | 4,618 |
| Salaries and employee benefits | 31,872 | 31,872 | 24,122 | 24,122 |
| Taxes and licenses | 14,907 | 14,907 | 13,250 | 13,250 |
| Cost of real estate sales | - | - | 16,992 | 16,992 |
| Others | 19,974 | 19,974 | 14,206 | 14,206 |
| | 339,909 | 339,909 | 309,727 | 309,727 |
| **OPERATING PROFIT** | 132,748 | 132,748 | 144,154 | 144,154 |
| **OTHER INCOME (CHARGES)** | | | | |
| Finance income | 6,194 | 6,194 | 5,434 | 5,434 |
| Finance costs - net | ( 19,861 ) | ( 19,861 ) | ( 9,419 ) | ( 9,419 ) |
| | ( 13,666 ) | ( 13,666 ) | ( 3,985 ) | ( 3,985 ) |
| **PROFIT BEFORE TAX** | 119,081 | 119,081 | 140,169 | 140,169 |
| **TAX EXPENSE -** | ( 39,148 ) | ( 39,148 ) | ( 38,185 ) | ( 38,185 ) |
| **NET INCOME** | 79,933 | 79,933 | 101,984 | 101,984 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| Preacquisition income of subsidiary | | | | |
| Fair value gain (loss) on Available for Sale Financial Assets | - | - | - | - |
| **TOTAL COMPREHENSIVE INCOME** | 79,933 | 79,933 | 101,984 | 101,984 |
| Attributable to: | | | | |
| Parent company's shareholders | 78,319 | 78,319 | 99,324 | 99,324 |
| Minority interest | 1,614 | 1,614 | 2,661 | 2,661 |
| | 79,933 | 79,933 | 101,984 | 101,984 |
| **Earnings per Share** | P 0.009 | P 0.009 | P 0.012 | P 0.012 |

**STARMALLS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014**
*(In Thousand Pesos)*

| | *Unaudited Jan - Mar* Q1 - 2015 | *Unaudited Jan - Mar* 2015 | *Unaudited Jan - Mar* Q1 - 2014 | *Unaudited Jan - Mar* 2014 |
|---|---|---|---|---|
| **EQUITY ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS** | | | | |
| **COMMON STOCK** | | | | |
| Balance at beginning of period | 8,425,981 | 8,425,981 | 8,425,981 | 8,425,981 |
| Issuance of shares | - | - | - | - |
| Treasury shares | ( 1,578,228 ) | ( 1,578,228 ) | ( 1,578,228 ) | ( 1,578,228 ) |
| **Balance at end of period** | 6,847,753 | 6,847,753 | 6,847,753 | 6,847,753 |
| **PREFERRED STOCK** | | | | |
| Balance at beginning of period | 23,500 | 23,500 | 23,500 | 23,500 |
| Treasury shares | - | - | - | - |
| **Balance at end of period** | 23,500 | 23,500 | 23,500 | 23,500 |
| **ADDITIONAL PAID-IN CAPITAL** | 976,059 | 976,059 | 976,059 | 976,059 |
| **REVALUATION RESERVES** | | | | |
| Balance at beginning of period | 6,987 | 6,987 | ( 56,381 ) | ( 56,381 ) |
| Fair value gains (losses) | - | - | - | - |
| **Balance at end of period** | 6,987 | 6,987 | ( 56,381 ) | ( 56,381 ) |
| **RETAINED EARNINGS** | | | | |
| Balance at beginning of period | 12,791,058 | 12,791,058 | 12,424,336 | 12,424,336 |
| Net income | 78,319 | 78,319 | 99,324 | 99,324 |
| **Balance at end of period** | 12,869,377 | 12,869,377 | 12,523,660 | 12,523,660 |
| **MINORITY INTEREST** | | | | |
| Balance at beginning of period | 257,467 | 257,467 | 246,451 | 246,451 |
| Share in net income | 1,614 | 1,614 | 2,661 | 2,661 |
| **MINORITY INTEREST** | 259,080 | 259,080 | 249,112 | 249,112 |
| **TOTAL EQUITY** | 20,982,756 | 20,982,756 | 20,563,703 | 20,563,703 |

**STARMALLS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014**
***(In Thousand Pesos)***

| | *Unaudited Jan - Mar* Q1 - 2015 | *Unaudited Jan - Mar* 2015 | *Unaudited Jan - Mar* Q1 - 2014 | *Unaudited Jan - Mar* 2014 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income (loss) before tax | 119,081 | 119,081 | 140,169 | 140,169 |
| Adjustments for: | | | | |
| Equity in net earnings of an associate | - | - | - | - |
| Finance costs | 19,861 | 19,861 | 9,419 | 9,419 |
| Gain on sale of investment | - | - | - | - |
| Realized gross profit on real estate sales | - | - | - | - |
| Depreciation and amortization | 169,907 | 169,907 | 145,448 | 145,448 |
| Interest income | ( 6,194 ) | ( 6,194 ) | ( 5,434 ) | ( 5,434 ) |
| **Operating income before changes in operating assets and liabilities** | 302,655 | 302,655 | 289,601 | 289,601 |
| Decrease (increase) in: | | | | |
| Trade and other receivables | 49,180 | 49,180 | ( 86,792 ) | ( 86,792 ) |
| Real estate properties for sale | ( 886 ) | ( 886 ) | 8,006 | 8,006 |
| Prepayments and other current assets | ( 490,924 ) | ( 490,924 ) | ( 32,155 ) | ( 32,155 ) |
| Other non-current assets | ( 10,085 ) | ( 10,085 ) | ( 52,993 ) | ( 52,993 ) |
| Increase (decrease) in: | | | | |
| Trade and other payables | ( 447,037 ) | ( 447,037 ) | 9,796 | 9,796 |
| Liability for land acquisition | ( 89,756 ) | ( 89,756 ) | - | - |
| Other current liabilities | - | - | 6,999 | 6,999 |
| Deferred tax liabilities | 13,471 | 13,471 | ( 6,918 ) | ( 6,918 ) |
| Income tax payable | ( 42,950 ) | ( 42,950 ) | 32,090 | 32,090 |
| Deferred gross profit on real estate sales | - | - | - | - |
| Other non-current liabilities | 17,368 | 17,368 | ( 13,360 ) | ( 13,360 ) |
| **Cash from (used in) operations** | (698,964) | (698,964) | 154,274 | 154,274 |
| Payment of taxes | ( 39,148 ) | ( 39,148 ) | ( 38,185 ) | ( 38,185 ) |
| Interest received | 6,194 | 6,194 | 5,434 | 5,434 |
| Interest paid | ( 19,861 ) | ( 19,861 ) | ( 9,419 ) | ( 9,419 ) |
| **Net Cash from (Used in) Operating Activities** | (751,779) | (751,779) | 112,104 | 112,104 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Decrease (Increase) in amounts due from related parties | ( 366,663 ) | ( 366,663 ) | - | - |
| Increase in investment properties and property and equipment | ( 993,182 ) | ( 993,182 ) | ( 355,667 ) | ( 355,667 ) |
| Acquisitions of property and equipment | - | - | - | - |
| **Net Cash Provided by (Used in) Investing Activities** | ( 1,359,845 ) | ( 1,359,845 ) | ( 355,667 ) | ( 355,667 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Increase (decrease) in amounts due to related parties | 779 | 779 | - | - |
| Proceeds from bank loans | 873,266 | 873,266 | 236,250 | 236,250 |
| Payment of loans | ( 74,763 ) | ( 74,763 ) | ( 68,609 ) | ( 68,609 ) |
| **Net Cash From Financing Activities** | 799,282 | 799,282 | 167,641 | 167,641 |
| **NET INCREASE IN CASH** | ( 1,312,342 ) | ( 1,312,342 ) | ( 75,921 ) | ( 75,921 ) |
| **CASH AT BEGINNING OF PERIOD** | 1,960,277 | 1,960,277 | 1,124,306 | 1,124,306 |
| **CASH AT END OF PERIOD** | 647,935 | 647,935 | 1,048,385 | 1,048,385 |

**STARMALLS, INC. AND SUBSIDIARIES**
**NOTES TO INTERIM FINANCIAL STATEMENTS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2015**
***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

Starmalls, Inc. (the Company or Parent Company) was incorporated in the Philippines and duly registered with the Securities and Exchange Commission (SEC) on October 16, 1969, originally to pursue mineral exploration. After obtaining SEC approval, the Company later changed its primary business and is now presently engaged in holding investments in shares of stock and real estate business.

