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S.E.C Registration Number

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(Company's Full Name)

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

<b>Alan I. Claveria/ Felicidad V. Razon/ Ma. Melva E. Valdez</b>
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Contact Person

<b>892 1816 815-9071</b>
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Company Telephone Number

1	2
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Month

3	1
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Day

## SEC FORM 17A – Annual Report 2018

FORM TYPE

0	6
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Month

2	2
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Day

Annual Meeting

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Secondary License Type, if Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

<b>422 as of December 31, 2018</b>
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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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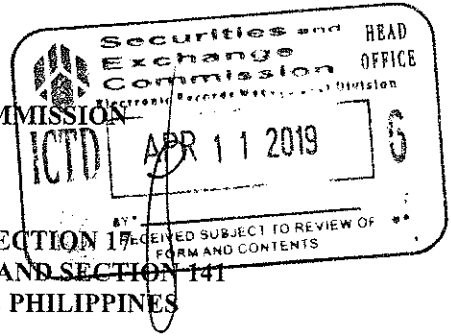
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<b>STAMPS</b>
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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the fiscal year ended December 31, 2018
2. SEC Identification Number 62596
3. BIR Tax Identification No. 000-163-715-000

**KEPPEL PHILIPPINES HOLDINGS, INC.**

4. Exact name of registrant as specified in its charter
- Philippines
5. Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code:  (SEC Use Only)
- Unit 3B, Country Space I Bldg., 133 Sen. Gil Puyat Ave., Salcedo Village, Barangay Bel-Air, Makati City
7. Address of registrant's principal office Postal Code
- (632) 892-1816 1200
8. Registrant's telephone number, including area code
- N.A.
9. Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA

Title of each Class	Number of Shares of Common Stock
	Outstanding
Common - Class 'A' P1.00 Par Value	36,166,970
Common - Class 'B' P1.00 Par Value	21,636,449
<b>Total</b>	<b>57,803,419</b>
	<b>(Net of Treasury Shares of 15,370,081)</b>

11. Are any or all of the securities listed on a Stock Exchange?
- Yes [ / ] No [ ] **Philippine Stock Exchange** **Common Shares of Stock**
12. Check whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports);

Yes [ / ] No [ ]

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

Yes [ / ] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant:  
P50,286,441 as of 31 December 2018 closing price (KPH P4.82 KPHB P4.91)  
P50,139,446 as of 31 March 2019 closing price (KPH P4.80 KPHB P4.91)
14. Documents Incorporated By Reference:  
**None**

**KEPPEL PHILIPPINES HOLDINGS, INC.**  
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## PART 1 – BUSINESS AND GENERAL INFORMATION

### 1 - Business

- (a) **Keppel Philippines Holdings, Inc.** (hereinafter to be referred to as "Company" or "KPH") was incorporated in July 1975 under the former name of Keppel Philippines Shipyard, Inc. The Company was established as a subsidiary of Keppel Corporation Limited (KCL) of Singapore to carry out ship repair and shipbuilding activities in the Philippines. In 1993, the Company was converted into an investment holding company under the name of Keppel Philippines Holdings, Inc. KPH shares are being traded at the Philippine Stock Exchange (PSE).

Currently, KPH has two core businesses: namely, investment holdings and real estate.

- (b) The Company is not involved in any bankruptcy, receivership or similar proceedings.
- (c) There is no material reclassification, merger, consolidation, purchase or sale of a significant amount of assets not in the ordinary course of business.
- (d) The Company does not have any patents, trademarks, licenses, franchises, concessions, and/or royalty agreements.
- (e) As an investment holding company, KPH has five (5) regular employees in 2018 from seven (7) regular employees during the period 2016 to 2017. There is no collective bargaining agreement between the Company and the employees.

(f) **Brief Description of Business**

KPH has two main business segments: Investment Holdings and Real Estate. The contribution from each segment of the businesses to the consolidated revenues and net income of the Company is stated in Note 16 of the audited financial statements.

#### **Real Estate**

The Company owns office space at Fedman Suites, while **KPSI Property, Inc.** (KPSI), a wholly-owned subsidiary of KPH, owns and leases out the office spaces in Country Space 1 Building at Makati City and at Keppel Center, Cebu City. **Goodwealth Realty Development Corp.** (GRDC), 51% owned by KPH, owns and leases parcels of land and improvements in Batangas City. **Goodsoil Marine Realty, Inc.** (GMRI), wholly owned by GRDC and effectively 51% owned by KPH, owns and leases the land in Bauan, Batangas to Keppel Philippines Marine Inc. (KPMI) used for the construction and repair of all types and classes of vessels, the fabrication of offshore marine structures together with the related services and operations of a shipyard. GMRI is registered as an Ecozone Developer/Operator with the Philippine Economic Zone Authority (PEZA) since 2007. **Consort Land, Inc.** (CLI), 25% owned by GMRI and effectively 13% owned by KPH, owns and leases the land in Subic, Zambales to Keppel Subic Shipyard, Inc. (KSSI) used for the construction and repair of all types and classes of vessels and the fabrication of offshore marine structures. CLI is registered with PEZA as an Ecozone Developer/Operator of the Subic Shipyard-Special Economic Zone and distribute power to its locators.

## 2 - Properties

The Company owns the following properties:

Owned by	Property Description	Area
KPH	Two (2) office condominium units at Fedman Suite in Makati City	166 sqm
KPSI	Two (2) office condominium units and five (5) parking slots at Country Space I Building in Makati City	345 sqm
GRDC	Five (5) lots of residential land in Batangas City	1,500 sqm
GMRI	Land located in Bauan, Batangas	249,584 sqm
CLI	Land and building located in Subic, Zambales	840,043 sqm

The properties owned by the Company and its subsidiary and associates are free from any lien.

## 3 - Legal Proceedings

In September 2003, the Company filed a complaint against Philippine National Oil Company (PNOC) for specific performance with the Regional Trial Court (RTC) in Batangas City for the enforcement of the contract relating to the option to purchase parcels of land in Batangas. Judgment was rendered in January 2006 in favor of the Company ordering PNOC to accept the payment of ₱4.1 million, which was consigned with the Clerk of Court, as full and complete payment of the purchase price, and to execute a Deed of Absolute Sale in favor of the Company. PNOC, however, filed an appeal with the Court of Appeals (CA) in the same year which was dismissed on 19 December 2011.

On 25 July 2016, Supreme Court (SC) affirmed the decision of the CA in December 2011 in the resolution dated 14 May 2012 and upheld the Parent Company's option to buy the land and remanded the case to the RTC of Batangas City to update the Parent Company's Filipino equity ownership. On 14 December 2016, SC's decision became final and executory and was recorded in the Books of Entries of Judgments. On 24 September 2018, the RTC issued a resolution against the Parent Company. The Parent Company filed a motion for reconsideration on 12 October 2018 with RTC to argue the merits. As of 24 January 2019, the Parent Company is still awaiting on the final resolution of the RTC.

## 4 - Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the third and fourth quarter of the fiscal year covered by the report. The last meeting of the Company's stockholders was the annual stockholders' meeting, which was held on 22 June 2018.

**PART II – OPERATIONAL AND FINANCIAL INFORMATION**

**5 - Market Price of and Dividends on Registrant’s Common Equity and Related Stockholder Matters**

**(a) Market Information**

The principal market of the Company’s common equity is the Philippine Stock Exchange (PSE) where it was listed on 26 August 1987. The high and low closing prices for each quarter within the last two (2) fiscal years and first quarter of 2019 as traded at the Philippine Stock Exchange are as follows:

STOCK PRICES	2018		2017	
	High	Low	High	Low
	First Quarter	‘A’ ₱6.50 ‘B’ ₱5.98	‘A’ ₱5.20 ‘B’ ₱5.36	‘A’ ₱5.59 ‘B’ ₱5.34
Second Quarter	‘A’ ₱5.90 ‘B’ ₱6.38	‘A’ ₱5.25 ‘B’ ₱5.33	‘A’ ₱6.88 ‘B’ ₱7.46	‘A’ ₱4.32 ‘B’ ₱5.02
Third Quarter	‘A’ ₱4.47 ‘B’ ₱5.36	‘A’ ₱4.47 ‘B’ ₱5.34	‘A’ ₱6.22 ‘B’ ₱6.12	‘A’ ₱5.03 ‘B’ ₱5.33
Fourth Quarter	‘A’ ₱6.60 ‘B’ ₱6.57	‘A’ ₱3.46 ‘B’ ₱2.94	‘A’ ₱5.89 ‘B’ ₱5.70	‘A’ ₱5.04 ‘B’ ₱5.35

	2019	
	High	Low
	First Quarter	‘A’ ₱5.97 ‘B’ ₱4.91

**(b) Holders**

The number of shareholders of record as of 31 December 2018 was 422.

Common shares outstanding as of 31 December 2018 were 57,803,419 broken down as follows:

Nationality	Class	No. of Shares	Percentage
Filipino	A	36,166,970	62.57
Filipino	B	3,911,336	6.77
Foreign	B	17,725,113	30.66
Total		<b>57,803,419</b>	<b>100.00</b>

The top 20 stockholders as of 31 December 2018 are as follows:

	Shareholder	No. of Shares Held	%
1.	Kepwealth, Inc.	30,532,930	52.822
2.	Keppel Corporation Limited	16,894,087	29.227
3.	PCD Nominee Corp. – Filipino	6,868,803	11.883
4.	International Container Terminal Services, Inc,	2,121,287	3.670
5.	PCD Nominee Corp. – Foreign	612,815	1.060
6.	Soh Ngoi May	83,179	0.144
7.	Willy Y. C. Lim	60,175	0.104
8.	Edbert G. Tantuco	50,017	0.087
9.	Emilio C. Tiu	23,238	0.040
10.	National Book Store, Inc.	22,422	0.039
11.	Ang Guan Piao	21,900	0.038
12.	Manolo Z. Alcasabas	21,170	0.037
13.	Willy Yew Chai Lim	20,085	0.035
14.	Yeo Chee Chiow	18,848	0.033
15.	Liwayway Sy	17,938	0.031
16.	Ma. Victoria R. Del Rosario	17,938	0.031
17.	Ramon R. Del Rosario Jr.	17,938	0.031
18.	Dr. Victorino Medrano Jr. &/or Ofelia R. Medrano	13,952	0.024
19.	Procurador General De Padres Franciscano de Manila	11,211	0.019
20.	Josefina Tengco Reyes	11,211	0.019

**(c) Dividends**

The declaration and payment of dividends will depend, among others, upon the Company's earnings, cash flow, capital requirements and financial condition in addition to other factors. Cash dividends are subject to approval by the Board of Directors (BOD) but no stockholders' approval is required. Dividends are payable to stockholders whose names are recorded in the stock and transfer books as of the record date fixed by the Board. The Company declared cash dividends in 2018, 2017 and 2016. Details of cash dividend are as follows:

	Y2018	Y2017	Y2016
Date of BOD Approval	June 22	June 16	June 17
Record Date	July 6	July 3	July 1
Payment Date	July 31	July 27	July 27
Amount of Dividend per Share	₱0.10 or 10%	₱0.10 or 10%	₱0.10 or 10%

**(d) Recent Sales of Unregistered Securities**

There has been no sale of securities within the past three years which were not registered under the SRC. Neither is there any claim for exemption from registration made by the Company.



## 6 - Management's Discussion and Analysis

### Results for the Year

#### Year Ended 2018

Keppel Philippines Holdings, Inc. (KPH) and its subsidiaries (the "Company") recorded a net income of ₱14.2 million in 2018, lower compared to ₱54.9 million in 2017 and ₱23.8 million in 2016. The decrease was primarily due to lower revenue this year of ₱48.5 million as against ₱91.2 million in 2017, and ₱44.7 million in 2016. Operating expenses, which increased to ₱31.4 million in 2018 from ₱23.6 million in 2017 and ₱16.7 million in 2016, also contributed to the decline in Net Income. This was partially offset by lower income tax expense of ₱2.9 million this 2018 as against ₱12.8 million and ₱4.2 million in 2017 and 2016, respectively. Revenues in 2018 were mainly from rental income, interest earned from loans and short-term deposits, equity in net earnings of an associate, gain on sale of investment properties and management fees.

Rental revenue for the year amounted to ₱22.7 million as against ₱18.0 million and ₱20.5 million in 2017 and 2016, respectively. Decrease in rental revenue was actually expected this year due to sale in 2017 of condominium and residential units situated in Makati City and Cebu City. This, however, was more than offset by a new lease on properties in Batangas City to a third party which contributed about ₱8.7 million in rental.

The Company earned interest income of ₱12.2 million in 2018, ₱12.5 million in 2017, and ₱10.6 million in 2016. The interest earned from the loans granted to a related company amounted to ₱10.7 million in 2018, ₱11.5 million in 2017 and ₱10.0 million in 2016. The decline in interest earned from loans to a related company was due to prepayment of long-term loan amounting to ₱87.5 million. Interest rates are agreed upon with related party on arms-length based on lowest commercial loan rates on date of granting or renewal of the loan. The Company also earned interest from short-term deposits amounting to ₱1.5 million, ₱0.9 million, and ₱0.6 million in 2018, 2017 and 2016, respectively.

The Company realized a gain on sale on investment properties of ₱1.9 million from sale of another residential unit at Batangas City this year as against gains recognized in 2017 amounting to ₱49.6 million from sale of its condominium units in Makati City, Cebu City and a residential unit in Batangas City. The proceeds received from the sale of properties amounted to ₱2.3 million this year as against ₱52.9 million in 2017.

The equity in net earnings of associate CLI as of 31 December 2018 amounted to ₱10.0 million, higher than in 2017 of ₱8.7 million, and slightly lower than in 2016 of ₱10.3 million. The Company received cash dividend from CLI amounting to ₱8.7 million in 2017, ₱3.5 million in 2016 and ₱11.1 million in 2015.

Management fees charged to related parties amounted to ₱0.8 million, ₱1.8 million and ₱1.4 million in 2018, 2017, and 2016, respectively. The decrease was due to lower number of related companies being served by the Parent Company.

Operating expenses amounted to ₱31.4 million, ₱23.6 million, and ₱16.7 million in 2018, 2017 and 2016, respectively. The increase in expenses was brought mainly by: a) higher salaries & benefits due to accrual of retirement plan benefits for the staff; b) higher professional (legal) fees; c) repairs and maintenance relating to properties for rent and d) travel and transportation.

The Company have unrealized fair value gain on financial assets at fair value through other comprehensive income of ₱15.0 million in 2018, and unrealized fair value gain on Available for Sale financial assets of ₱0.5 million in 2017 and ₱3.7 million in 2016.

## Financial Condition

The cash position of the Company for the year ended 31 December 2018 amounted to ₱39.5 million as against ₱87.9 million at year-end 2017. The decrease of ₱48.4 million in cash position was brought about by a ₱30.0 million increase in loans granted, net of repayment; payment of dividends of ₱40.3 million; and, net cash used for operating activities of ₱0.6 million. These however were partially offset by interest income received from loans and deposits of ₱11.5 million; receipt of dividends from CLI of ₱8.7 million; and, proceeds from the sale of investment properties in Batangas City of ₱2.3 million.

Total receivables both current and non-current this year amounted to ₱305.6 million as against last year's ₱276.0 million. The increase was brought about mainly by the granting of new short-term loans amounting to ₱150.0 million with 88 to 90-day term and bearing interest of 3.2% to 6.3%, subject to renewal upon maturity. This was partially offset by the repayment of short-term and long-term loans of ₱120.0 million.

Other current assets increased to ₱1.0 million as against ₱0.7 million last year. The increase was due to higher creditable withholding tax received not fully applied against income tax expense which was subjected to provision for impairment losses. This was partially offset by lower input VAT net applied against output tax and lower advances to employees.

Available-for-sale financial assets related to a quoted club share at fair value price as of December 2018 amounting to ₱35.0 million was reclassified as Financial assets at fair value through other comprehensive income. Available-for-sale financial assets in 2017 amounted to ₱20.0 million.

Investment in an associate increased from ₱420.4 million in 2017 to ₱421.7 million this year. The increase was mainly due to equity share in net income of CLI of ₱10.0 million, which was partially offset by the cash dividend received from CLI this year amounting to ₱8.7 million.

Investment properties and Property and equipment decreased from ₱206.0 million in 2017 to ₱205.4 million this period due to sale of a residential property in Batangas City with book value of ₱0.2 million and ₱0.4 million, respectively, net of depreciation and write-off of obsolete assets.

Total liabilities increased from ₱11.1 million in 2017 to ₱19.2 million this year. The ₱8.1 million increment was due to the following increases: a) accrual of operating expenses by ₱5.0 million, particularly retirement cost of ₱4.5 million; b) unearned rent by ₱0.6 million; c) payable to government agencies & others by ₱0.2 million; d) dividends payable to minority shareholders by ₱0.7 million; e) refundable deposit by ₱1.9 million; and, f) deferred income tax liability by ₱0.1 million. This was partially offset by the decrease in income tax payable by ₱0.4 million.

Total equity amounted to ₱993.1 million as of 31 December 2018 and ₱1,004.2 million in December 2017. Retained earnings amounted to ₱476.7 million as of December 2018 as compared to ₱477.2 million in December 2017, since the year's net income after non-controlling interests of ₱5.2 million was more than offset by cash dividend of ₱5.8 million.

The equity attributable to equity holders of the parent amounted to ₱634.9 million and ₱620.4 million as of December 2018 and 2017, respectively. The net book value per share as of December 2018 was ₱10.98 as against December 2017 of ₱10.73. The earnings per share attributable to the equity holders of the parent for the years 2018 and 2017 were ₱0.09 and ₱0.78, respectively.

## **Year Ended 2017**

Keppel Philippines Holdings, Inc. (KPH) and its subsidiaries (the "Company") recorded a net income of ₱54.9 million in 2017, higher than ₱23.8 million in 2016 and ₱26.9 million in 2015. The increase was primarily due to higher revenue this year of ₱91.2 million as against ₱44.7 million in 2016, and ₱46.3 million in 2015. Revenues in 2017 were mainly from gain on sale of investment properties, rental income, interest income, equity in net earnings of an associate, and management fees. The increase in revenue was partially offset by higher operating expenses of ₱23.6 million in 2017 and higher provision for income tax of ₱12.8 million.

The Company realized gain on sale on investment properties of ₱49.6 million from sale of its condominium units in Makati City, Cebu City and residential unit at Batangas City. The proceeds received from the sale of properties amounted to ₱52.9 million.

Rental revenue for the year amounted to ₱18.0 million as against rental revenue of ₱20.5 million and ₱19.4 million in 2016 and 2015, respectively. The decrease was due to the sale of the condominium units.

Interest income from short-term and long-term loans granted to related company and short-term deposits this year amounted to ₱12.5 million, ₱10.6 million in 2016, and ₱9.6 million in 2015. The interest earned from the loans granted to a related company amounted to ₱11.5 million, ₱10.0 million and ₱8.0 million in 2017, 2016 and 2015, respectively. Interest rates are agreed upon with related party on arms-length based on average commercial loan rates on date of granting or renewal of the loan. The interest earned from short-term deposits amounted to ₱0.9 million, ₱0.6 million, and ₱1.6 million in 2017, 2016 and 2015, respectively.

The equity in net earnings of associate CLI as of 31 December 2017 amounted to ₱8.7 million lower than in 2016 of ₱10.3 million and in 2015 of ₱14.8 million. This was brought by lower income realized by CLI during the years. The Company received cash dividend from CLI amounting to ₱3.5 million in 2017, ₱11.1 million in 2016 and ₱17.5 million in 2015.

Management fees charged to related parties amounted to ₱1.8 million, ₱1.4 million and ₱1.2 million in 2017, 2016, and 2015, respectively.

Operating expenses amounted to ₱23.6 million, ₱16.7 million, and ₱14.7 million in 2017, 2016 and 2015, respectively. The increase in expenses was brought mainly by: a) higher salaries & benefits due to accrual of retirement plan benefits for the staff and cost of transfer of employees from related company to the KPH; b) higher professional (legal) fees; c) higher provision for impairment losses; and d) commission for the sale of investment properties.

The Company realized other comprehensive income from fair value gain adjustment on AFS financial assets of ₱0.5 million in 2017, ₱3.7 million in 2016, and ₱0.8 million in 2015.

## **Financial Condition**

The cash position of the Company for the year ended 31 December 2017 amounted to ₱87.9 million as against the same period last year of ₱24.3 million. The increase of ₱63.6 million was brought mainly by the proceeds from the sale of investment property of ₱52.9 million, net effect of granting of new loan and repayment amounting to ₱75.0 million, interest income received from loans and deposits of ₱12.8 million, and receipt of dividends of ₱3.5 million. This was partially offset by payment of dividends of ₱69.0 million, net cash provided for operating activities of ₱11.5 million and acquisition of office equipment of ₱0.1 million.

Total receivables both current and non-current this year amounted to ₱276.0 million as against last year of ₱353.7 million. The decrease was brought mainly by repayment of short-term and long-term loans of ₱207.5 million partially offset by the granting of new short-term loans amounting to ₱132.5 million, with 90-day, interest bearing of 2.8% to 3.5% and collection from rental receivable.

Other current assets increased to ₱0.7 million as against ₱0.1 million last year. The increase was due to higher creditable withholding tax of received not fully applied against income tax payable and higher advances subject for liquidation. This was partially offset by lower input VAT which was applied against output tax.

Available-for-sale financial assets related to a quoted club share at fair value price as of December 2017 and 2016 amounting to ₱20.0 million and ₱19.5 million, respectively.

Investment in an associate increased from ₱415.2 million in 2016 to ₱420.4 million this year. The increase was mainly due to equity share in net income of CLI of ₱8.7 million. The share was reduced by the cash dividend received from CLI this year amounting to ₱3.5 million.

Investment properties and Property and equipment decreased from ₱209.5 million in 2016 to ₱206.0 million this period due to sale of depreciated condominium units with book value of ₱3.3 million, depreciation of ₱0.3 million and partially offset by purchase of office equipment amounting to ₱0.1 million.

Total liabilities increased from ₱8.6 million in 2016 to ₱11.1 million this year. The increase of ₱2.5 million was due to the net effect of higher accruals of operating expenses amounting to ₱4.4 million, particularly retirement cost of ₱4.0 million and payable to government agencies including income tax liability of ₱0.6 million. This was partially offset by decrease in security deposits and advance rental of ₱2.8 million.

Total equity as of 31 December 2017 amounted to ₱1,004.2 million and ₱1,017.9 million in December 2016. Retained earnings amounted to ₱477.2 million as of December 2017 as compared to ₱438.2 million in December 2016. The increase was due to net income after non-controlling interests of ₱44.8 million partially offset by cash dividend of ₱5.8 million.

The equity attributable to equity holders of the parent amounted to ₱620.4 million and ₱580.9 million as of December 2017 and 2016, respectively. The net book value per share as of December 2017 was ₱10.73 as against December 2016 of ₱10.05. The earnings per share attributable to the equity holders of the parent as of December 2017 and 2016 were ₱0.78 and ₱0.24, respectively.

### **Year Ended 2016**

KPH recorded a net income of ₱23.8 million in 2016 as against ₱26.9 million in 2015 and ₱26.2 million in 2014. The Company achieved revenues of ₱44.7 million this year as against ₱46.3 million in 2015, and ₱46.2 million in 2014. Revenues in 2016 were mainly from rental income, equity share in net earnings of associates, interest income, dividend income and management fees.

The Company realized rental revenue of ₱20.5 million, ₱19.4 million and ₱19.3 million in 2016, 2015 and 2014, respectively, brought by increase in rental rate. The equity share in net earnings of associate CLI as of December 31, 2016 of ₱10.3 million was lower than in 2015 of ₱14.8 million and in 2014 of ₱20.0 million. This was brought by lower income realized by CLI in 2016. The Company received cash dividend from CLI amounting to ₱11.1 million in 2016, ₱17.5 million in 2015 and ₱14.0 million in 2014.

The Company earned interest income from loans granted to a related company and from short-term deposits amounting to ₱10.6 million in 2016, ₱9.6 million in 2015, and ₱4.7 million in 2014. The interest earned from the loans granted to a related company amounted to ₱10.0 million, ₱8.0 million and ₱2.0 million in 2016, 2015 and 2014, respectively. The increase was brought by the higher short-term loan granted from ₱100.0 million in 2015 to ₱229.5 million in 2016. This was partially offset by lower interest earned from long-term loan due to repayment of principal amounting to ₱50.0 million. The interest earned from short-term deposits amounted to ₱0.6 million, ₱1.6 million and ₱2.7 million in 2016, 2015 and 2014, respectively. The decrease was due to lower funds in short-term deposits.

The Company earned dividend income from an associate of ₱1.6 million in 2016. Management fees charged to related parties amounted to ₱1.4 million in 2016, and ₱1.2 million in 2015, and 2014.

The Company generated other income of ₱0.3 million this year as against ₱1.3 million in 2015 and ₱1.1 million in 2014. The decrease was brought by reversal of prior years' accrual amounting to ₱0.7 million and commission earned from joint venture agreement with related company of ₱0.3 million in 2015 and ₱0.9 in 2014.

Operating expenses in 2016 amounted to ₱16.7 million, 14% higher as against ₱14.7 million in 2015, and 4% lower as against ₱17.5 million in 2014. Increase in expenses was brought mainly by the impact of the recovered creditable withholding tax which was previously provided with allowance in prior years and none this year. Salaries and benefits, taxes and licenses, travel and transportation cost, utilities and office supplies also increased and were partially offset by lower depreciation expense, membership dues, professional fees and others.

The Company realized other comprehensive income from fair value gain adjustment on AFS financial assets of ₱3.7 million in 2016, ₱0.8 million in 2015 and nil in 2014.

### Financial Condition

The cash position of the Company for the year ended 31 December 2016 amounted to ₱24.3 million as against the same period last year of ₱55.1 million. The decrease of 56% or ₱30.8 million was brought mainly by the net effect of granting of new loan and repayment amounting to ₱29.5 million, payment of dividends of ₱15.7 million and buy-back of KPH shares amounting to ₱12.7 million. This was partially offset by the receipt of cash dividend of ₱12.7 million, receipt of interest from loans and deposits of ₱10.2 million and net cash provided by operating activities of ₱4.0 million

Total net receivables this year amounted to ₱353.7 million as against last year of ₱324.2 million. The increase was by brought mainly by ₱176.8 million short-term loan with 90-day, interest bearing of 2.8% to 3.2% granted to a related company, increase in interest receivable of ₱1.2 million in 2016 from ₱0.8 million in 2015 and increase in other receivables of ₱1.5 million as against last year of ₱1.2 million. The increase was partially offset by principal payment on long term loan of ₱50.0 million and payment of short-term loan receivable of ₱97.3 million.