On May 14, 2012, the Company's Board of Directors (BOD) authorized the change in corporate name of Polar Property Holdings Corporation to Starmalls, Inc. The SEC approved the Company's application of change in corporate name on June 22, 2012.

The Company is owned by Fine Properties, Inc. or FPI (48.8%), PCD Nominee Corporation or PCDNC (50.9%), and other entities and individuals (0.3%) (see also Note 22). The Company's shares of stock are listed at the Philippine Stock Exchange (PSE).

As of March 31, 2015 and 2014, the Company has ownership interests in the following entities (the Company and subsidiaries are collectively referred herein as the Group):

| Subsidiaries | Percentage of Ownership | |
|---|---|---|
| | **2015** | 2014 |
| Masterpiece Asia Properties, Inc. (MAPI) | **100.0%** | 100.0% |
| Manuela Corporation (Manuela) | **98.4%** | 98.4% |
| Brittany Estates Corporation (BEC) | **-** | 100.0% |

On December 29, 2014, the Company disposed its 100% ownership interest in BEC. The disposal of the subsidiary resulted to the latter's deconsolidation from the Group as of December 31, 2014.

All subsidiaries were incorporated in the Philippines and are primarily engaged in the development, sale of real estate properties and leasing of commercial spaces.

The Company's registered office and principal place of business is located at 3rd Level Starmall Las Piñas, CV Starr Avenue, Pamplona, Las Piñas City.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

*(b) Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses 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.

Certain accounts in the 2013 and 2012 consolidated statements of financial position were reclassified to conform with the consolidated financial statement classification and presentation in 2014; hence, a third consolidated statement of financial position is presented. The reclassifications did not result to any adjustments in the 2013 and 2012 consolidated statements of comprehensive income.

*(c) Functional and Presentation Currency*

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

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

## 2.2 *Adoption of Amended PFRS and Interpretation*

(a) *Effective in 2014 that are Relevant to the Group*

In 2014, the Group adopted for the first time the following amendments and interpretation to PFRS that are relevant to the Group and effective for consolidated financial statements for the annual period beginning on or after January 1, 2014:

| | | |
|---|---|---|
| PAS 32 (Amendment) | : | Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities |
| PAS 36 (Amendment) | : | Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets |
| PAS 39 (Amendment) | : | Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting |
| PFRS 10, 12 and PAS 27 (Amendments) | : | Consolidated Financial Statements, Disclosure of Interest in Other Entities And Separate Financial Statements – Exemption from Consolidation for Investment Entities |
| Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21 | : | Levies |

Discussed below and in the succeeding pages are the relevant information about these amended standards and interpretation.

(i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. As the Group does not currently present any of its financial assets and financial liabilities on a net basis using the provisions of PAS 32, the amendment had no material effect on the Group's consolidated financial statements for any periods presented.

(ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the consolidated financial statements. This amendment did not result in additional disclosures in the consolidated financial statements since the recoverable amounts of the Group's non-financial assets where impairment losses have been recognized were determined based on value-in-use which have been adequately disclosed in accordance with PAS 36 (see Note 10).

(iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor does it apply hedge accounting, the amendment did not have any impact on the Group's consolidated financial statements.

(iv) PFRS 10, 12 and PAS 27 (Amendments), *Consolidated Financial Statements, Disclosures of Interests in Other Entities and Separate Financial Statements – Exemption from Consolidation for Investment Entities*. The amendments define the term "investment entity" and provide to such an investment entity an exemption from the consolidation of particular subsidiaries and instead require to measure investment in each eligible subsidiary at fair value through profit or loss in accordance with PAS 39 or PFRS 9, *Financial Instruments*, both in its consolidated or separate financial statements, as the case maybe. The amendments also require additional disclosures about the details of the entity's unconsolidated subsidiaries and the nature of its relationship and certain transactions with those subsidiaries. These amendments did not have an effect on the Group's consolidated financial statements as all of the subsidiaries are included in the consolidation.

(v) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the consolidated financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the Group's consolidated financial statements.

*(b) Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2014 which are adopted by the FRSC, subject to the approval of the BOA. 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 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.

(ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the consolidated financial statements. Accordingly, it clarifies 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 amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the consolidated financial statements.

(iii) PAS 16 (Amendment), *Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies 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. The amendment also provides 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.

(iv) PFRS 10 (Amendment), *Consolidated Financial Statements – Investment Entities: Applying the Consolidation Exception* (effective from January 1, 2016). This amendment confirms that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures its interest in all its subsidiaries at fair value in accordance with PFRS 10. The amendment further clarifies that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services

that are related to the investment activities of the investment entity parent, the latter shall consolidate that subsidiary.

(v) PFRS 10 (Amendment), *Consolidated Financial Statements* and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective from January 1, 2016). The amendment to PFRS 10 requires 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 amendment has been made to PAS 28 to reflect these changes.
In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(vi) PFRS 11 (Amendment), *Joint Agreements – Accounting for Acquisitions of Interests in Joint Operations* (effective from January 1, 2016). This amendment requires 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 PFRS, except for those principles that conflict with the guidance in PFRS 11.

(vii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 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.

The Group does not expect to implement and adopt PFRS 9 (2014) until its effective date. In addition, 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.

(viii) PFRS 15, *Revenue from Contract with Customers*. This standard will replace PAS 18, *Revenue* and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programs,* IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*, effective January 1, 2017. 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. This standard has not yet been adopted in the Philippines; however, management is currently assessing the impact of this standard on the Group's consolidated financial statements in preparation for the adoption of this standard in the Philippines.

(ix) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the amendments in the succeeding pages are relevant to the Group but management does not expect those to have material impact on the Group's consolidated financial statements.

*Annual Improvements to PFRS (2010 - 2012 Cycle)*

*(a)* PAS 16 (Amendment), *Property, Plant and Equipment.* The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

*(b)* PAS 24 (Amendment), *Related Party Disclosures.* The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the consolidated financial statements, and not the amounts of compensation paid or payable by the management entity to its employees or directors.

*(c)* PFRS 3 (Amendment), *Business Combinations.* This amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.

*(d)* PFRS 8 (Amendment), *Operating Segments.* This amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

*(e)* PFRS 13 (Amendment), *Fair Value Measurement.* The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

*(a)* PFRS 3 (Amendment), *Business Combinations.* It clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under
PFRS 11 in the consolidated financial statements of the joint arrangement itself.

*(b)* PFRS 13 (Amendment), *Fair Value Measurement.* The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in

accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

*(c)* PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

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

*(a)* PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides 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)* PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies 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.

*(c)* PAS 34 (Amendment), *Interim Financial Reporting – Disclosure of Information "Elsewhere in the Interim Financial Report"*. The amendment clarifies the meaning of disclosure of information "elsewhere in the interim financial report" and requires the inclusion of a cross-reference from the interim financial statements to the location of this referenced information. The amendment also specifies that this information must be available to users of the interim financial statements on the same terms as the interim financial statements and at the same time, otherwise the interim financial statements will be incomplete.

### *2.3 Basis of Consolidation*

The Group's consolidated financial statements comprise the accounts of the Company and its subsidiaries as enumerated in Note 1, after the elimination of all intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting principles.

The Company accounts for its investments in subsidiaries, an associate and non-controlling interest as follows:

*(a) Investments in Subsidiaries*

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

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

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement.
Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the identifiable net assets of the subsidiaries acquired, in the case of a bargain purchase, the difference is recognized directly as income in profit or loss (see Notes 2.9 and 12).

*(b) Investment in an Associate*

Associates are those entities over which the Parent Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in an associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of

acquisition cost over the fair value of the Parent Company's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Parent Company's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the ownership interest in the equity of the associate are recognized in the Parent Company's carrying amount of the investments. Changes resulting from the profit or loss generated by the associate are credited or charged against the Equity in Net Earnings of an Associate account in the statement of comprehensive income.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered.

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Parent Company, as applicable. However, when the Parent Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Parent Company 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 investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associate are accounted for as a reduction of the carrying value of the investment.

*(c) Transactions with Non-controlling Interests*

The Group's transactions with non-controlling interests 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 non-controlling interests result in gains and losses for the Group that are also recognized in equity.

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

## *2.4 Financial Assets*

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. 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 transactions related to it are recognized in profit or loss.