Other current assets decreased to ₱0.1 million this year as against ₱1.0 million in 2015. The decrease was due primarily to application of creditable withholding tax and input vat against provision for income tax and output tax.

Available-for-sale financial assets related to a quoted club share as of December 2016 and 2015 amounted to ₱19.5 million and ₱15.8 million, respectively. Investment in an associate decreased from ₱416.0 million in 2015 to ₱415.2 million this year. The decrease was due primarily to lower equity share in net income of CLI of ₱10.3 million this year as against ₱14.9 million 2015. The share was reduced by the cash dividend received from CLI this year amounting to ₱11.1 million as against ₱17.5 million in 2015. Investment properties and

Property and equipment decreased from ₱209.9 million in 2015 to ₱209.6 million this period due to depreciation. There was purchase of office equipment amounting to ₱0.03 million this year and nil in 2015.

Total liabilities increased from ₱7.4 million in 2015 to ₱8.6 million this year. The 13.0% increase was due increase in accruals for expenses and provision for income tax.

Total equity as of 31 December 2016 amounted to ₱1,017.9 million and ₱1,018.8 million in December 2015. Retained earnings amounted to ₱438.2 million as of December 2016 as compared to ₱430.7 million in December 2015. The increase was due to net income after non-controlling interests of ₱13.6 million partially offset by cash dividend of ₱6.0 million. The number of treasury shares increased from 12,806,081 shares amounting to ₱9.9 million to 15,370,081 shares at ₱22.6 million. This was due to purchase from the open market of 2,564,000 shares at P4.95 per share plus related expenses

The equity attributable to equity holders of the parent amounted to ₱580.9 million and ₱582.4 million as of December 2016 and 2015, respectively. The net book value per share as of December 2016 was ₱10.05 as against same period last year of ₱9.65. The earnings per share attributable to the equity holders of the parent as of December 2016 and 2015 were ₱0.24 and ₱0.22, respectively.

#### Plan of Action for 2019

KPH shall focus on maintaining and adding value on its investment properties. Among others, the strategies may include purchase of shares of stock, purchase of additional investment properties, increasing occupancy and rental rates. Certain properties may be considered for sale where it can contribute the best value to the Company and its shareholders. Investment properties of strategic value shall be reviewed for further investments where appropriate.

#### Key Performance Indicators

The key performance indicators of the Company for the last three (3) fiscal years are follows:

Particulars	2018	2017	2016
Current Ratio (Current Assets/Current Liabilities)	18.02	31.01	52.22
Acid Test Ratio or Quick Ratio (Monetary Current Assets/Current Liabilities)	17.96	30.93	52.20
Solvency Ratio (Net Income + Depreciation)/Total Liabilities	0.74	4.97	2.80
Debt to Equity Ratio (Total Liabilities/Stockholders' Equity)	0.02	0.01	0.01
Assets to Equity Ratio	1.02	1.01	1.01
Debt Ratio (Total Liabilities/Total Assets)	0.02	0.01	0.01
Return on Assets (%) (Net Income/Total Assets)	1.40	5.40	2.31
Return on Equity (%) (Net Income/Stockholders' Equity)	1.43	5.46	2.33
Earnings per Share Attributable to Equity Holders of Parent (₱)	0.09	0.78	0.24

There are no known events that may trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that was not disclosed. There are no material off-balance sheet transactions, obligations (including contingent obligations), and other relationships of the Company with unsolicited entities or other persons created during the reporting period that has not been disclosed. The Company has no material commitment for capital expenditures for the next twelve (12) months that would need to raise or generate funds for.

There are no trends, events or uncertainties that may have a material effect or impact, whether favorable or unfavorable, on the revenues or income from continuing operations of the Company. The financial condition or results of operations of the Company is not affected by any seasonal change.

## **7 - Financial Statements**

The audited consolidated financial statements as of and for the year ended 31 December 2018 and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

The financial statements attached to the report include the audited statements of financial position, statements of income, statements of comprehensive income, statements of changes in stockholders' equity, statements of cash flows and notes to the financial statements. Such reports form part of the attachment to the SEC Annual Report Form 17-A.

## **8 - Information on Independent Accountants and Other Related Matters**

### **(a) External Audit Fees and Services**

- (i) Audit and Related Fees - The Company's auditor for 2018 is Isla Lipana & Co. (PwC) to audit the current year's financial statements. The aggregate fee billed by Isla Lipana for the audit of the Company's annual financial statements was ₱292,228 in 2018, 2017, and 2016. There were no other services performed by Isla Lipana for 2018, 2017, and 2016. The services performed by the Company's external auditors and the fees are reviewed by the Audit and Risk Management Committee prior to submission to the Board of Directors for approval.
- (ii) Tax Fees --No tax fees were paid for the years 2018, 2017 and 2016.
- (iii) Other Fees -- No other fees were paid for the years 2018, 2017 and 2016.
- (iv) Audit and Risk Management Committee's Approval Policies & Procedures -- The Committee evaluates proposals based on the quality of service, commitment for deadline and fees. The Committee may require a presentation from each proponent to clarify some issues.

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

Accounting standards in accordance with PFRS are stated in Note 2 to the financial statements. For the last three (3) fiscal years, there were no disagreements with the independent accountants relating to accounting principles or practices, financial statements disclosure, or auditing scope or procedure.

## PART III – CONTROL AND COMPENSATION INFORMATION

### 9 - Directors and Executive Officers of the Issuer

#### (a) Directors, Including Independent Directors and Executive Officers

There are seven (7) members of the Board, three (3) of whom are independent directors. The term of office of each member is one (1) year and the members are elected at the Annual Stockholders' Meeting, to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified. A director who is elected to fill any vacancy holds office for the unexpired portion of the term of his predecessor. The current members of the Board of Directors are the following:

#### Board of Directors

- (i) **Paul Tan Poh Lee**, 65, Singaporean, was elected as Chairman of the Board on 5<sup>th</sup> April 2017. He is the Chief Financial Officer of Keppel Offshore and Marine Ltd. (KOM). He is also a director of several Keppel Group companies. From 1998 until June 2018, he was at various times, Group Accountant, Group Accounts Manager, Financial Controller and Group Controller of Keppel Corporation Limited (KCL). Mr. Tan is a Fellow of Association of Chartered and Certified Accountants and a Chartered Accountant, Singapore. He has more than 40 years of experience in his field of profession.
- (ii) **Alan I. Claveria**, 48, Filipino, has been elected as President and appointed as regular Director of the Company on 14 September 2017. Prior to his appointment, he was the Senior Manager, Administration and Corporate Affairs of Keppel Philippines Marine, Inc. He is concurrently the President and Director of Consort Capital, Inc. He also holds the position of Treasurer and Director in KPSI Property, Inc. and other Keppel companies in the Philippines. He provides advice in matters relating to corporate affairs and communication, administration and human resources, drawing from his experience from holding various positions in Keppel's different business units involved in shipbuilding and ship repair, towage and salvage, investment and real estate. Mr. Claveria holds a Master in Business Administration degree from the Ateneo Graduate School of Business and finished BS Management, Major in Legal Management at the Ateneo de Manila University. He has been with Keppel in the Philippines for over 20 years.
- (iii) **Celso P. Vivas**, 72, Filipino, has been elected as an Independent Director of Keppel Philippines Holdings, Inc. since June 2005 and is currently the Company's Lead Independent Director and Chairman of the Audit & Risk Management Committee (ARMC). He is an Independent Director and Chairman of the ARMC of Keppel Philippines Marine, Inc. and Independent Director and member of the Audit Committee of Keppel Philippines Properties, Inc. Mr. Vivas is also an Independent Director of Megawide Construction Corp., Chairman of its Audit and Compliance Committee, and member of both the Board Risk Oversight and Governance, Nomination and Remuneration Committee. He is also an Independent Director of Republic Glass Holdings Corp., Chairman of its Governance, Nomination and Remuneration Committee, and member of the ARMC. He is a member of Marubeni Foundation's Board of Trustees. He was Risk Consulting Partner and Assurance Business Advisory Partner of SGV & Company until his retirement in 2001. Mr. Vivas obtained his Bachelor's Degree in Business Administration (Cum Laude) from the University of the East. He also obtained a Master's Degree in Business Management from the Asian Institute of Management (SGV & Co. Scholar). He is also a graduate of Company Directors' Course from Australian Institute of Company



Directors (ICD Scholar). Mr. Vivas is a Certified Public Accountant and has over 50 years of experience in audit, finance, enterprise risk management, and corporate governance.

- (iv) **Mayo Jose B. Ongsingco**, 67, Filipino, was elected as Independent Director of the Company on 08 May 2017, prior to which he was a non-executive Director during June 2002 to March 2015. He is currently an Adviser to the Board of Directors of First Metro Investment Corp. since 2015, non-executive director of First Metro Asset Management Inc. since 2017, Vice Chairman of First Metro Securities Brokerage Corp. since 2018 and Independent Director of Mapfre Insular Insurance Corp. and Omnipay, Inc. since 2016 and 2017, respectively. He is also a non-executive Director of Rafael-Alunan Agro Development Inc. since 2006. He is also an Independent Director of Keppel Philippines Properties Inc., Keppel Philippines Marine, Inc., and Keppel Subic Shipyards, Inc. since 2018. He is also a Trustee of the Foundation for Carmelite Scholastics and De La Salle College of St. Benilde since 2012 and 2013, respectively. He served as President of The Insular Life Assurance Co. Ltd. during 2004 to 2015 and was concurrent Vice Chairman and/or Director of various Insular Life subsidiaries and affiliates such as Pilipinas Shell Petroleum Corp., Mapfre Insular Insurance Corp., Insular Savings Bank, Insular Healthcare Inc., Insular Investment Corp., Asian Hospital Inc., and Union Bank of the Philippines. Mr. Ongsingco graduated from the De La Salle University with Bachelor's Degrees (Magna Cum Laude) in Economics and Accounting. He also obtained a Master's Degree in Business Administration from the University of the Philippines and in National Security Administration from the National Defense College of the Philippines (with Honors). Mr. Ongsingco has 45 years of experience in banking, finance, and insurance.
- (v) **Ramon J. Abejuela**, 69 years old, Filipino, has been elected as Independent Director of the Keppel Philippines Holdings, Inc. on 14 September 2017. He is also the Independent Director of Keppel Philippines Properties, Inc. (KPPI) from November 1999 to June 2008. He was re-elected as Independent Director in 2009 and is currently the Chairman of the Audit Committee of KPPI. He also serves as Director and Vice Chairman of the Board of Philippine Nutri-Foods Corporation and NCP Publishing Inc. since 2004. Mr. Abejuela holds a Bachelor of Science in Chemical Engineering Degree (cum laude) from De La Salle University and a Master's Degree in Business Management – General Management Curriculum from the Asian Institute of Management. Mr. Abejuela has more than 40 years of experience in the field of financial planning, control and consultancy.
- (vi) **Stefan Tong Wai Mun**, 46, Malaysian, has been elected as regular Director of the Company since June 2007 and had been the President from same period until 14 September 2018. He has been a regular Director of Keppel Philippine Properties, Inc. since June 2007 and has been elected as regular Director of Keppel Philippines Marine, Inc. in February 2010 and Executive Vice-President in June 2011. He is also a regular Director of various Keppel companies in the Philippines. Mr. Tong graduated from University of Western Australia with a Bachelor's Degree in Accounting and Finance (Honors). He is a Chartered Accountant and a member of the Institute of Chartered Accountants in Australia. He has more than 20 years of experience in banking, finance and real estate.
- (vii) **Felicidad V. Razon**, 58, Filipino, has been elected as a regular Director of the Company last May 2014. She joined the Company as Finance Manager in May 2008 and has been elected as Treasurer in June 2008 and appointed as Vice President/Treasurer and Compliance Officer in November 2013. She is also a Chairman/President of Goodsoil Marine Realty, Inc. and Goodwealth Realty Development Corp., President of Consort Land, Inc. and Director and Officer of KPH

related companies. She graduated from Polytechnic University of the Philippines with Bachelor of Science Degree in Commerce Major in Accountancy and is a Certified Public Accountant.

#### **Executive Officers**

- (i) **Alan I. Claveria** - (See foregoing Director's profile)
- (ii) **Felicidad V. Razon**, Vice President/Treasurer – (See foregoing Director's profile)
- (iii) **Ma. Melva E. Valdez**, Corporate Secretary – 59, Filipino, holder of degrees of Bachelor of Arts in Political Science and Bachelor of Laws from the University of the Philippines, has been the Corporate Secretary of the Company since 1998 and a regular Director since 2001 up to June 2016. She is a name Partner of the law firm of Bello Valdez Caluya and Fernandez Law Offices. She is also currently Corporate Secretary of Keppel Philippines Properties, Inc. and Mabuhay Vinyl Corporation (both listed companies) and Keppel Philippines Marine, Inc. (a public company). She is likewise the Corporate Secretary of Asian Institute of Management and Keppel Subic Shipyard, Inc., and various Keppel companies in the Philippines and Director of Leighton Contractors (Phils.) Inc. Atty. Valdez has more than 30 years of working experience in her field of profession as a lawyer.
- (iv) **Lory Anne P. Manuel-McMullin**, 48, Filipino, has been the Asst. Corporate Secretary of the Company since 1998. She also serves as the Asst. Corporate Secretary of Keppel Philippines Marine, Inc. (a public company), Keppel Subic Shipyard, Inc. and other companies within the Keppel group. Furthermore, she is the Asst. Corporate Secretary of Logwin Air + Ocean Philippines, Inc. and a regular Director and Corporate Secretary/Treasurer of Cominix (Philippines), Inc. and Saint-Gobain Philippines Co. Ltd., Inc.; Director/Corporate Secretary of Mektec (Philippines) Corp., Tokai Electronics Philippines, Inc. and A + O Distribution Corp.; Director of Yosemite Holdings, Inc. and Cushman Wakefield Philippines, Inc.; Corporate Secretary of Mitsuba Philippines Technical Center Corp., Nachi Pilipinas Industries, Inc., Technol Eight Philippines Corporation, Yinda Communications (Philippines), Inc., and Sumi Philippines Wiring Systems Corp.; Chief Representative of Charabot S.A. and Resident Agent of Mektec Corp. (Singapore) Pte. Ltd., Entel HK Ltd., Roquette Singapore Pte. Ltd. and SEB Asia Ltd. Atty. McMullin is a Junior Partner of Bello Valdez Caluya & Fernandez Law Offices. She graduated from the University of Santo Tomas with Bachelor's degrees in Communication Arts and Laws.

#### **(b) Significant Employees**

There are no employees other than the officers mentioned in the preceding subsection who are expected to make a significant contribution to the business.

#### **(c) Family Relationship**

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, officers, and persons nominated or chosen by the company to become directors, officers, any security holder of certain record, beneficial owner or management.

#### (d) Involvement in Certain Legal Proceedings

To the knowledge and/or information of the Company, none of the directors and officers was involved in any bankruptcy proceedings during the last five (5) years. Neither have they been convicted by final judgment in any criminal proceedings, or been subjected to any order, judgment or decree of any court of jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in an action by any court or administrative bodies to have violated a securities and commodities law or regulation.

#### 10 - Executive Compensation

As the Company is an investment holding company, it has three (3) senior officers, namely the President, Vice President – Treasurer, and Internal Audit and Risk Manager.

The total aggregate compensation (inclusive of perquisites and other personal benefits) of the senior officers of the Company during the last two (2) fiscal years and the projected aggregate compensation to be paid for the current fiscal year are as follows:

Description	Year	Salary	Bonus	Other Annual Compensation
Aggregate for All Officers	2019 Estimate	₱8,448,000	None	None
	2018	₱7,116,000	None	None
	2017	₱5,215,000	None	None
Aggregate for All Officers & Directors as a Group	2019 Estimate	₱8,688,000	None	None
	2018	₱7,344,000	None	None
	2017	₱5,440,000	None	None

Under the Company's By-Laws, directors shall receive such compensation for their services from time to time as maybe fixed by the stockholders. There are no warrants or options held by the Company's officers and directors. The Company does not have any other arrangements pursuant to which any director is compensated directly or indirectly for any service provided as a director. There are also no special employment contracts with executive officers of the Company. The Company has no existing options, warrants or rights to purchase any securities.

#### 11 - Security Ownership of Certain Record and Beneficial Owners and Management

##### Security Ownership of Certain Record and Beneficial Owners

As of 31 December 2018, the Company knows of no one who beneficially owns in excess of 5% of the Company's common stock except as set forth in the table below:

Title of Class	Name, Address of Record/ Beneficial Owner	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Class
Common	Kepwealth, Inc. <sup>1</sup> Unit 3-B, Country Space 1 Bldg. 133 Sen. Gil J. Puyat Ave., Salcedo Village, Brgy. Bel- Air, Makati City	None	Filipino	'A': 28,817,182 'B': 1,715,748  30,532,930	52.82
Common	Keppel Corporation Ltd. <sup>2</sup> 1 Harbour Front Ave., #18-01 Keppel Bay Tower, Singapore 098632	None	Singaporean	'B': 16,894,087	29.23
Common	PCD Nominee Corp. <sup>3</sup> 37/F Enterprise Bldg., Ayala Avenue, Makati City		Filipino Filipino Foreign	'A': 4,758,298 'B': 2,110,505 'B': 612,815 <u>7,481,618</u>	12.94

- Kepwealth, Inc. is majority-owned by Kepventure, Inc. The Chairman, or in his absence, the President of Kepwealth, Inc. is duly authorized as proxy to vote in the shares of Kepwealth, Inc. in the Company.*
- Keppel Corporation Ltd. (KCL) is listed in the Singapore Stock Exchange. The Chairman of the Board, or in his absence, the President or in his absence, the Chairman of the meeting, shall have the right to vote or direct voting or disposition of the shareholdings of KCL in the Company.*
- PCD Nominee Corp. is a wholly-owned subsidiary of the Philippine Central Depository, Inc. (PCD). It is the registered owner of the shares in the books of the Company's transfer agents in the Philippines. The beneficial owners of such shares are PCD's participants. PCD holds the shares on their beneficial owner's behalf or on behalf of their (PCD) clients. PCD is a private company organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines.*

#### Security Ownership of Management as of 31 December 2018

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Paul Tan Poh Lee / Chairman / Director	'B': 1(r)	Singaporean	-
	Alan I. Claveria / President/Director	'A': 38(r)	Filipino	-
	Celso P. Vivas / Lead Independent Director	'A': 1(r)	Filipino	-
	Mayo Jose B. Ongsingco / Independent Director	'B': 1(r)	Filipino	-
	Ramon J. Abejuela / Independent Director	'A': 1(r)	Filipino	-
	Stefan Tong Wai Mun / Director	'B': 1(r)	Malaysian	-
	Felicidad V. Razon / Vice President-Treasurer /Director	'A': 1(r)	Filipino	-
	Ma. Melva E. Valdez / Corporate Secretary	-	Filipino	-
	Lory Anne P. Manuel-McMullin / Asst. Corp. Sec.	-	Filipino	-
		'A':41; 'B':3		

### **Free float level**

The Company has 17.95% or 10,376,358 shares owned by the public out of the 57,803,419 total outstanding shares as of 31 December 2018.

### **12 - Certain Relationships and Related Transactions**

In the ordinary course of business, the Company has transactions with its affiliates. The significant transactions with affiliates are as follows:

#### **(a) Lease agreements**

##### **GMRI**

GMRI leases parcels of land to KPMI where the latter's shipyard is located. The agreement covering these properties is for a period of 50 years beginning 1993. The annual lease rate amounted to ₱10.5 million and is subject to an escalation clause of 2% after every five (5) years. Rental income, based on the straight-line method, amounted to ₱9.6 million in 2018, 2017, and 2016. Total outstanding balance of lease receivables presented in the consolidated statement of financial position representing lease differential in the computation of rent income using straight line method amounted to ₱32.0 million and ₱32.9 million as at 31 December 2018 and 2017, respectively.

In 2015, the GMRI entered into a new lease agreement with KPMI for another parcel of land covering a period of one (1) year commencing on 1 January 2015 to 31 December 2015, subject to yearly renewal. The lease agreement was renewed in 2018 and 2017 with monthly rental of ₱0.04 million. Rental income generated from this agreement amounted to ₱0.4 million in 31 December 2018, 2017 and 2016.

##### **GRDC**

GRDC leases its properties to KPMI for a period of one (1) year, renewable annually under such terms and conditions as may be mutually agreed upon by both parties. Total rent income recognized for the year amounted to ₱0.3 million as of 31 December 2018, 2017 and 2016.

##### **KPSI**

KPSI leases certain properties to KPMI, KIVI, Kepwealth Property, and KECI for a period of one (1) year, renewable annually. Kepwealth Property's lease contract was terminated on 31 October 2017. Total rent income recognized during the year amounted to ₱0.7 million as of 31 December 2018 and ₱1.3 million in 2017 and 2016, respectively.

##### **Parent Company**

The Parent Company and KPMI has an existing land lease agreement on a piece of land which is the subject of complaint against the Philippine National Oil Company (PNOC). The monthly rent for the said piece of land is ₱0.2 million for a period of one (1) year, subject to yearly renewal. In July 2018, the lease agreement was renewed for another year with no increase in the monthly rental rate. Total rental income recognized amounted to ₱2.1 million in 2018, 2017 and 2016.

Total rental income earned from these agreements amounted to ₱13.2 million for the year ended 31 December 2018 and ₱13.7 million for 2017 and 2016.

(b) Loan agreements with KPMI

**GMRI**

	Release Date	Principal Amount	Outstanding as of 31 December 2017	Transactions		Outstanding as of 31 December 2018	Terms and Conditions
				Availment	Payment		
Long-term	Sep 2014	200,000,000	87,500,000	-	(87,500,000)	-	Unsecured, 5-year, 4 equal quarterly instalments, interest subject to repricing semi-annual, option for early repayment, interest rates: 2017 - 3.6% to 4.6%; 2018 - 4.5% to 5.4%
			87,500,000	-	(87,500,000)	-	
Short-term	Dec 2017	12,500,000	12,500,000		(12,500,000)	-	Unsecured, 88-90 days with renewal; interest rates 2017-3% to 4.3% interest rates, 88 days at 4.3%, 90 days at 6.3%
	Aug 2018	15,000,000		15,000,000	(15,000,000)	-	
	Sep 2018	62,000,000		62,000,000		62,000,000	
			12,500,000	77,000,000	(27,500,000)	62,000,000	
			100,000,000	77,000,000	(115,000,000)	62,000,000	

Total outstanding loan of KPMI as of 31 December 2018 amounted to ₱62.0 million (2017 – ₱100.0 million). Interest income recognized from these loans amounted to ₱3.8 million as of 31 December 2018 (2017 - ₱8.6 million, 2016 – ₱7.2 million). Accrued interest receivable as of 31 December 2018 and 2017 both amounted to ₱0.3 million.

**KPSI**

KPSI granted short-term loan to KPMI since February 2016. As of 31 December 2017, KPMI has outstanding ₱15.0 million with 90-day term and was renewed thereafter. Partial payment of ₱5.0 million was in December 2018. Remaining balance of ₱10.0 million was renewed for 88 days term at 6.3%. Interest income recognized from the short-term loan amounted to ₱0.6 million as of 31 December 2018 (2017 – ₱0.5 million; 2016 - ₱0.3 million). Accrued interest receivable amounted to ₱0.05 million as of 31 December 2018 (2017 – ₱0.1 million).

Release Date	Principal Amount	Outstanding as of 31 December 2017	Transactions		Outstanding as of 31 December 2018	Terms and Conditions
			Availment	Payment		
17 Oct 2016	15,000,000	15,000,000		(5,000,000)	10,000,000	Unsecured 90 days with renewal, interest in 2017 - 3.0% to 3.5%; 2018 - 3.2% to 4.8%; Renewed November 2018 - 88 days at 6.3%

**Parent Company**

The Parent Company started to grant short-term loans to KPMI in June 2015. As of 31 December 2018, KPMI has loan balance of ₱200.0 million (2017 - ₱127.0 million).

As of 31 December 2018, KPMI has outstanding short-term loans as follows:

Release Date	Principal Amount	Outstanding as of 31 December 2017	Transactions		Outstanding as of 31 December 2018	Terms and Conditions
			Availment	Payment		
16 June 2017	52,000,000	52,000,000	-	-	52,000,000	Unsecured 90 days with renewal, interest – 2017 2.8% to 3.5%; 2018 3% to 6.3%
27 Nov 2017	50,000,000	50,000,000	-	-	50,000,000	
4 Dec 2017	25,000,000	25,000,000	-	-	25,000,000	
		127,000,000			127,000,000	
12 Mar 2018	18,000,000	-	18,000,000	-	18,000,000	Unsecured 90 days with renewal at 3.0% to 6.3%;
7 Apr 2018	25,000,000	-	25,000,000	-	25,000,000	90 days at 5.9%
14 Dec 2018	30,000,000	-	30,000,000	-	30,000,000	
		127,000,000	73,000,000	-	170,000,000	

Interest income recognized from these loans by the Parent Company amounted to ₱6.4 million as of 31 December 2018 (2017 – ₱2.4 million, 2016 - ₱2.5 million). Accrued interest receivable amounted to ₱1.2 million as of 31 December 2018 (2017 - ₱0.3 million).

Total interest income earned from these loan agreements amounted to ₱10.7 million for the year ended 31 December 2018 (2017 - ₱11.5 million, 2016 - ₱10.0 million). Accrued interest receivable amounted to ₱1.2 million as at 31 December 2018 (2017 – P0.7 million).

**(c) Management fees**

Since 2013, the Parent Company had management agreement with its related companies for a monthly fee. The monthly management fees are subject to change depending upon the extent and volume of services provided by the Parent Company. This covers regular consultancy, handling of financial reporting, personnel and administration services. The agreement is considered renewed every year thereafter, unless one party gives the other a written notice of termination at least three (3) months prior to the expiration date. In January 2018, the monthly management fees of Kepventure, Inc., Kepwealth, Inc. and KIVI is ₱5,000, ₱23,000, and ₱15,000, respectively (2017- ₱2,500, ₱12,000, and ₱15,000, respectively). The management agreement with Kepwealth Property was terminated on 31 October 2017 due to the sale of Kepwealth Property to a third party.