The Group's financial assets are currently classified as follows:

*(a) Loans and Receivables*

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

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade Receivables, Due from Related Parties, Other receivables, and Advances to officers and employees (classified under Prepayments and Other Current Assets), Installment contract receivables (classified under Other Current and Non-current Assets), and Refundable deposits (classified under Other Non-current Assets) in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in the consolidated profit or loss. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the 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 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 profit or loss.

*(b) AFS Financial Assets*

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

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

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

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets are recognized in profit or loss section and are presented as part of Finance Income or Finance Costs account of the consolidated statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

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

## *2.5 Real Estate Properties for Sale*

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to Real Estate Properties for Sale. Related property development costs are then accumulated in this account.

Except for repossessed residential units, raw land and related development costs including units for sale are carried at the lower of cost and net realizable value. The cost of real estate inventories is based on specific identification method. Cost includes acquisition costs of the land plus the costs incurred for its development, improvement and construction, including capitalized borrowing costs (see Note 2.16). Considering the pricing policies of the Group, cost is considerably lower than the net realizable value. Repossessed residential units are recorded at the lower of the balance of related receivables (net of deferred gross profit) less allowance for impairment losses, if any, and net realizable value.

At the end of the reporting period, real estate properties for sale are valued at lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Real estate properties for sale are written down to their net realizable values when such amounts are less than their carrying values (see Note 2.17).

Real estate properties for sale represent real estate subdivision projects for which the Group has already obtained licenses to sell from the Housing and Land Use Regulatory Board (HLURB) of the Philippines.

## *2.6 Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. 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 using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings and improvements | 10 to 40 years |
| Office and other equipment | 3 to 5 years |
| Construction equipment | 5 years |
| Transportation equipment | 3 years |

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 2.17).

Fully depreciated and amortized assets are retained in the account until these are no longer in use. No further charge of depreciation and amortization is made in respect of those assets.

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

An item of property and equipment, including the related accumulated depreciation, amortization and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in consolidated profit or loss in the year the item is derecognized.

### *2.7 Investment Property*

Investment property which includes land, building and improvements and commercial building under construction are accounted for under the cost model.

Land and building and improvements are property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. The cost of the land and building improvements comprises its purchase price or exchange price and directly attributable costs of acquiring the asset, less any impairment in value.

Depreciation and amortization of investment property under building and improvements are computed using the straight-line method over the estimated useful lives ranging from 10 to 40 years. The estimated useful life of the asset is reviewed, and adjusted if appropriate, at the end of each reporting period.

Commercial building under construction represents property that is being constructed or developed for future use as investment property. This includes cost of construction, applicable borrowing costs (see Note 2.16) and other directly attributable costs of bringing the asset to working condition for its intended use. The account is not depreciated until such time that the asset is completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount (see Note 2.17).

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated profit or loss in the year of retirement or disposal.

### *2.8 Prepayments and Other Assets*

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

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

### *2.9 Business Combinations*

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

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

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

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

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 profit or loss or other comprehensive income, as appropriate.

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

### *2.10 Financial Liabilities*

Financial liabilities, which include Liability for Land Acquisition, Interest-bearing Loans and Borrowings, Trade and Other Payables [except Deferred output value-added tax (VAT) payable, estimated liability for property development cost and other tax-related payables], Due to Related Parties, Refundable deposits (portion of which is presented under Other Non-current Liabilities) from lessees that are expected to be refunded in cash, are recognized when the Group becomes a party to the contractual terms of the instruments. All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss section of the consolidated statement of comprehensive income.

Interest-bearing loans and borrowings are availed to finance the construction of the commercial buildings and for working capital requirements. They are recognized at proceeds received, net of direct issue costs.

Trade and other payables, liability for land acquisition, due to related parties, refundable deposits are initially recognized 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 Company's BOD.

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

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

### *2.11 Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of

insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

### *2.12 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 commitment 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 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 due in the provision to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits 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.

### *2.13 Revenue and Expense Recognition*

Revenue comprises revenue from the sale of residential house and lot, sale of goods and rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding VAT and any 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)* *Rental income* – Rental income is recognized on a straight-line basis over the term of the operating lease. For tax purposes, rental income is recognized based on the contractual terms of the lease (see Note 2.14).

*(b)* *Common usage and service area charges* – Revenue is recognized when the performance of contractually agreed task has been substantially rendered

*(c)* *Rendering of services* – Revenue is recognized when the performance of contractually agreed tasks have been substantially rendered. Revenue from rendering of services

include common usage and service area charges, income from parking fees and others.

(d) *Real estate sales* – For financial reporting purposes, revenue from sale of real estate property is generally accounted for using the full accrual method. Under the full accrual method, gross profit on sale is recognized when: (a) the collectability of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion of the contract price, at least 20%, is received, and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

When a sale does not meet the requirements for revenue recognition under the full accrual method, the total gross profit is deferred until those requirements are met. The deferred gross profit relating to the sale of residential house and lots that meet certain level of collection but still under construction is presented as Deferred Gross Profit on Real Estate Sales account under the liabilities section of the consolidated statements of financial position.

The Group recognizes sale of real estate when at least 20% (for Manuela) of the total contract price has already been collected. If the transaction does not yet qualify as sale, the deposit method is applied until all the conditions for recording a sale are met. Pending the recognition of sale, payments received from buyers are presented as Refundable Deposits account classified under Non-current Liabilities in the consolidated statement of financial position.

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

Revenues and costs relative to the forfeited or backed-out sales are reversed in the current year as they occur.

For tax purposes, revenue on sale of residential house and lot is recognized in full in the year of sale when more than 25% of the net selling price is collected. Otherwise, the taxable income for the year is computed based on collections from the sales.

(e) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the related asset.

Costs and expenses are recognized in the consolidated profit or loss upon receipt of goods, utilization of services or at the date they are incurred. Real estate costs that relate to the acquisition, development, improvement and construction of house and lot are capitalized. The capitalized costs of real estate properties are charged to earnings when the related revenues are recognized. The costs of residential house and lots sold before the completion of the contemplated construction are determined based on actual costs incurred plus estimated costs to complete the real estate property.

The estimated costs to complete the real estate property are presented as Estimated

liability for property development cost under the Trade and Other Payables account in the consolidated statement of financial position. Additional costs incurred in connection with developed land and completed real estate properties and other selling and administrative costs are charged to profit or loss when incurred.

Other operating expenses are recognized in the consolidated statement of comprehensive income upon receipt of goods, utilization of services or at the date they are incurred. All finance costs are reported in the consolidated statement of comprehensive income, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.16).

### *2.14 Leases*

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

Operating lease income is recognized as income in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred by the Group in negotiating and arranging operating lease are recognized in profit or loss when 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.

### *2.15 Employee Benefits*

The Group provides post-employment defined benefits to employees through a defined benefit plan which are recognized as follows:

(a) *Defined benefit plan*

The Group does not have a formal retirement plan but it accrues for retirement benefit costs based on the provisions of Republic Act (R.A.) No. 7641, *The Retirement Pay Law*. R.A. No. 7641 relates to a defined benefit plan.

A defined benefit plan is a pension plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well

as qualifying insurance policies. The Group's post-employment defined benefit covers all regular full-time employees.

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

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs in the consolidated statement of comprehensive income.

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

*(b) Compensated Absences and Other Employee Benefits*

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 in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

### *2.16 Borrowing Costs*

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

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

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

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

The Group's investment in an associate, property and equipment, investment property and other non-financial assets are subject to impairment testing. Assets 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, assets are tested for impairment either individually or at the cash-generating unit level.

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

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

### *2.18 Income Taxes*

Tax expense recognized in consolidated profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated profit or loss.

Deferred tax is accounted for using the liability method, on all 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 carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

### *2.19 Related Party Transactions and Relationships*

Related party transactions are transfer 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; and, (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.

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

### *2.20 Segment Reporting*

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

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 24, which represent the main products and services provided by the Group.

Presently, the Group's only significant operating segment is related to its leasing operations; hence, no segment reporting is presented.

### *2.21 Equity*

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

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

Treasury stock are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of (see Note 22).

Revaluation reserves comprise gains and losses due to the revaluation of AFS financial assets and remeasurements of post-employment defined benefit plan.

Retained earnings represent all current and prior period results as reported in the profit or loss section of the consolidated statement of comprehensive income.