The Parent Company also provides accounting services to KECL, an entity under common control, for a monthly management fee of ₱20,000 in 2018 (2017 - ₱25,000). The agreement is considered renewed every year thereafter, unless one party gives the other a written notice of termination at least three (3) months prior to the anniversary date.

Management fees earned amounted to ₱0.8 million in 2018 (2017- ₱1.8 million; 2016 – ₱1.4 million). As at 31 December 2018, there was no intention from any of the parties to terminate the management services.

**(d) Other income**

In 2014, the Company entered into a Memorandum of Undertaking (MOU) with KPMI to assist the latter in its bidding activities for projects for a 1% share in revenue. The Company received ₱0.4 million in 2018 (2017 & 2016 – nil).

**(e) Advances for various expenses and charges**

Other transactions with related parties consist of reimbursements or sharing of common expenses such as legal, communication and business development expenses.

## **PART IV - CORPORATE GOVERNANCE**

### **13 – Corporate Governance**

As per SEC Memo Circular No. 15, Series of 2017, publicly-listed companies such as KPH is required to submit Integrated – Annual Corporate Governance Report on May 30, 2018. The Company complied with the requirement.

## PART V - EXHIBITS AND SCHEDULES

### 14 - Exhibits and Reports on SEC Form 17-A

- (a) **Exhibits** – See accompanying Index to Exhibits
- (b) **Reports on SEC Form 17-C** – The Company has filed all reports on Form 17-C (Current Report) on matters needed in compliance with the SEC’s SRC during the fiscal year 2018 as follows:

26 January 2018	Board of Directors’ approval of KPH’s 2017 SEC Form 17-A (Annual Report and Audited Financial Statements (AFS) for the year ended 31 December 2017 and release of said AFS
10 May 2018	Result of Board of Directors Meeting – 10 May 2018 <ul style="list-style-type: none"> <li>• Appointment of External Auditor</li> <li>• Setting of the Annual Meeting of Stockholders and Record Date</li> </ul>
15 May 2018	Notice of Annual Stockholders Meeting and Agenda
16 May 2018	Amended Details of 2018 Stockholders’ Meeting
06 June 2018	List of Stockholders as of 29 May 2018 Entitled to Vote during the Annual General Meeting
22 June 2018	Result of Board of Directors Meeting – 22 June 2018 <ul style="list-style-type: none"> <li>• Approval of Directors’ Remuneration for 2017</li> <li>• Declaration of Cash Dividend - declaration of 10% or ₱0.10 per share cash dividend to all stockholders of record of the Company as of 06 July 2018 to be paid on or before 31 July 2018</li> </ul>
22 June 2018	Results of the Annual Stockholders Meeting Held on 22 June 2018 <ul style="list-style-type: none"> <li>• Appointment of External Auditor, Isla Lipana &amp; Co. (PwC) for the financial year 2018</li> <li>• Election of Directors for year 2018-2019</li> <li>• Approval of Amendment of By-laws Article IV “Committees”, Section 3,4, and 5</li> <li>• Approval of the Corporation’s Audited Financial Statements for the year ended 31 December 2017</li> <li>• Approval of Directors’ Annual Remuneration of ₱60,000 for 2018</li> </ul>
25 June 2018	Results of Organizational Meeting – 22 June 2018 <ul style="list-style-type: none"> <li>• Election of Officers for the ensuing year 2018-2019</li> <li>• Appointment of chairman, members of the various committees and compliance officer/corporate information officer</li> </ul>
27 July 2018	Approval of SEC – Certificate of Filing Amended By-laws Re Change in “Committees”, Section 3,4 and 5



Upon the written request of the stockholder, the Company undertakes to furnish said stockholder a copy of SEC Form 17-A free of charge, except for exhibits attached thereto which shall be charged at cost. Any written request for a copy of SEC Form 17-A shall be addressed as follows:

**Keppel Philippines Holdings, Inc.  
Unit 3-B Country Space 1 Building  
133 Sen. Gil Puyat Avenue, Salcedo Village  
Barangay Bel-Air, Makati City 1200**

**Attn: The Corporate Secretary**

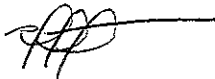
**SIGNATURES**


Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Makati on \_\_\_\_\_.

**KEPPEL PHILIPPINES HOLDINGS, INC.**

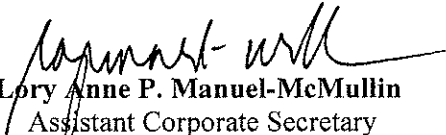
Issuer

By:

  
**Alan I. Claveria**  
President

  
**Felicidad V. Razon**  
Vice President / Treasurer

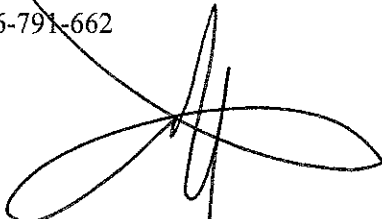
  
**Ma. Melva E. Valdez**  
Corporate Secretary

  
**Lory Anne P. Manuel-McMullin**  
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 1 2019 2019; affiants exhibiting to me their Tax Identification Numbers (TIN), as follows:

<u>Names</u>	<u>Tax Identification Numbers</u>
Alan I. Claveria	125-165-720
Felicidad V. Razon	112-748-156
Ma. Melva E. Valdez	123-493-209
Lory Anne P. Manuel-McMullin	176-791-662

Doc No. 204  
Page No. 42  
Book No. XII  
Series of 2019.

  
**ATTY. GERVACIO B. CORTIZ JR.**  
Notary Public Makati City  
Until Dec. 31, 2019  
Appointment No. M-183 (2019-2020)  
PTR No. 7333104 Jan. 3, 2013/Makati  
IBP Lifetime No. 656155 Roll No. 40051  
MCLE Compliance No. V-0009934  
101 Urban Ave. Campos Rueda Bldg.  
Brgy. Pio Del Pilar, Makati City

**FINANCIAL STATEMENTS &  
SUPPLEMENTARY SCHEDULES**

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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**COMPANY NAME**

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

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

U	N	I	T		3	-	B		C	O	U	N	T	R	Y		S	P	A	C	E		1						
B	U	I	L	D	I	N	G	,		1	3	3		S	E	N	.		G	I	L		J		P	U	Y	A	T
A	V	E	N	U	E	,		S	A	L	C	E	D	O		V	I	L	L	A	G	E	,						
B	A	R	A	N	G	A	Y		B	E	L	-	A	I	R	,		M	A	K	A	T	I		C	I	T	Y	

Form Type

A	A	F	S
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Department requiring the report

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Secondary License Type, if Applicable

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**COMPANY INFORMATION**

Company's Email Address

info@keppelph.com

Company's Telephone Number/s

02-8921820

Mobile Number

-

No. of Stockholders

422 as of December 31 2018

Annual Meeting (Month/Day)

Any day in June

Fiscal Year (Month/Day)

December 31

**CONTACT PERSON INFORMATION**

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

Name of Contact Person

Felicidad V. Razon

Email Address

info@keppelph.com

Telephone Number/s

02-8921820

Mobile Number

-

**CONTACT PERSON'S ADDRESS**

Unit 3-B Country Space 1 Building, Sen. Gil J. Puyat Avenue, Salcedo Village, Barangay Bel-Air, Makati City

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

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

**Keppel Philippines Holdings, Inc.**  
Head Office  
3B Country Space 1 Bldg.  
Sen. Gil Puyat Avenue  
Salcedo Village Makati City, Philippines

Tel.: (632) 892 1816  
Tel.: (632) 892 1820 to 24  
Fax: (632) 8152581, 8943684  
Email: info@keppelph.com

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **KEPPEL PHILIPPINES HOLDINGS, INC. AND SUBSIDIARIES** (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules therein, for the years ended **December 31, 2018 and 2017**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the stockholders.

**Isla Lipana & Co.**, the Philippine member firm of PwC, the independent auditor appointed by the shareholders, has audited the financial statements of the Company in accordance with Philippines Standards on Auditing, and in its report to the shareholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



**PAUL TAN POH LEE**  
Chairman of the Board



**ALAN I. CLAVERIA**  
President



**FELICIDAD V. RAZON**  
Vice President/Treasurer

Signed this 24th day of January 2019

REPUBLIC OF THE PHILIPPINES)

CITY OF MAKATI )

ACKNOWLEDGEMENT

BEFORE ME, a Notary Public, for and in the City of Makati, Philippines, on this APR 11 2019 day of April 2019, affiants exhibiting to me their Tax Identification Numbers (TIN) as follows:

Name	Tax Identification Numbers
PAUL TAN POH LEE	438-159-145
ALAN I. CLAVERIA	127-165-720
FELICIDAD V RAZON	112-942-756

Doc. No. 205  
Page No. 42  
Book No. XII  
Series 2014

ATTY. GERVACIO B. ORTIZ JR.  
Notary Public Makati City  
Until Dec. 31, 2019  
Appointment No. M-233 (2019-2020)  
PTR No. 7333104 Jan. 3, 2019/Makati  
ISP Lifetime No. 656155 Roll No. 40091  
MCLE Compliance No. V-0006934  
101 Urban Ave. Campos Rueda Bldg.  
Brgy. Pio Del Pilar, Makati City



## **Independent Auditor's Report**

To the Board of Directors and Shareholders of  
**Keppel Philippines Holdings, Inc. and Subsidiaries**  
Unit 3-B, Country Space 1 Building  
133 Sen. Gil Puyat Avenue, Salcedo Village  
Barangay Bel-Air, Makati City

### ***Our Opinion***

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Keppel Philippines Holdings, Inc. (the "Parent Company") and its subsidiaries (together, the "Group") as at December 31, 2018 and 2017, and the consolidated financial performance and consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

### ***What we have audited***

The consolidated financial statements of the Group comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of income for each of the three years in the period ended December 31, 2018;
- the consolidated statements of total comprehensive income for each of the three years in the period ended December 31, 2018;
- the consolidated statements of changes in equity for each of the three years in the period ended December 31, 2018;
- the consolidated statements of cash flows for each of the three years in the period ended December 31, 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### ***Basis for Opinion***

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

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Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines  
T: +63 (2) 845 2728, F: +63 (2) 845 2806, [www.pwc.com/ph](http://www.pwc.com/ph)



Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Keppel Philippines Holdings, Inc. and Subsidiaries  
Page 2

*Independence*

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

***Our Audit Approach***

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

*Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit pertains to the assessment of recoverability of investment properties.



Independent Auditor's Report  
 To the Board of Directors and Shareholders of  
 Keppel Philippines Holdings, Inc. and Subsidiaries  
 Page 3

Key Audit Matter	How our Audit Addressed the Key Audit Matter
<p>Assessment of recoverability of investment properties</p> <p>Refer to Note 7 for the details of the Group's investment properties and to Note 19.2 (c) for the discussion on critical accounting judgment.</p> <p><i>This is an area of focus mainly due to the number of investment properties held by the Group. The account, which represents 20% of total assets, is part of the Group's real estate business segment.</i></p>	<p>We addressed the matter through inspection of significant long and short-term lease contracts. The inspection procedures included thorough understanding of the terms and conditions of the underlying lease contracts as well as the state of the individual assets to obtain audit evidence on the sustainability of cash flows to support recoverability of investment properties. Our inspection did not note any cancellation or potential cancellation of existing lease agreements.</p> <p>Additionally, we examined the latest appraisal report prepared by a third-party appraiser and noted that the aggregate and individual fair values of the investment properties are higher than their respective carrying amounts. Audit evidence over the reliability of the appraisal report was obtained through independent verification of certain fair value assumptions (i.e. similar market listing in the area) over the Group's land properties, which comprised 100% of the total carrying amount of the account. We also verified the independence and competency of the third-party appraiser by examining their qualifications, experiences, and business relationship with the Group.</p> <p>The results of procedures performed and discussions with management did not note any indicators of impairment as at December 31, 2018 and 2017.</p>





Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Keppel Philippines Holdings, Inc. and Subsidiaries  
Page 4

***Other Information***

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), and SEC Form 17-A, but do not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), and SEC Form 17-A are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

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

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

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

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Keppel Philippines Holdings, Inc. and Subsidiaries  
Page 5

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of each entity within the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an entity within the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



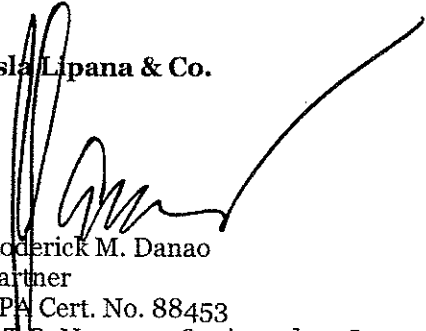
Isla Lipana & Co.

Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Keppel Philippines Holdings, Inc. and Subsidiaries  
Page 6

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Roderick M. Danao.

Isla Lipana & Co.



Roderick M. Danao  
Partner

CPA Cert. No. 88453

P.T.R. No. 0011280, issued on January 8, 2019 at Makati City

SEC A.N. (individual) as general auditors 1585-A, Category A; effective until September 27, 2019

SEC A.N. (firm) as general auditors 0009-FR-4; Category A; effective until June 20, 2021

TIN 152-015-078

BIR A.N. 08-000745-042-2018, issued on February 2, 2018; effective until February 1, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City  
January 24, 2019



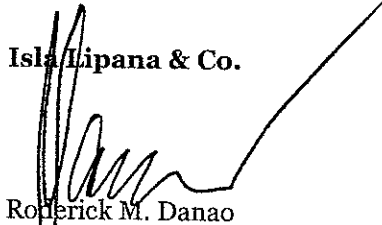
Isla Lipana & Co.

Statements Required by Rule 68,  
Securities Regulation Code (SRC),  
As Amended on October 20, 2011

To the Board of Directors and Shareholders of  
**Keppel Philippines Holdings, Inc. and Subsidiaries**  
Unit 3-B, Country Space 1 Building  
133 Sen. Gil Puyat Avenue, Salcedo Village  
Barangay Bel-Air, Makati City

We have audited the consolidated financial statements of Keppel Philippines Holdings, Inc. and Subsidiaries as at and for the year ended December 31, 2018, on which we have rendered the attached report dated January 24, 2019. The supplementary information shown in the Schedule of Philippine Financial Reporting Standards and Interpretations effective as at December 31, 2018, Reconciliation of Retained Earnings for Dividend Declaration, Map of the Group of Companies within which the Reporting Entity Belongs, and Key Financial Ratios as required by Part I, Section 4 of Rule 68 of the SRC, and Schedules A, B, C, D, E, F, G, and H as required by Part II, Section 6 of Rule 68 of the SRC, are presented for purposes of filing with the Securities and Exchange Commission and are not required parts of the basic consolidated financial statements. Such supplementary information are the responsibility of management and have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements. In our opinion, the supplementary information have been prepared in accordance with Parts I and II of Rule 68 of the SRC.

**Isla Lipana & Co.**

  
Roderick M. Danao  
Partner

CPA Cert. No. 88453

P.T.R. No. 0011280, issued on January 8, 2019 at Makati City

SEC A.N. (individual) as general auditors 1585-A, Category A; effective until September 27, 2019

SEC A.N. (firm) as general auditors 0009-FR-4; Category A; effective until June 20, 2021

TIN 152-015-078

BIR A.N. 08-000745-042-2018, issued on February 2, 2018; effective until February 1, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City  
January 24, 2019

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Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines  
T: +63 (2) 845 2728, F: +63 (2) 845 2806, [www.pwc.com/ph](http://www.pwc.com/ph)

**Keppel Philippines Holdings, Inc. and Subsidiaries**

Consolidated Statements of Financial Position  
As at December 31, 2018 and 2017  
(All amounts in Philippine Peso)

	Notes	2018	2017
<b><u>ASSETS</u></b>			
<b>Current assets</b>			
Cash and cash equivalents	2	39,482,154	87,943,929
Receivables, net	3	277,255,220	209,279,624
Other current assets, net	4	1,014,501	742,995
<b>Total current assets</b>		<b>317,751,872</b>	<b>297,966,548</b>
<b>Non-current assets</b>			
Financial assets at fair value through other comprehensive income, net	5	35,000,001	-
Available-for-sale financial assets, net	5	-	20,000,001
Investment in associates	6	421,739,664	420,435,364
Loan receivables, net of current portion	3	-	37,500,000
Lease receivables, net of current portion	3	28,310,410	29,234,677
Investment properties, net	7	205,288,439	205,901,940
Property and equipment, net	8	98,896	134,690
Other non-current assets	17	4,140,710	4,140,710
<b>Total non-current assets</b>		<b>694,578,120</b>	<b>717,347,382</b>
<b>Total assets</b>		<b>1,012,329,992</b>	<b>1,015,313,930</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities</b>			
Accounts payable and other current liabilities	9	14,547,091	8,028,814
Refundable deposits	7	2,409,883	487,080
Income tax payable	14	677,714	1,093,310
<b>Total current liabilities</b>		<b>17,634,688</b>	<b>9,609,204</b>
<b>Non-current liability</b>			
Deferred income tax liability	14	1,600,372	1,494,418
<b>Total liabilities</b>		<b>19,235,060</b>	<b>11,103,622</b>
<b>Equity</b>			
Share capital	11	73,173,500	73,173,500
Share premium	11	73,203,734	73,203,734
Retained earnings	12	476,686,367	477,219,523
Investment revaluation reserve	5	34,422,058	19,422,058
Treasury shares	12	(22,622,976)	(22,622,976)
		634,862,683	620,395,839
Non-controlling interests	20	358,232,249	383,814,469
<b>Total equity</b>		<b>993,094,932</b>	<b>1,004,210,308</b>
<b>Total liabilities and equity</b>		<b>1,012,329,992</b>	<b>1,015,313,930</b>

The notes on pages 1 to 46 are integral part of these consolidated financial statements.

**Keppel Philippines Holdings, Inc. and Subsidiaries**

Consolidated Statements of Income  
For each of the three years in the period ended December 31, 2018  
(All amounts in Philippine Peso)

	Notes	2018	2017	2016
<b>Revenue and income</b>				
Rental income	7, 10	22,714,210	17,988,909	20,451,326
Interest income	2, 10	12,209,199	12,466,267	10,628,678
Equity in net earnings of associates	6	10,037,399	8,742,280	10,314,776
Gain on sale of investment properties	7	1,922,001	49,560,165	-
Management fees	10	756,000	1,780,200	1,394,400
Dividend income	6, 10	-	-	1,622,168
Others		825,435	693,704	257,219
		48,464,244	91,231,525	44,668,567
Operating expenses	13	(31,399,379)	(23,577,624)	(16,726,590)
<b>Income before income tax</b>		17,064,865	67,653,901	27,941,977
Income tax expense	14	(2,875,899)	(12,781,217)	(4,182,377)
<b>Net income for the year</b>		14,188,966	54,872,684	23,759,600
<b>Attributable to:</b>				
Equity holders of the parent	15	5,247,186	44,796,093	13,568,566
Non-controlling interests		8,941,780	10,076,591	10,191,034
		14,188,966	54,872,684	23,759,600
<b>Earnings per share attributable to equity holders of the parent</b>				
	15	0.091	0.775	0.235

The notes on pages 1 to 46 are integral part of these consolidated financial statements.

**Keppel Philippines Holdings, Inc. and Subsidiaries**

Consolidated Statements of Total Comprehensive Income  
For each of the three years in the period ended December 31, 2018  
(All amounts in Philippine Peso)

	Note	2018	2017	2016
<b>Net income for the year</b>		14,188,966	54,872,684	23,759,600
<b>Other comprehensive income</b>				
Item that will not be subsequently reclassified to profit or loss				
Unrealized fair value gain on financial assets at fair value through other comprehensive income	5	15,000,000	-	-
Item that may be subsequently reclassified to profit or loss				
Unrealized fair value gain on available-for-sale financial assets	5	-	500,000	3,700,000
<b>Total comprehensive income for the year</b>		29,188,966	55,372,684	27,459,600
<b>Attributable to:</b>				
Equity holders of the parent		20,247,186	45,296,093	17,268,566
Non-controlling interest		8,941,780	10,076,591	10,191,034
		29,188,966	55,372,684	27,459,600

The notes on pages 1 to 46 are integral part of these consolidated financial statements.

## Keppel Philippines Holdings, Inc. and Subsidiaries

Consolidated Statements of Changes in Equity  
For each of the three years in the period ended December 31, 2018  
(All amounts in Philippine Peso)

	Attributable to equity holders of the parent							Total equity	
	Notes	Share capital (Note 11)	Share premium	Retained earnings (Note 12)	Investment revaluation reserve (Note 5)	Treasury shares (Note 12)	Total		Non-controlling interests
<b>Balances at January 1, 2016</b>		73,173,500	73,203,734	430,671,948	15,222,058	(9,898,178)	582,373,062	436,434,544	1,018,807,606
<b>Comprehensive income</b>									
Net income for the year		-	-	13,568,566	-	-	13,568,566	10,191,034	23,759,600
Unrealized fair value gain on available-for-sale financial assets	5	-	-	-	3,700,000	-	3,700,000	-	3,700,000
Total comprehensive income for the year		-	-	13,568,566	3,700,000	-	17,268,566	10,191,034	27,459,600
<b>Transaction with owners</b>									
Cash dividends declared	12	-	-	(6,036,742)	-	-	(6,036,742)	(9,654,000)	(15,690,742)
Repurchase of shares		-	-	-	-	(12,724,798)	(12,724,798)	-	(12,724,798)
Total transactions with owners		-	-	(6,036,742)	-	(12,724,798)	(18,761,540)	(9,654,000)	(28,415,540)
<b>Balances at December 31, 2016</b>		73,173,500	73,203,734	438,203,772	18,922,058	(22,622,976)	580,880,088	436,971,578	1,017,851,666
<b>Comprehensive income</b>									
Net income for the year		-	-	44,796,093	-	-	44,796,093	10,076,591	54,872,684
Unrealized fair value gain on available-for-sale financial assets	5	-	-	-	500,000	-	500,000	-	500,000
Total comprehensive income for the year		-	-	44,796,093	500,000	-	45,296,093	10,076,591	55,372,684
<b>Transaction with owners</b>									
Cash dividends declared	12	-	-	(5,780,342)	-	-	(5,780,342)	(63,233,700)	(69,014,042)
<b>Balances at December 31, 2017</b>		73,173,500	73,203,734	477,219,523	19,422,058	(22,622,976)	620,395,839	383,814,469	1,004,210,308

The notes on pages 1 to 46 are integral part of these consolidated financial statements.



**Keppel Philippines Holdings, Inc. and Subsidiaries**

Consolidated Statements of Changes in Equity  
For each of the three years in the period ended December 31, 2018  
(All amounts in Philippine Peso)

	Attributable to equity holders of the parent								
	Notes	Share capital (Note 11)	Share premium	Retained earnings (Note 12)	Investment revaluation reserve (Note 5)	Treasury shares (Note 12)	Total	Non-controlling interests	Total equity
<b>Balances at December 31, 2017</b>		73,173,500	73,203,734	477,219,523	19,422,058	(22,622,976)	620,395,839	383,814,469	1,004,210,308
<b>Comprehensive income</b>									
Net income for the year		-	-	5,247,186	-	-	5,247,186	8,941,780	14,188,966
Unrealized fair value gain on financial assets through other comprehensive income	5	-	-	-	15,000,000	-	15,000,000	-	15,000,000
Total comprehensive income for the year		-	-	5,247,186	15,000,000	-	20,247,186	8,941,780	29,188,966
<b>Transaction with owners</b>									
Cash dividends declared	12	-	-	(5,780,342)	-	-	(5,780,342)	(34,524,000)	(40,304,342)
<b>Balances at December 31, 2018</b>		73,173,500	73,203,734	476,686,367	34,422,058	(22,622,976)	634,862,683	358,232,249	993,094,932

The notes on pages 1 to 46 are integral part of these consolidated financial statements.

## Keppel Philippines Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows  
For each of the three years in the period ended December 31, 2018  
(All amounts in Philippine Peso)

	Notes	2018	2017	2016
<b>Cash flows from operating activities</b>				
Income before income tax		17,064,865	67,653,901	27,941,977
Adjustments for:				
Provision for impairment losses - net	3, 4, 13	497,115	660,748	135,663
Depreciation and amortization	7, 8, 13	315,652	310,552	412,651
Dividend income	6, 10	-	-	(1,622,168)
Equity in net earnings of associates	6, 10	(10,037,399)	(8,742,280)	(10,314,776)
Interest income	2, 10	(12,209,199)	(12,466,267)	(10,628,678)
Gain on sale of investment properties	7	(1,922,001)	(49,560,165)	-
Operating income (loss) before working capital changes		(6,290,967)	(2,143,511)	5,924,669
Changes in working capital:				
Receivables		1,631,760	1,818,285	390,422
Other current assets		(1,221,989)	(2,970,034)	(2,021,650)
Accounts payable and other current liabilities		5,783,277	3,588,316	1,013,580
Refundable deposits		1,922,803	(1,459,759)	61,082
Net cash generated from (absorbed by) operations		1,824,884	(1,166,703)	5,368,103
Income tax paid		(2,450,540)	(10,295,659)	(1,206,981)
Net cash provided by (used in) operating activities		(625,656)	(11,462,362)	4,161,122
<b>Cash flows from investing activities</b>				
Collection of loan receivable from a related party	3, 10	120,000,000	207,500,000	147,346,000
Interest received		11,479,478	12,842,946	10,246,346
Cash dividends received	6, 10	8,733,099	3,493,239	12,725,680
Proceeds from sale of investment properties	7	2,300,000	52,894,755	-
Acquisition of property and equipment	8	(44,357)	(126,769)	(34,821)
Loans granted to a related party	3, 10	(150,000,000)	(132,500,000)	(176,846,000)
Net cash provided by (used in) investing activities		(7,531,780)	144,104,171	(6,562,795)
<b>Cash flows from financing activities</b>				
Cash dividends paid	12	(40,304,342)	(69,014,042)	(15,690,742)
Repurchase of shares	12	-	-	(12,724,798)
Net cash used in financing activities		(40,304,342)	(69,014,042)	(28,415,540)
<b>Net increase (decrease) in cash and cash equivalents</b>		(48,461,778)	63,627,767	(30,817,213)
Cash and cash equivalents at January 1		87,943,929	24,316,162	55,133,375
<b>Cash and cash equivalents at December 31</b>		39,482,151	87,943,929	24,316,162

The notes on pages 1 to 46 are integral part of these consolidated financial statements.