### *2.22 Earnings per Share*

Earnings per share (EPS) is determined by dividing net profit attributable to equity stockholders of the Company by the weighted average number of shares issued and outstanding during the year, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Group has no dilutive potential common shares that would require disclosure of diluted earnings per share in the consolidated statement of comprehensive income.

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

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

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

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

The Group recognizes revenues from real estate sales under the full accrual method. Under this method, critical judgment is made by management in determining whether the collectability of the sales price is reasonably assured. Management considers the collectibility of real estate sales as reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion of the contract price, at least 20%, is received, and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

*(b) Impairment of AFS Financial Assets*

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

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the AFS financial assets are not impaired as of December 31, 2014 and 2013. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

*(c) Distinguishing Investment Property, Real Estate Properties for Sale and Owner-managed Properties*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity.

Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in its operation. Real estate properties for sale are those held by the Group for sale in the ordinary course of business.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held 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 Operating and Finance Leases*

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

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition of provisions and contingencies are discussed in Note 2.12.

### 3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Impairment of Trade Receivables, Due from Related Parties and Other Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where an 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 and counterparties, the customers' and counterparties' credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amounts of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 5. No impairment loss was recognized in the Group's due from related parties based on management assessment.

(b) *Determining Net Realizable Value of Real Estate Properties for Sale*

In determining the net realizable value of real estate inventories, management takes into account the most reliable evidence available at the time the estimates are made. The future realization of the carrying amounts of real estate properties for sale, as presented in Note 6, is affected by price changes in the different market segments as well as the trends in the real estate industry. These are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's real estate inventories within the next reporting period.

Management determined that the net carrying values of its real estate properties for sale are lower than their net realizable values based on the present market rates. Accordingly, management did not recognize any valuation allowance on these assets as of December 31, 2014 and 2013.

*(c) Estimating Useful Lives of Property and Equipment and Investment Property*

The Group estimates the useful lives of certain property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property 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 at March 31. 2015 and December 31, 2014, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(d) Fair Value Measurement for Investment Property*

Investment property is measured using the cost model. The fair value disclosed in Note 9 is determined by the Company based on the appraisal report prepared by professional and independent appraisers. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect the prices and the value of the assets. As of March 31, 2015 and December 31, 2014 and 2013, the Company determined that there were no significant circumstances that may affect the fair value determination of investment property.

*(e) Determining Realizable Amount of Deferred Tax Assets*

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

*(f) Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.17). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in 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.

There were no impairment losses recognized on property and equipment and investments in an associate based on management's evaluation for the quarter ended March 31, 2015 and the years ended December 31, 2014, and 2013.

(g) *Estimated Liability on Property Development Costs*

The Group estimated its liability for property development cost for uncompleted cost for uncompleted residential house and lot sold based on updated budgets and available information and circumstances, as well as previous experience. The estimated liability for property development cost is presented as part of Trade and Other Payables in the consolidated statement of financial position.

(h) *Valuation of Post-employment Defined Benefit Plan*

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

(i) *Fair Value Measurement of AFS Financial Assets*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying value of the Group's AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Note 7.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of March 31, 2015 and December 31, 2014:

| | **31 Mar 2015** | 31 Dec 2014 |
|---|---|---|
| Cash on hand and in banks | **P 643,483,697** | P 1,955,825,670 |
| Short-term placements | **4,450,962** | 4,450,962 |
| | **P 647,934,659** | P1,1960,276,632 |

Cash in banks generally earn interest based on daily bank deposit rates.

Short-term placements are made for varying periods of between 30 to 90 days and earn effective interests ranging from 0.4% to 2.3%. Interest income from cash in banks and short-term

placements is recognized as part of Finance Income under the Other Income (Charges) account in the consolidated statements of comprehensive income. The Group's cash and cash equivalents do not include restricted cash amounting to P72.2 million as of March 31, 2015 and December 31, 2014, which is presented as part of Prepayments and Other Assets account in the consolidated statements of financial position.

## 5. TRADE RECEIVABLES

The balance of this account is composed of the following as of March 31, 2015 and December 31, 2014:

| | **31 Mar 2015** | 31 Dec 2014 |
|---|---|---|
| Trade receivables from tenants: | | |
| Third party | **P 604,431,260** | P 515,960,408 |
| Related parties under common ownership | **48,027,414** | 92,206,511 |
| | **P 652,858,304** | P 608,166,919 |

All of the Group's trade and other receivables have been reviewed for indications of impairment. In 2013, certain receivables from tenants, contractors, suppliers, brokers, and others were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized. There was no additional impairment loss required to be recognized in 2014 and 2015. In 2014, management assessed that certain receivables totaling P21.6 million which were previously provided with allowance should already be written off.

Receivables from tenants represent the outstanding receivables arising from the lease of commercial spaces relating to the Group's mall operations and are collectible within 12 months from the end of the reporting period.

## 6. REAL ESTATE PROPERTIES FOR SALE

Real estate properties for sale as of March 31, 2015 and December 31, 2014 are stated at cost, the details of which are shown below.

| | **31 Mar 2015** | 31 Dec 2014 |
|---|---|---|
| Residential units for sale | **P 157,859,762** | P 157,357,423 |
| Land for future development | **166,467,236** | 166,083,953 |
| | **P 324,326,998** | P 323,441,376 |

Residential units for sale represent houses and lots in completed subdivision projects for which the Group has already been granted the license to sell by the HLURB of the Philippines. Residential units include units that are ready for occupancy, house models and units under construction.

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSESTS

The breakdown of this account is as follows:

| | 31 Mar 2015 | 31 Dec 2014 |
|---|---|---|
| Current: | | |
| Debt securities | **P 198,786,854** | P 198,786,854 |
| Bank notes | **100,000,000** | 100,000,000 |
| Equity securities | **71,869,689** | 41,869,689 |
| | **370,656,543** | 340,656,543 |
| Non-current – | | |
| Equity securities | **3,204,170** | 3,204,170 |
| | **P 373,860,713** | P 343,860,713 |

The fair values of the investments in AFS financial assets have been determined directly by reference to published prices in an active market

The AFS financial assets classified as current assets in the consolidated statements of financial position is intended by management to be disposed within 12 months from the end of the reporting period.

Interest income from AFS financial assets are presented as part of Finance Income under the Other Income (Charges) account in the consolidated statements of comprehensive income.

## 8. PREPAYMENTS AND OTHER ASSETS

This account is composed of the following as of March 31, 2015 and December 31, 2014:

| | 31 Mar 2015 | 31 Dec 2014 |
|---|---|---|
| Current: | | |
| Advances to contractors, brokers and others | **P 1,077,464,266** | P 605,338,800 |
| Input VAT | **570,426,171** | 592,917,116 |
| Reserve fund | **72,185,021** | 72,185,021 |
| Prepayments | **56,092,644** | 31,068,666 |
| Advances to officers and employees | **25,382,375** | 25,382,375 |
| Advances to suppliers | **14,880,995** | 13,743,363 |
| Short-term installment contracts receivable | **-** | 9,645,634 |
| Creditable withholding taxes | **11,409,783** | 7,927,322 |
| Others | **36,039,499** | 14,748,312 |
| | **1,863,880,754** | 1,372,956,610 |

| | | |
|---|---|---|
| Non-current: | | |
| Refundable deposits | **102,688,639** | 92,603,284 |
| Long-term installment contracts receivable | **56,984,250** | 56,984,250 |
| Others | **448,359** | 448,359 |
| | **160,121,248** | 150,035,893 |
| | **P 2,024,002,002** | P 1,522,992,503 |

Reserve fund represents the fund established by MAPI in 2013 in accordance with a loan agreement with a local bank. The fund earns effective interest ranging from 0.3% to 2.5% in 2015 and 2014.

Prepayments pertain to prepaid taxes, insurance premiums, employee benefits, repairs and rent, which will be utilized within 12 months from the end of the reporting period.

Others include accrued interest receivable, penalties receivable from tenants due to late payments, security deposits, advance rentals and office supplies.

## 9. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land and building and improvements, which are owned and held for capital appreciation and rental purposes.

The Group's investment property generates rental income under various operating lease agreements. Rental income from the investment property amounting to P368.6 million and P1,408.1 million for the period ended March 31, 2015 and December 31, 2014, respectively, are presented as Rental income under Revenues and Income in the consolidated statements of comprehensive income.

Direct costs incurred generally pertain to depreciation charges and real property taxes. Real property tax related to investment property was recognized as part of Taxes and Licenses in the consolidated statements of comprehensive income. Depreciation charges are presented as part of Depreciation and Amortization in the consolidated statements of comprehensive income.