## Keppel Philippines Holdings, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

As at December 31 2018 and 2017

and for each of the three years in the period ended December 31, 2018

(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

### **Note 1 - General information**

Keppel Philippines Holdings, Inc. (KPHI or the Parent Company) and its subsidiaries, KPSI Property, Inc. (KPSI), and Goodwealth Realty and Development Corporation (GRDC), including GRDC's subsidiary, Goodsoil Marine Realty Inc. (GMRI), collectively referred to as "the Group", were incorporated in the Philippines. The Parent Company was registered with the Philippine Securities and Exchange Commission (SEC) on July 24, 1975 with registered office address at Unit 3-B, Country Space 1 Building, 133 Sen. Gil Puyat Avenue, Salcedo Village, Barangay Bel-Air, Makati City. The Parent Company is involved in investment holding while the subsidiaries are in the real estate industry.

In 1987, the Parent Company became a publicly listed entity through initial public offering (IPO) of its shares. There was no follow on offering after the IPO.

KPHI's shares are publicly traded in the Philippine Stock Exchange (PSE). As at December 31, 2018 and 2017, the top three (3) shareholders are the following:

	Percentage of ownership
Kepwealth, Inc.	52.8%
Keppel Corporation Limited (KCL)	29.2%
Public	18.0%

The following are the Parent Company's subsidiaries, which all belong to the real estate industry:

	Percentage of ownership	
	2018	2017
KPSI	100%	100%
GRDC	51%	51%
GMRI	51%	51%

GRDC is 44% owned by Keppel Philippines Marine, Inc. Retirement Plan (KPMI Retirement Plan) and 5% by Keppel Philippines Marine, Inc. (KPMI) in 2018 and 2017. GRDC owns 93.7% of GMRI, thus, KPHI has 51% effective ownership on GMRI, including 3.2% separate interest in GMRI.

GMRI has 24.95% direct ownership in Consort Land, Inc. (CLI), providing KPHI a 13% indirect ownership in CLI.

All of the Group's associates were incorporated in the Philippines. The ultimate parent company of the Group is Keppel Corporation Limited (KCL), a company incorporated in Singapore. KCL is listed in the Singapore Exchange (SGX).

The Parent Company has 5 regular employees as at December 31, 2018 (2017 - 7 employees). The administrative functions of the subsidiaries are handled by the Parent Company's management.

As at December 31, 2018, the Parent Company has 240 shareholders (2017 - 242 shareholders), each owning at least 100 shares.

The accompanying consolidated financial statements have been approved and authorized for issuance by the Board of Directors (BOD) on January 24, 2019.

**Note 2 - Cash and cash equivalents**

Cash and cash equivalents as at December 31 consist of:

	2018	2017
Cash equivalents	28,396,321	82,220,201
Cash in banks	11,080,830	5,718,728
Cash on hand	5,000	5,000
	<u>39,482,151</u>	<u>87,943,929</u>

Cash in banks earn interests at the prevailing bank deposit rates. Cash equivalents are short-term investments which are placed in financial institutions for varying periods of up to three (3) months, depending on the immediate cash requirements of the Group, and earned interest at annual rates that ranged from 2.0% to 5% in 2018 (2017 - 1.6% to 2.0%).

Interest income on cash and cash equivalents amounted to P1.5 million in 2018 (2017 - P0.9 million; 2016 - P0.6 million). Accrued interest receivable from cash and cash equivalents amounted to P0.1 million as at December 31, 2018 and 2017 (Note 3).

**Note 3 - Receivables, net**

Receivables, net as at December 31 consist of:

	Notes	2018	2017
Loan receivables from a related party	10	272,000,000	242,000,000
Lease receivables:			
Related parties	10	32,007,455	32,931,722
Others		-	707,493
		<u>304,007,455</u>	<u>275,639,215</u>
Non-trade		2,152,580	2,152,580
Interest receivable	2, 10	1,558,175	828,454
		<u>307,718,210</u>	<u>278,620,249</u>
Less non-current portion:			
Loan receivables	10	-	37,500,000
Lease receivables		28,310,410	29,234,677
		<u>28,310,410</u>	<u>66,734,677</u>
		279,407,800	211,885,572
Less allowance for doubtful accounts		2,152,580	2,605,948
		<u>277,255,220</u>	<u>209,279,624</u>

Movements in the allowance for impairment related to lease receivables - others and non-trade receivables for the years ended December 31 are as follows:

	Note	2018			2017		
		Lease receivables - others	Non-trade	Total	Lease receivables - others	Non-trade	Total
January 1		453,368	2,152,580	2,605,948	-	2,152,580	2,152,580
Provision (recovery)	13	(453,368)	-	(453,368)	453,368	-	453,368
December 31		-	2,152,580	2,152,580	453,368	2,152,580	2,605,948

The Group recognized provision for doubtful accounts related to its third-party receivables amounting to P0.5 million in 2017 (2018 and 2016 - nil). This account pertains to terminated lease contract with a third party customer. This was subsequently recovered in 2018.

The loan receivables from a related party pertain to unsecured, short-term and long-term interest-bearing loans obtained by Keppel Philippines Marine, Inc. (KPMI), an entity under common control, from the Parent Company, GMRI and KPSI. Refer to Note 10 for the details of the loan receivable.

Current portion of the lease receivables is non-interest bearing and is generally with terms of 30-60 days. The non-current portion of the lease receivables pertains to the difference between straight line method and contractual annual rents. These amounts are expected to reverse more than one (1) year from the financial reporting date.

Non-trade receivable represents the Group's claim against a seller of a parcel of land, the title of which has not been transferred to the Group. The non-trade receivable has been outstanding for more than two (2) years and has been fully provided for.

Interest receivable represents the Group's accrued interest earned from cash equivalents and loan receivables.

#### **Note 4 - Other current assets, net**

Other current assets, net as at December 31 consist of:

	2018	2017
Creditable withholding tax (CWT)	4,562,235	2,810,307
Input value-added tax (VAT)	344,334	777,498
Advances to employees	395,135	480,000
Deposits	55,645	55,645
Prepaid expenses	5,929	12,101
Others	55,000	60,738
	5,418,278	4,196,289
Less allowance for impairment losses	(4,403,777)	(3,453,294)
	1,014,501	742,995

Movements in the allowance for impairment related to input VAT and CWT for the years ended December 31 are as follows:

	Note	2018			2017			2016		
		Input VAT	CWT	Total	Input VAT	CWT	Total	Input VAT	CWT	Total
January 1		642,987	2,810,307	3,453,294	1,225,075	2,032,442	3,257,517	1,840,054	1,281,800	3,121,854
Provision		-	1,636,660	1,636,660	288,964	1,067,113	1,356,077	140,053	885,037	1,025,090
Recovery of provision		(642,987)	(43,190)	(686,177)	(871,052)	(277,645)	(1,148,697)	(755,032)	(134,395)	(889,427)
Net provision (recovery)	13	(642,987)	1,593,470	950,483	(582,088)	789,468	207,380	(614,979)	750,642	135,663
Write-off		-	-	-	-	(11,603)	(11,603)	-	-	-
December 31		-	4,403,777	4,403,777	642,987	2,810,307	3,453,294	1,225,075	2,032,442	3,257,517

In 2018, the Group recovered input VAT and CWT amounting to Po.6 million and Po.04 million, respectively (2017 - Po.9 million and Po.3 million, respectively; 2016 - Po.8 million and Po.1 million, respectively) and such were applied against output VAT and income tax due, respectively, during the year.

**Note 5 - Financial assets through other comprehensive income, net/Available-for-sale financial assets, net**

Financial assets at fair value through other comprehensive income (FVOCI), net as at December 31, 2018 were previously classified as available-for-sale financial assets, net. Note 20.5 explains the change of accounting policy and the reclassification of equity investments from available-for-sale financial assets to FVOCI.

	2018	2017
Quoted share		
Golf club share	35,000,001	20,000,001
Unquoted share		
Golf club share	880,000	880,000
	35,880,001	20,880,001
Less allowance for impairment loss	(880,000)	(880,000)
	35,000,001	20,000,001

The above investments represent proprietary club shares that provide the Group with opportunities for return through dividend income and trading gains. These do not have fixed maturity or coupon rate and the movement is based on closing market prices obtained in an active market.

The movement in the equity investments for the years ended December 31 is as follows:

	2018	2017
January 1	20,000,001	19,500,001
Fair value gain	15,000,000	500,000
December 31	35,000,001	20,000,001

The movement of investment revaluation reserve for the years ended December 31 is shown below:

	2018	2017
January 1	19,422,058	18,922,058
Fair value gain	15,000,000	500,000
December 31	34,422,058	19,422,058

The Group recognized fair value gain amounting to P3.7 million in 2016.

**Note 6 - Investment in associates, at equity**

Investment in associates as at December 31 consist of:

	2018	2017
Investment in associate (CLI)	337,596,800	337,596,800
Accumulated share in net income		
Balance at January 1	82,838,564	77,589,523
Equity in net earnings of associate	10,037,399	8,742,280
Cash dividend received	(8,733,099)	(3,493,239)
	84,142,864	82,838,564
	421,739,664	420,435,364

**6.1 Associates**

*(a) CLI*

GMRI owns 24.95% investment or 17,466,196 shares out of 70,000,000 shares in CLI, a company incorporated in the Philippines, as at December 31, 2018 and 2017.

KPMI has a Share Purchase Agreement with GMRI for the transfer of 2,950,000 shares dated September 6, 2012. As at January 26, 2018, the agreement is still awaiting the issuance of tax clearance before the actual transfer of shares. However, GMRI is already exercising 24.95% beneficial ownership to CLI.

GMRI received cash dividend from CLI in 2018 amounting to P8.7 million (2017 - P3.5 million; 2016 - P11.1 million).

*(b) GVI*

Goodwealth Ventures, Inc. (GVI), an entity involved in investment holding with the same principal place of business as KPHI, incurred continued losses and was eventually dissolved in 2015.

On December 5, 2016, in the joint meeting of GVI's shareholders and the BOD, the distribution of GVI's remaining investment in Keppel IVI Capital Inc. (KICI) and cash of P2.0 million were approved. The Group received P1.6 million from GVI as liquidating dividend in 2016.

## 6.2 Financial information of CLI

The financial information of CLI as at and for the years ended December 31 are as follows:

	2018	2017
Current assets	80,008,907	76,860,499
Non-current assets	254,610,779	256,491,424
Total assets	334,619,686	333,351,923
Current liabilities	21,765,461	25,647,295
Non-current liabilities	-	-
Total liabilities	21,765,461	25,647,295
Net assets	312,854,225	307,704,628
Revenue	164,591,451	162,707,201
Income before income tax	43,247,488	37,899,578
Other comprehensive income	-	-
Total comprehensive income	40,149,597	34,969,123

The Group has 13% indirect ownership in net asset of CLI or P40.7 million share in net asset (stated at cost) as at December 31, 2018 (2017 - P40.0 million).

The non-current assets of CLI represent prime lots held for appreciation, which are carried at cost. The fair value of the property is P2.3 billion as at December 31, 2018 and 2017 based on the latest valuation report of an independent appraiser.

The difference between the share in net asset and carrying amount of the investment amounting to P421.7 million pertains to fair value adjustments on prime land holdings of CLI (2017 - carrying amount of P420.4 million).

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends or to repay loans or advances made by the Group.

There are no contingent liabilities relating to the Group's investment in associate.



### Note 7 - Investment properties, net

The details and movements of investment properties as at and for the years ended December 31 are as follows:

	Note	Land	Building and improvements	Condominium units	Total
<b>2018</b>					
Cost					
January 1		205,666,439	854,751	3,689,178	210,210,368
Disposal		(378,000)	(854,751)	-	(1,232,751)
December 31		205,288,439	-	3,689,178	208,977,617
Accumulated depreciation and amortization					
January 1		-	619,250	3,689,178	4,308,428
Depreciation and amortization	13	-	235,501	-	235,501
Disposal		-	(854,751)	-	(854,751)
December 31		-	-	3,689,178	3,689,178
Net book values		205,288,439	-	-	205,288,439
<b>2017</b>					
Cost					
January 1		205,901,939	2,609,001	25,342,689	233,853,629
Disposal		(235,500)	(1,754,250)	(21,653,511)	(23,643,261)
December 31		205,666,439	854,751	3,689,178	210,210,368
Accumulated depreciation and amortization					
January 1		-	2,135,524	22,196,617	24,332,141
Depreciation and amortization	13	-	48,983	235,975	284,958
Disposal		-	(1,565,257)	(18,743,414)	(20,308,671)
December 31		-	619,250	3,689,178	4,308,428
Net book values		205,666,439	235,501	-	205,901,940

In 2018, the Group sold a certain land and building and improvements with carrying value of P0.4 million, for a total consideration of P2.3 million resulting in a gain on sale amounting to P1.9 million. During 2017, the Group sold certain land, building and improvements, and condominium units with carrying values of P0.2 million, P0.2 million, and P2.9 million, respectively, for a total consideration of P52.9 million resulting in a gain on sale amounting to P49.6 million.