The composition of this account is shown below.

| | **31 Mar 2015** | 31 Dec 2014 |
|---|---|---|
| Land | **P 9,329,122,464** | P 9,329,122,464 |
| Building and improvements, net of accumulated depreciation | **8,475,472,427** | 8,370,054,385 |
| Commercial building under construction | **2,641,670,494** | 1,746,019,274 |
| | **P 20,446,265,385** | P 19,445,196,123 |

Commercial building under construction pertains to accumulated costs incurred in the development of certain commercial buildings. Capitalized borrowing costs amounting representing the actual borrowing costs incurred on loans obtained to fund the construction project are included as part of the costs of Investment Property

### *9.1 Investment Property Owned by the Parent Company*

The Parent Company's investment property has a carrying amount of P5.1 million as of March 31, 2015 and December 31, 2014. This consists of parcels of land located in Valenzuela City with a total land area of 23,675 square meters. The investment property is being held for capital appreciation.

The fair value of the remaining investment property in Valenzuela as of December 31, 2014 amounted to P41.5 million as determined by an independent firm of appraisers.

### *9.2 Investment Property Owned by MAPI*

MAPI's investment property includes several parcels of land, commercial buildings which are currently held for lease (Starmall San Jose Del Monte in Bulacan, Starmall Taguig and Starmall Azienda in Cebu), a commercial building in Wack-Wack and commercial buildings under construction which are owned primarily to earn rental income in the future.

In 2014, MAPI acquired certain parcels of land in several locations at a cost of P700.5 million, for future establishment of commercial properties.

MAPI's land located in Bacoor, Cavite was contributed by two of its former major shareholders as consideration for their subscription to MAPI's shares of stock. The cost of acquisition and development of approximately 177,746 square meters of the said property amounted to P2.9 billion as of March 31, 2015. The parcel of land is currently being developed by the Group as a commercial center that will be available for lease in the future.

The land located in San Jose del Monte, Bulacan amounting to P52.5 million, which represents its purchase price, was acquired in 2011 from Household Development Corporation (HDC), a related party under common ownership [see Notes 13 and 21.4(a)]. The Phase 1 and Phase 2 of Starmall San Jose Del Monte were completed in 2012 and 2014, respectively, and started their operations in 2013 and 2014, respectively. Accordingly, the Company reclassified portion of Commercial buildings under construction to Buildings and improvements amounting to P786.4 million and P56.4 million representing the completion of Phase 1 and Phase 2 of the commercial building which are already available for lease. Phase 3 of Starmall San Jose Del Monte is still in progress as of March 31, 2015.

In addition to the Phase 2 of Starmall San Jose Del Monte, Starmall Taguig and Starmall Azienda were also completed in 2014 and started operations in September and November, respectively. A commercial building in Wack-Wack was also completed during the latter part of the year. Accordingly, the Company reclassified portion of commercial buildings under construction to building and improvements totaling P1.0 billion which represents all the completed malls and commercial buildings for 2014.

### *9.3 Investment Property Owned by Manuela*

The investment property of Manuela, includes several parcels of land and buildings and improvements located in Mandaluyong City [Starmall EDSA – Shaw and Worldwide Corporate Center (WCC)], Las Piñas City (Starmall Las Piñas and Starmall Las Piñas – Annex) and Muntinlupa City (Starmall Alabang). Part of the cost of buildings and improvements is the capitalized borrowing cost amounting to P1.1 million in 2014. These properties are owned and held primarily to earn rental income. The capitalization rate used was 5.75% in 2014.

### *9.4 Fair Value of Investment Property*

In 2014, the Company secured the services of an independent firm of appraisers to determine the fair market values of the Company's investment as of December 31, 2014. Fair market value of investment property 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.

The results of the appraisal below showed that the fair market values of investment property exceeded the related carrying amounts as of December 31, 2014.

| | Land | Buildings and Improvements | Total |
|---|---|---|---|
| Company – | | | |
| Land in Valenzuela City | P 41,521,500 | P - | P 41,521,500 |
| MAPI: | | | |
| Sta. Rosa Laguna | 1,166,000,000 | 451,447,000 | 1,617,447,000 |
| Imus, Cavite | 218,489,734 | - | 218,489,734 |
| Land in Bacoor, Cavite | 4,471,177,000 | 803,740,000 | 5,274,917,000 |
| Starmall San Jose del Monte | 204,800,000 | 956,085,000 | 1,160,885,000 |
| Mandaluyong City | 221,000,000 | 419,782,000 | 640,782,000 |
| Manuela: | | | |
| Starmall Alabang | 2,813,000,000 | 3,534,428,000 | 6,347,428,000 |
| Starmall EDSA-Shaw | 2,925,000,000 | 1,186,495,000 | 4,111,495,000 |
| Starmall Las Piñas | 289,400,000 | 523,107,000 | 812,507,000 |
| Starmall Las Piñas-Annex | 117,600,000 | 99,728,000 | 217,328,000 |
| WCC | - | 1,983,252,000 | 1,983,252,000 |
| | P 12,467,988,234 | P 9,958,064,000 | P 22,426,052,234 |

## 10. GOODWILL

The Company's acquisitions of equity interests in its subsidiaries gave rise to negative goodwill. The deficiency of the acquisition costs over the Company's share in the fair value of the identifiable net assets for Manuela amounting to P9.3 billion was recognized directly in profit or loss in the consolidated statement of comprehensive income; while for MAPI and BEC totaling P24.9 million, this was treated as adjustment to the subsidiaries' undivided land deemed to be overvalued at the date of acquisition in 2004 for both subsidiaries.

The negative goodwill arising from the acquisition of BEC was accordingly eliminated in its deconsolidation from the Group in 2014.

In 2012, the Company acquired 98.4% ownership interest in Manuela through a share swap with Manuela's former stockholders in exchange for 3,533,569,997 of its own shares at a total subscription price of P4,527,396,641.

For purposes of computing the corresponding negative goodwill arising from the acquisition of 98.4% ownership interest in Manuela, the Company obtained the fair value of the identifiable net assets of the Manuela as of June 30, 2012 even though the Company acquired Manuela on June 22, 2012 since there was no available financial data at the time of acquisition. Management believes that the June 30, 2012 data used will not materially differ had the Company used financial data at the date of acquisition.

Negative goodwill amounting to P9.3 billion, representing the excess of the Company's share in the fair value of the identifiable net assets of Manuela at the date of acquisition over the acquisition cost, was recognized directly in profit or loss in the 2012 consolidated statement of

comprehensive income as Income from Acquisition of a Subsidiary under the Other Income (Charges) account.

## 11. LIABILITY FOR LAND ACQUISITION

Liability for land acquisition represents the outstanding payable as of March 31, 2015 and December 31, 2014 relating to the Group's acquisition of certain parcels of land.

In 2011, the Group entered into a Contract to Sell (CTS) with HDC to purchase a parcel of land located in San Jose, Bulacan to be developed by the Group as commercial property (see Note 8). Total contract price amounted to P52.5 million, out of which P5.3 million was paid upon execution of the CTS and the balance payable in quarterly payments over a period of five years commencing on January 15, 2012. The liability for land acquisition is noninterest-bearing and measured at amortized cost using the effective interest rate method. The discount rate of 5.70% was determined by reference to prevailing interest rates on similar borrowings. As of December 31, 2013, the Group has paid 25% of the total purchase price and the title to the land has already been transferred to the Group. Additions in 2014 pertains to land purchases in various locations from individual third parties amounting to P700.5 million to be held as future commercial building construction sites. From these purchases, the Group had outstanding liability of P217.6 million, payable in the next 12 months, and P14.3 million with maturity of more than 1 year, presented as part of the Liability for Land Acquisition in the current and non-current liabilities section, respectively, of the consolidated statement of financial position.

## 12. TRADE AND OTHER PAYABLES

This account consists of:

| | 31 Mar 2015 | 31 Dec 2014 |
|---|---|---|
| Trade payables | **P 245,842,038** | P 573,958,565 |
| Accrued rentals | **248,956,775** | 252,107,294 |
| Construction payable | **-** | 174,269,234 |
| Deferred output VAT | **36,741,512** | 139,633,119 |
| Retention payable | **299,572,735** | 264,273,577 |
| Estimated liability on property development cost | **-** | 4,831,199 |
| Accrued expenses | **169,225,233** | 75,019,755 |
| Other payables | **60,052,143** | 23,335,067 |
| | **P 1,060,390,436** | P 1,507,427,810 |

Accrued rentals pertain to the effect of straight-line recognition of contractual rent expense as prescribed by PAS 17, Leases.

Accrued expenses represent the accrual for security, building maintenance and janitorial services, salaries and employee benefits, professional fees, interest on interest-bearing loans and borrowings and other administrative expenses as well as marketing and advertising expenses, which are expected to be settled within 12 months after the end of the reporting period

## 13. EQUITY

### *13.1 Capital Stock*

Capital stock consists of:

| | Shares | | Amount | |
|---|---|---|---|---|
| | 31 Mar **2015** | 31 Dec 2014 | 31 Mar **2015** | 31 Dec 2014 |
| Preferred – voting, cumulative, non-participating, non- convertible, non-redeemable – P0.01 par value | | | | |
| Authorized | **10,000,000,000** | 10,000,000,000 | **P 100,000,000** | P 100,000,000 |
| Issued and outstanding: | | | | |
| Balance at beginning of year | **2,350,000,000** | 2,350,000,000 | **P 23,500,000** | P 23,500,000 |
| Issuance during the year | **-** | - | **-** | - |
| Balance at end of year | **2,350,000,000** | 2,350,000,000 | **P 23,500,000** | P 23,500,000 |
| Common shares – P1.00 par value | | | | |
| Authorized | **16,900,000,000** | 16,900,000,000 | **P 16,900,000,000** | P 16,900,000,000 |
| Issued and outstanding: | | | | |
| Balance at beginning of year | **8,425,981,155** | 8,425,981,155 | **P 8,425,981,155** | P 8,425,981,155 |
| Issuance during the year | **-** | - | **-** | - |
| Balance at end of year | **8,425,981,155** | 8,425,981,155 | **P 8,425,981,155** | P 8,425,981,155 |
| | | | **P 8,449,481,155** | P 8,449,481,155 |

**At the consolidation level, the shares of stock of the Company held by Manuela resulted in the recognition of Treasury Stock amounting to P1.6 billion, which is equal to the cost of acquisition by Manuela of the said shares.*

On May 14, 2012, the BOD approved the increase in the Company's authorized capital stock from P5.5 billion divided into 5.5 billion shares with P1 par value to P17.0 billion divided into 16.9 billion common shares with P1 par value and 10.0 billion preferred shares with P0.01 par value. The application for increase in authorized capital stock was approved by the SEC on June 22, 2012.

Each preferred share is a voting, cumulative, non-participating, non-convertible and non-redeemable share.

The list of common shareholders of the Company is shown below with their respective number of shares held:

| | Number of Shares Issued | Percentage Ownership |
|---|---|---|
| FPI | 2,573,507,156 | 30.5% |
| PCDNC | 5,831,436,554 | 69.2% |
| Others | 21,037,446 | 0.3% |
| | 8,425,981,156 | 100% |

The following also illustrates the additional listings made by the Company:

On November 13, 1970, the SEC approved the listing of the Company's common shares totaling 1.0 billion. The shares were initially issued at an offer price of P0.01 per share.

On November 10, 2004, the SEC approved the increase in the authorized capital stock of the Company to P4.5 billion divided into 4.5 billion shares with a par value of P1 each, as authorized by the Company's BOD.

In 2005, the Company applied for another increase in its authorized capital stock to P5.5 billion divided into 5.5 billion shares with a par value of P1 each, as authorized by the Company's BOD. On November 23, 2005, the SEC approved the increase in the authorized capital stock of the Company.

As of March 31, 2015 and December 31, 2014, 7.7 billion shares are listed in the PSE and closed at P7.35 and P7.20 per share, respectively.

### *13.2 Retained Earnings*

The Company's BOD approved the declaration of cash dividends of P0.20 per share (or a total of P978,482,232) on November 20, 2007, payable on December 28, 2007, to stockholders of record as of December 5, 2007. As of March 31, 2014 and December 31, 2013, unpaid portion of these dividends amounting to P0.3 million is presented as Dividends Payable in the consolidated statements of financial position. There were no dividends declared for the period ended March 31, 2015 and the years ended December 31, 2013 and 2012.

## 14. EARNINGS PER SHARE

Earnings per share were computed as follows:

| | **31 Mar 2015** | 31 Mar 2014 |
|---|---|---|
| Net profit attributable to parent company's shareholders | **P 78,318,991** | P 99,323,625 |
| Divided by weighted outstanding common shares | **8,425,981,155** | 8,425,981,155 |
| Earnings per share | **P 0.01** | P 0.01 |

Diluted earnings per share was not determined since the Group does not have potential dilutive shares as of March 31, 2015 and 2014.

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Results of operations covering three months ended March 31, 2015 vs. three months ended March 31, 2014***

**Revenues**

*Rental Revenue*
Rental revenue increased by 12% from ₱334.1 billion in the quarter ended March 31, 2014 to ₱373.6 million in the quarter ended March 31, 2015 due to the increase in occupancy of existing malls and corporate building and opening of Starmall Prima Daang Hari Phase 1.

*Common Usage and Service Area Charges*
Common usage and service area (CUSA) charges increased by 16% from ₱61.0 million in the three months ended March 31, 2014 to ₱70.5 million in the period ended March 31, 2015, due to improvement in occupancy of the seven malls and one corporate office building.

*Parking Fees*
Parking fee revenue increased from ₱9.7 million in the quarter ended March 31, 2014 to ₱10.7 million in the quarter ended March 31, 2015. The 10% increase was due to the increase in parking rates, improvement of parking system and increase occupancy in the existing malls and corporate office building.

*Real Estate Sales*
Real estate sales declined by 100% from ₱32.5 million in the three months ended March 31, 2014 to nil in the same period in 2015 because of the deconsolidation of BEC.

*Other Operating Income*
Other operating income increased from ₱16.6 million in the three months ended March 30, 2014 to ₱17.8 million in the period ended March 31, 2015. The 7% increase was due to increase in other operating income such as sale of ancillary services and penalties charged to tenants.

*Finance Income*
Finance income increased by from ₱5.4 million in the three months ended March 31, 2014 to ₱6.2 million in the period ended March 31, 2015. The 14% decrease was due to the increase in interest earned from AFS financial assets and the savings and time deposit accounts of the Group.

**Costs and Expenses**

*Operating Costs and Expenses*
Operating cost and expenses increased from ₱309.8 million in the three months ended March 31, 2014 to ₱339.9 million in the period ended March 31, 2015. The increase in the account was primarily attributable to the following:

- Increase in depreciation and amortization by 17% from ₱145.4 million in the three months ended March 31, 2014 to ₱170.0 million in the period ended March 31, 2015 due to the additional depreciation from new or refurbished mall equipments and new malls.

- Decrease in occupancy expenses by 10% from ₱40.5 million in the period ended March 31, 2014 to ₱36.4 million in the three months ended March 31, 2015 due to the decrease in utilities expense for the 1st Quarter 2015.

- Increase in outside services by 26% from ₱39.9 million in the period ended March 31, 2014 to ₱50.3 million in the three months ended March 31, 2015 due to the increase in manpower and agency fees for the operations of the malls and office building.

- Increase in advertising and promotion by 2% from ₱4.6 million in the three months ended March 31, 2014 to ₱4.7 million in the period ended March 31, 2015 due to increase in marketing, activities for the promotions for the malls.

- Increase in salaries and employee benefits by 32% from ₱24.1 million in the three months ended March 31, 2014 to ₱31.9 million in the period ended March 31, 2015 due to the increase in manpower for the operations and management of the existing malls and office building and the construction and development of new projects of the Group.

- Increase in taxes and licenses by 13% from ₱13.3 million in the quarter ended March 31, 2014 to ₱14.9 million in the period ended March 31, 2015 due to increase in real property taxes paid for the existing and new projects and additional properties of the Group.

- Cost of real estate sales decreased by 100% from ₱17.0 million in the period ended March 31, 2014 to nil in the three months ended March 31, 2015 to due to the deconsolidation of BEC in December 2014.

- Increase in other operating expenses by 41% from ₱14.2 million in the three months ended March 31, 2014 to ₱19.9 million in the period ended March 31, 2015 due to the increase in communication, transportation and other operating expenses.

Interest and financing charges increased by 111% from ₱9.4 million in the quarter ended March 31, 2014 to ₱19.9 million in the period ended March 31, 2015. This was due to additional interest–bearing loans obtained in the 2nd Semester 2014 and in the 1st Quarter 2015.

Provision for tax increased by 3% from ₱38.2 million in the quarter ended March 31, 2014 to ₱39.1 million in the period ended March 31, 2015. This was due to higher operating revenues in the 1st quarter 2015.

### *Comprehensive Income*

As a result of the foregoing, the Company's comprehensive income decreased from ₱101.9 million in the three months ended March 31, 2014 to ₱81.2 million in the three months ended March 31, 2015.

For the three months ended March 31, 2015, there were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations. The Company is not aware of events that will cause a material change in the relationship between costs and revenues.

There are no significant elements of income or loss that did not arise from the Company's continuing operations.

### *Financial Condition as of March 31, 2015 vs. December 31, 2014*

Total assets were ₱28.8 billion as of March 31, 2015 and ₱28.5 billion as of December 31, 2014. The 1% increase is due to the following:

- Cash and cash equivalents posted a decrease of 67% from ₱1.9 billion as of December 31, 2014 to ₱648.0 million as of March 31, 2015 due to payments made for the construction and

development of new commercial buildings in Taguig City, EDSA Mandaluyong City, Talisay City in Cebu, Bacoor and Imus in Cavite, Sta. Rosa in Laguna and Balanga in Bataan.

- Trade and other receivables posted an increase of 7% from ₱608.2 million as of December 31, 2014 to ₱652.9 million as of March 31, 2015 due to additional mall and corporate building tenants.

- Due from related parties increased by 7% from ₱4.0 billion as of December 31, 2014 to ₱4.3 billion as of March 31, 2015 due to advances give the affiliates in the 1st Quarter 2015.

- Available for sale financial assets increased by 9% from ₱343.7 million as of December 31, 2014 to ₱373.9 million as of March 31, 2015 due to increase in the company's debt and equity security investments.

- Prepayments and other current assets increased by 7% from ₱1.37 billion as of December 31, 2014 to ₱1.86 million as of March 31, 2015 due to prepayments and other receivables in the 1st Quarter 2015.

- Investment properties increased by 5% from ₱19.4 billion as of December 31, 2014 to ₱20.5 billion as of March 31, 2015 due to the construction and development of new projects.

- Property and equipment decreased by 84% from ₱210.7 million as of December 31, 2014 to ₱32.9 million as of March 31, 2015 due to the depreciation charges during the period.

- Other non-current assets increased by 7% from ₱150.0 million as of December 31, 2014 to ₱160.1 million as of March 31, 2015 due to increase in refundable deposits to utilities provider of the malls and office buildings.

Total Liabilities as of March 31, 2015 were ₱7.8 billion compared to ₱7.6 billion as of December 31, 2014, or a 3% increase. This was due to the following:

- Trade and other payables decreased by 30% from ₱1.5 billion as of December 31, 2014 to ₱1.1 billion as of March 31, 2015 due to payments made to contractors, suppliers and consultants in the 1st Quarter 2015.

- Income tax payable decreased by 77% from ₱55.9 million as of December 31, 2014 to ₱12.9 million as of March 31, 2015 due to payments made for income taxes due for the year ended December 31, 2014.

- Liabilities for land acquisition decreased by 33% from ₱270.2 million as of December 31, 2014 to ₱180.5 million as of March 31, 2015 due to payments made to property owners in the 1st Quarter 2015.

- Interest-bearing loans and borrowings increased by 16% from ₱4.9 billion as of December 31, 2014 to ₱5.7 billion as of March 31, 2015 due to loans availed in the 1st Quarter 2015.

- Deferred tax liabilities increased by 19% from ₱71.9 million as of December 31, 2014 to ₱85.4 million as of March 31, 2015 due to recognition of tax liabilities in the 1st Quarter 2015.

- Other non-current liabilities increased by 3% from ₱548.3 million as of December 31, 2014 to ₱565.7 million as of March 31, 2015 due to receipt of deposits from various mall and BPO building tenants.

Total stockholder's equity increased by 1% from ₱20.88 billion as of December 31, 2014 to ₱20.98 billion as of March 31, 2015 due to the net profit realized for the three months ended March 31, 2015.

**Top Five(5) Key Performance Indicators**

Considered as the top five key performance indicators of the Company as shown below:

| Key Performance Indicators | 03/31/2015 | 03/31/2014 |
|---|---|---|
| Current ratio [a] | 1.8 | 3.2 |
| Debt-to-equity ratio [b] | 0.37 | 0.19 |
| Interest coverage ratio [c] | 7 | 15 |
| EBITDA margin [d] | 64% | 64% |
| Return on equity [e] | 0.4% | 0.5% |

*Notes:*

*(a) Current Ratio: This ratio is obtained by dividing the Current Assets of the Company by its Current liabilities. This ratio is used as a test of the Company's liquidity.*

*(b) Debt-to-equity ratio: This ratio is obtained by dividing the Company's Total Liabilities by its Total Equity. The ratio reveals the proportion of debt and equity a company is using to finance its business. It also measures a company's borrowing capacity.*

*(c) Interest coverage: This ratio is obtained by dividing earnings before interest, taxes depreciation and amortization (EBITDA) by the interest expense. This ratio shows whether a company is earning enough profits before interest to pay its interest cost comfortably.*

*(d) Earnings before interest, income taxes, depreciation and amortization (EBITDA) margin: This ratio is obtained by dividing the Company's Earnings before interest, income taxes, depreciation and amortization by the total revenue. This measures the Company's operating profitability.*

*(e) Return on equity: This ratio is obtained by dividing the Company's net income (net of income from acquisition of subsidiary) by its total equity. This measures the rate of return on the ownership interest of the Company's stockholders.*

*Because there are various calculation methods for the performance indicators above, the Company's presentation of such may not be comparable to similarly titled measures used by other companies.*

Current ratio as of March 31, 2015 decreased from that of March 31, 2014 due to the increase in current liabilities arising from bank loans.

The increase in debt-to-equity ratio as of March 31, 2015 was due to the increase in interest-bearing loans and accounts payable.

Interest coverage for the quarter ended March 31, 2015 decreased because additional borrowings made in the 2nd half of 2014 and 1st quarter 2015.

EBITDA margin remained at 64% with the rationalization of operating costs of the existing malls and corporate building.

Return on equity is decreased as a result of higher equity in the 1st Quarter 2015 and the non-recurrence of real estate revenues with the deconsolidation of BEC in December 2014.

**Material Changes to the Company's Statement of Financial Position as of March 31, 2015 compared to December 31, 2014 (increase/decrease of 5% or more)**

Cash and cash equivalents posted a decrease of 67% from ₱1.9 billion as of December 31, 2014 to ₱648.0 million as of March 31, 2015 due to payments made for the construction and development of new commercial buildings in Taguig City, EDSA Mandaluyong City, Talisay City in Cebu, Bacoor and Imus in Cavite, Sta. Rosa in Laguna and Balanga in Bataan.

Trade and other receivables posted an increase of 7% from ₱608.2 million as of December 31, 2014 to ₱652.9 million as of March 31, 2015 due to additional mall and corporate building tenants.

Due from related parties increased by 7% from ₱4.0 billion as of December 31, 2014 to ₱4.3 billion as of March 31, 2015 due to advances give the affiliates in the 1st Quarter 2015.

Available for sale financial assets increased by 9% from ₱343.7 million as of December 31, 2014 to ₱373.9 million as of March 31, 2015 due to increase in the company's debt and equity security investments.

Prepayments and other current assets increased by 7% from ₱1.37 billion as of December 31, 2014 to ₱1.86 million as of March 31, 2015 due to prepayments and other receivables in the 1st Quarter 2015.

Investment properties increased by 5% from ₱19.4 billion as of December 31, 2014 to ₱20.5 billion as of March 31, 2015 due to the construction and development of new projects.

Property and equipment decreased by 84% from ₱210.7 million as of December 31, 2014 to ₱32.9 million as of March 31, 2015 due to the depreciation charges during the period.

Other non-current assets increased by 7% from ₱150.0 million as of December 31, 2014 to ₱160.1 million as of March 31, 2015 due to increase in refundable deposits to utilities provider of the malls and office buildings.

Trade and other payables decreased by 30% from ₱1.5 billion as of December 31, 2014 to ₱1.1 billion as of March 31, 2015 due to payments made to contractors, suppliers and consultants in the 1st Quarter 2015.

Income tax payable decreased by 77% from ₱55.9 million as of December 31, 2014 to ₱12.9 million as of March 31, 2015 due to payments made for income taxes due for the year ended December 31, 2014.

Liabilities for land acquisition decreased by 33% from ₱270.2 million as of December 31, 2014 to ₱180.5 million as of March 31, 2015 due to payments made to property owners in the 1st Quarter 2015.

Interest-bearing loans and borrowings increased by 16% from ₱4.9 billion as of December 31, 2014 to ₱5.7 billion as of March 31, 2015 due to loans availed in the 1st Quarter 2015.

Deferred tax liabilities increased by 19% from ₱71.9 million as of December 31, 2014 to ₱85.4 million as of March 31, 2015 due to recognition of tax liabilities in the 1st Quarter 2015.

**Material Changes to the Company's Statement of Comprehensive Income for the three months ended March 31, 2015 compared to the three months ended March 31, 2014 (increase/decrease of 5% or more)**

Rental revenue increased by 12% from ₱334.1 billion in the quarter ended March 31, 2014 to ₱373.6 million in the quarter ended March 31, 2015 due to the increase in occupancy of existing malls and corporate building and opening of Starmall Prima Daang Hari Phase 1.

Common usage and service area (CUSA) charges increased by 16% from ₱61.0 million in the three months ended March 31, 2014 to ₱70.5 million in the period ended March 31, 2015, due to improvement in occupancy of the seven malls and one corporate office building.

Parking fee revenue increased from ₱9.7 million in the quarter ended March 31, 2014 to ₱10.7 million in the quarter ended March 31, 2015. The 10% increase was due to the increase in parking rates, improvement of parking system and increase occupancy in the existing malls and corporate office building.

Real estate sales declined by 100% from ₱32.5 million in the three months ended March 31, 2014 to nil in the same period in 2015 because of the deconsolidation of BEC.

Other operating income increased from ₱16.6 million in the three months ended March 30, 2014 to ₱17.8 million in the period ended March 31, 2015. The 7% increase was due to increase in other operating income such as sale of ancillary services and penalties charged to tenants.

Finance income increased by from ₱5.4 million in the three months ended March 31, 2014 to ₱6.2 million in the period ended March 31, 2015. The 14% decrease was due to the increase in interest earned from AFS financial assets and the savings and time deposit accounts of the Group.

Increase in depreciation and amortization by 17% from ₱145.4 million in the three months ended March 31, 2014 to ₱170.0 million in the period ended March 31, 2015 due to the additional depreciation from new or refurbished mall equipments and new malls.

Decrease in occupancy expenses by 10% from ₱40.5 million in the period ended March 31, 2014 to ₱36.4 million in the three months ended March 31, 2015 due to the decrease in utilities expense for the 1st Quarter 2015.

Increase in outside services by 26% from ₱39.9 million in the period ended March 31, 2014 to ₱50.3 million in the three months ended March 31, 2015 due to the increase in manpower and agency fees for the operations of the malls and office building.

Increase in salaries and employee benefits by 32% from ₱24.1 million in the three months ended March 31, 2014 to ₱31.9 million in the period ended March 31, 2015 due to the increase in manpower for the operations and management of the existing malls and office building and the construction and development of new projects of the Group.

Increase in taxes and licenses by 13% from ₱13.3 million in the quarter ended March 31, 2014 to ₱14.9 million in the period ended March 31, 2015 due to increase in real property taxes paid for the existing and new projects and additional properties of the Group.

Cost of real estate sales decreased by 100% from ₱17.0 million in the period ended March 31, 2014 to nil in the three months ended March 31, 2015 to due to the deconsolidation of BEC in December 2014.

Increase in other operating expenses by 41% from ₱14.2 million in the three months ended March 31, 2014 to ₱19.9 million in the period ended March 31, 2015 due to the increase in communication, transportation and other operating expenses.

Interest and financing charges increased by 111% from ₱9.4 million in the quarter ended March 31, 2014 to ₱19.9 million in the period ended March 31, 2015. This was due to additional interest–bearing loans obtained in the 2nd Semester 2014 and in the 1st Quarter 2015.

## COMMITMENTS AND CONTINGENCIES

The Parent Company's subsidiaries are contingently liable for guarantees arising in the ordinary course of business, including surety bonds, letters of guarantee for performance and bonds for its entire real estate project.

The Company is contingently liable with respect to certain lawsuits and other claims which are being contested by the subsidiaries and their legal counsels. Management and their legal counsels believe that the final resolution of these claims will not have a material effect on the consolidated financial statements. There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Company's liquidity in any material way. The Company sourced its capital requirements through a mix of internally generated cash, sale of liquid assets like installment contracts receivables, pre-selling and joint venture undertakings. The Company does not expect any material cash requirements beyond the normal course of the business. The Company is not in

default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation except for those items disclosed in the 1st Quarter 2014 Financial Statements.

There are no material off-balance sheet transactions, arrangements, obligation (including contingent obligations), or other relationships of the Company with unconsolidated entities or other persons created during the reporting period except those disclosed in the 1st Quarter 2014 Financial Statements.

There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonably expected to have a material impact on the continuing operations of the Company.
There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. There are no explanatory comments on the seasonality of the operations. There are no material events subsequent to the end of the fiscal period that have not been reflected in the financial statements.

There are no material amounts affecting assets, liabilities, equity, net income or cash flows that are unusual in nature; neither are there changes in estimates of amounts reported in a prior period of the current financial year.

## PART II - OTHER INFORMATION

### Item 3. 1st Quarter Developments

A. **New Projects or Investments in another line of business or corporation.**

In the 1st Quarter 2015, the Group started opened Starmall Prima Daang Hari Phase 1 located in Molino, City of Bacoor, Cavite.

B. **Composition of Board of Directors**

| | |
|---|---|
| Manuel B. Villar Jr. | Chairman of the Board |
| Jerry M. Navarrete | Director, President and CEO |
| Benajamarie Therese N. Serrano | Director, COO |
| Manuel Paolo A. Villar | Director |
| Anant Asavabhokin | Director |
| Joel L. Bodegon | Independent Director |
| Raul Juan N. Esteban | Independent Director |

C. **Performance of the corporation or result/progress of operations.**

Please see unaudited Financial Statements and Management's Discussion and Analysis.

D. **Declaration of Dividends.**

None.

*E.* **Contracts of merger, consolidation or joint venture; contract of management, licensing, marketing, distributorship, technical assistance or similar agreements.**

None.

F. **Offering of rights, granting of Stock Options and corresponding plans therefore.**

None.

*G.* **Acquisition of additional mining claims or other capital assets or patents, formula, real estate.**

None.

H. **Other information, material events or happenings that may have affected or may affect market price of security.**

None.

I. **Transferring of assets, except in normal course of business.**

None.

**Item 4. Other Notes as of the 1st Quarter 2015 Operations and Financials.**

**J. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.**

None.

**K. Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period.**

There were no changes in estimates of amounts reported in prior interim period or prior financial years that have a material effect in the current interim period.

**L. New financing through loans/ issuances, repurchases and repayments of debt and equity securities.**

See Notes to Financial Statements and Management Discussion and Analysis.

**M. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.**

None.

**N. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations.**

None.

**O. Changes in contingent liabilities or contingent assets since the last annual balance sheet date.**

None.

**P. Existence of material contingencies and other material events or transactions during the interim period.**

None.

**Q. Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.**

None.

**R. Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.**

None.

**S. Material commitments for capital expenditures, general purpose and expected sources of funds.**

The movement of capital expenditures being contracted arose from the regular land development, commercial building construction and requirements which are well within the regular cash flow budget coming from internally generated funds.

**T. Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/income from continuing operations.**

As of March 31, 2015, no known trends, events or uncertainties that are reasonably expected to have impact on sales/revenues/income from continuing operations except for those being disclosed in the nine months ended March 31, 2015 financial statements.

**U. Significant elements of income or loss that did not arise from continuing operations.**

None.

**V. Causes for any material change/s from period to period in one or more line items of the financial statements.**

None.

**W. Seasonal aspects that had material effect on the financial condition or results of operations.**

None.

**X. Disclosures not made under SEC Form 17-C.**

None.

## SIGNATURES

Pursuant to the requirements of Section 17 of the SRC and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized.

**STARMALLS, INC.**
Issuer

By:

**FRANCES ROSALIE T. COLOMA**
Chief Financial Officer

Date: May 14, 2015