Land, building and improvements in Batangas are leased out to related parties (Note 10), while condominium units are leased out to third parties.

The investment properties have an aggregate fair value of P1,022.0 million based on an appraisal made by an accredited independent appraiser in December 2018 (2017 - P994.0 million). The fair value of the investment properties was determined using Level 3 inputs. The appraiser determined that the highest and best use of the subject properties are those of industrial uses, commercial and residential properties, which are aligned with the current use. The appraisal method involved comparing the market price of similar properties near the vicinity, which range from P4,000 to P116,000 per square meter. Factors considered also include zonal value, size and shape of the property, desirability, and other characteristics of the lots and properties. None of the properties are impaired.

Rental income attributable to the investment properties for the years ended December 31 consists of the following:

	Note	2018	2017	2016
Related parties	10	13,245,179	13,652,062	13,677,005
Third parties		9,469,031	4,336,847	6,774,321
		22,714,210	17,988,909	20,451,326

Details of the advance rentals and refundable deposits received from related and third party customers as at December 31 are as follows:

	2018			2017		
	Related parties (Note 10)	Third parties	Total	Related parties (Note 10)	Third parties	Total
Advance rentals						
Current	232,956	-	232,956	232,956	-	232,956
Refundable deposits						
Current	232,956	2,176,927	2,409,883	232,956	254,124	487,080

The operating expenses directly attributable to the investment properties pertaining to depreciation and amortization, rental, repairs and maintenance and real estate taxes amounted to P7.5 million in 2018 (2017 - P4.5 million and 2016 - P4.7 million).

#### **Note 8 - Property and equipment, net**

The details and movement of property and equipment as at and for the years ended December 31 are as follows:

	Note	Condominium units	Office machine, furniture and fixtures	Transportation equipment	Total
<b>2018</b>					
<b>Cost</b>					
January 1		5,397,020	495,224	776,186	6,668,430
Additions		-	44,357	-	44,357
Write-off		-	(82,866)	-	(82,866)
December 31		5,397,020	456,715	776,186	6,629,921
<b>Accumulated depreciation</b>					
January 1		5,397,020	360,534	776,186	6,533,740
Depreciation	13	-	80,151	-	80,151
Write-off		-	(82,866)	-	(82,866)
December 31		5,397,020	357,819	776,186	6,531,025
Net book values		-	98,896	-	98,896
<b>2017</b>					
<b>Cost</b>					
January 1		5,397,020	368,455	776,186	6,541,661
Acquisition		-	126,769	-	126,769
December 31		5,397,020	495,224	776,186	6,668,430
<b>Accumulated depreciation</b>					
January 1		5,397,017	337,976	773,153	6,508,146
Depreciation	13	3	22,558	3,033	25,594
December 31		5,397,020	360,534	776,186	6,533,740
Net book values		-	134,690	-	134,690

The assets written off in 2018 pertain to fully depreciated and obsolete office furniture and fixtures.

Fully depreciated assets amounting P6.5 million are still in use as at December 31, 2018 and 2017.

Based on the results of management assessment, the Company believes that there were no objective evidence and indicators of impairment exist as at December 31, 2018 and 2017.

**Note 9 - Accounts payable and other current liabilities**

Accounts payable and other current liabilities as at December 31 consist of:

	Note	2018	2017
Accrued expenses		12,131,413	7,116,555
Unearned rent		613,581	-
Payable to government agencies		515,943	422,218
Advance rentals		232,956	232,956
Others	10	1,053,198	257,085
		14,547,091	8,028,814

Accrued expenses pertain to accrued professional fees, audit fee, directors' fees, fringe and other employee benefits. These are non-interest bearing and generally with 30 to 60-day terms.

Unearned rent pertains to rental income received in advance.

Payable to government agencies pertains to output VAT, and withholding taxes, which are normally settled within one (1) month after the reporting period.

Advance rentals from related parties are applied against the rent due at the end of the lease term.

Other accounts payable pertain to unclaimed monies or dividends by shareholders which are non-interest bearing and due and demandable at balance sheet date (Note 10).

**Note 10 - Related party transactions**

In the normal course of business, the Group transacts with companies which are considered related parties. The significant related party transactions and balances as at and for the years ended December 31 follow:

	2018		2017		Terms and conditions
	Notes	Transactions	Outstanding receivable (payable)	Transactions	
<b>Entities under common control</b>					
Rental income (a)					
KPMI			32,007,455	12,852,185	32,931,722
Keppel IVI Investment, Inc. (KIVI)		12,825,179	-	300,000	-
Keppel Energy and Consultancy, Inc. (KECI)		300,000	-	228,000	-
Keppel Property Philis, Inc. (Keppwealth Property)		120,000	-	-	-
		-	-	271,877	-
	3	13,245,179	32,007,455	13,652,062	32,931,722
<b>Advance rentals and deposit - KPMI</b>					
Advance rentals	7	-	(232,956)	-	(232,956)
Refundable deposits	7	-	(232,956)	-	(232,956)
<b>Various expenses and charges (b)</b>					
KPMI (a)		1,332,982	-	253,623	-
Keppel Subic Shipyard, Inc. (KSSI)		18,621	-	19,257	-
Keppwealth Property		-	-	998	-
	3	1,351,603	-	273,878	-
<b>Loans - KPMI (c)</b>					
Collection of loan receivables	3	150,000,000	272,000,000	132,500,000	242,000,000
Interest income - KPMI (c)		120,000,000	-	207,500,000	-
Management fees (d)	3	10,720,062	1,479,386	11,542,752	743,904
Keppwealth, Inc.		276,000	-	120,000	-
KECI		240,000	-	300,000	-
KIVI		180,000	-	180,000	-
Keppventure, Inc.		60,000	-	30,000	-
Keppwealth Property		-	-	1,150,200	-
		766,000	-	1,780,200	-
<b>Other income</b>					
Commission - KPMI (e)		412,611	-	-	-
Director's fees		270,000	-	310,000	-
KPMI		60,000	-	60,000	-
		742,611	-	370,000	-
<b>Associates</b>					
Cash dividends received	6	8,733,099	-	3,493,239	-
<b>Shareholders - unclaimed dividends or monies</b>					
KPHI		5,780,342	(318,198)	5,780,342	(257,085)
KPMI Retirement Plan		690,000	(660,000)	-	-
KPMI		75,000	(75,000)	-	-
	9	-	(1,053,198)	-	-
<b>Key management personnel</b>					
Salaries and other employee benefits	9, 13	14,791,536	(9,852,839)	11,128,786	(5,410,567)

The outstanding balance is collectible in cash, with term of 30 to 60 days from date of each transaction, except for the impact of lease straightlining. This is non-interest bearing and unsecured.

The outstanding balance is unsecured and non-interest bearing.

The outstanding balance is unsecured, non-interest bearing, and payable in cash on demand.

These are interest bearing, and unsecured.

The outstanding balance is unsecured, non-interest bearing, and payable in cash on demand.

The outstanding balance is unsecured, non-interest bearing, and payable in cash on demand.

The outstanding balance is unsecured, non-interest bearing, and payable in cash on demand.

The outstanding balance is unsecured, non-interest bearing, and payable in cash on or before the due date as approved by the BOD.

The outstanding balance pertains to unsettled benefits, and is unsecured, non-interest bearing, and payable every designated period on employee contracts.

For the three (3) years ended December 31, 2018, 2017 and 2016, the Group has not made any provision for doubtful accounts relating to amounts owed by related parties because of strong financial condition of the concerned entities. This assessment is undertaken each financial year through examination of the financial position of each related party and the market in which the related party operates.

All of the related parties are entities under common control of the Parent Company, unless stated otherwise.

Following are the Group's transactions with related parties:

(a) *Lease agreements*

(i) GMRI

- GMRI has a non-cancellable lease agreement with KPMI for a parcel of land used as a shipyard site in Barrio San Miguel, Bauan, Batangas. The agreement covering these properties is for a period of 50 years beginning 1993. The annual rental on the leased property is P6.0 million during the first five (5) years subject to 10% escalation after every five (5) years. In May 2007, the lease contract was amended revising the annual lease rate from P6.6 million to P10.2 million effective January 1, 2007, subject to 1.5% escalation after every five (5) years. As at January 1, 2017, the annual lease rate amounted to P10.5 million up to December 31, 2021. Rental income, based on the straight-line method, amounted to P9.6 million in 2018, 2017, and 2016. Total outstanding balance of lease receivables presented in the consolidated statement of financial position representing lease differential between contractual and straight line lease income amounted to P32.0 million and P32.9 million as at December 31, 2018 and 2017, respectively.

The future aggregate minimum lease receivables under these operating leases after December 31 are as follows:

	2018	2017
Within one (1) year	10,508,295	10,508,295
After one (1) year but not more than five (5) years	53,014,347	42,190,804
More than five (5) years	204,092,460	225,424,298
	267,615,102	278,123,397

- In 2015, the GMRI entered into a new lease agreement with KPMI for another parcel of land covering a period of one (1) year commencing on January 1, 2015 to December 31, 2015, subject to yearly renewal. The lease agreement was renewed in 2018 and 2017. Rental income earned from this agreement amounted to P0.4 million for the years ended December 31, 2018, 2017, and 2016.

(ii) GRDC

GRDC leases its properties to KPMI, for a period of one (1) year commencing on January 1, 2015, subject to yearly renewal under such terms and conditions as may be mutually agreed upon by both parties. The lease contracts were last renewed on January 1, 2018. Rental income earned from this agreement amounted to P0.2 million for the years ended December 31, 2018, 2017, and 2016.

(iii) KPSI

KPSI leases certain properties to KPMI, KIVI, KECI, and Kepwealth Property for a period of one (1) year, renewable annually. The lease contracts with Kepwealth Property was terminated on October 31, 2017.

(iv) Parent Company

The Parent Company and KPMI has an existing land lease agreement on a piece of land which is the subject of complaint against the Philippine National Oil Company (PNOC) (Note 20). The monthly rent for the said piece of land is P0.2 million for a period of one (1) year, subject to yearly renewal. The lease contract was last renewed in July 2018.

Total rental income earned from these agreements amounted to P13.2 million for the year ended December 31, 2018 (2017 and 2016 - P13.7 million).

Advance rentals and refundable deposits are both equivalent to one (1) month rental of the corresponding lease contract. Refundable deposits amounting to P0.2 million as at December 31, 2018 and 2017, is presented under accounts payable and other current liabilities account in the consolidated statement of financial position. The refundable deposit is to be returned at the end of the lease term, net of any expenses that will be incurred in the process of restoring the leased premises.

(b) *Advances for various expenses and charges*

Amounts due from KPMI, KSSI, KPPI, Kepwealth Property, and KECI pertain to reimbursement of various expenses such as legal, communication and business development expenses paid for by the Group.

(c) *Loan agreements with KPMI*

(i) GMRI

	Release date	Principal amount	Outstanding balance as at December 31 2017	Availment	Transactions Payment	Outstanding balance as at December 31 2018	Terms and Conditions
Long-term	September 2014	200,000,000	87,500,000	-	(87,500,000)	-	Unsecured, 5-year, 4 equal quarterly instalments, interest subject to repricing semi-annual, option for early repayment, interest rates: 2017 - 3.6% to 4.6%; 2018 - 4.5% to 5.4%
			87,500,000	-	(87,500,000)	-	
Short-term	December 2017	12,500,000	12,500,000	-	(12,500,000)	-	Unsecured, 88-90 days with renewal; interest rates 2017 - 3% to 4.3%
	August 2018	15,000,000	-	15,000,000	(15,000,000)	-	88 days at 4.3%
	September 2018	62,000,000	-	62,000,000	-	62,000,000	90 days at 6.3%
			12,500,000	77,000,000	(27,500,000)	62,000,000	
			100,000,000	77,000,000	(115,000,000)	62,000,000	

Total outstanding loan of KPMI as at December 31, 2018 amounted to P62.0 million (2017 - P100.0 million). Interest income recognized from these loans amounted to P3.8 million for the year ended December 31, 2018 (2017 - P8.6 million and 2016 - P7.2 million). Accrued interest receivable as at December 31, 2018 and 2017 both amounted to P0.3 million.

(ii) KPSI

KPSI granted short-term loan to KPMI since February 2016. As at December 31, 2017, KPMI has outstanding balance of P15.0 million with 90 days term and was renewed thereafter. Partial payment of P5.0 million was made in December 2018. Remaining balance of P10.0 million was renewed for 88 days term at 6.3%. Interest income recognized from the short-term loan amounted to P0.6 million for the year ended December 31, 2018 (2017 - P0.5 million and 2016 - P0.3 million). Accrued interest receivable amounted to P0.05 million as at December 31, 2018 (2017 - P0.1 million).

Release date	Principal amount	Outstanding balance as at December 31 2017	Transactions		Outstanding balance as at December 31 2018	Terms and Conditions
			Availment	Payment		
October 17, 2016	15,000,000	15,000,000	-	(5,000,000)	10,000,000	Unsecured, 90 days with renewal, interest rates: 2017 - 3.0% -3.5%; 2018 -3.2% - 4.8%; Renewed in November 2018 for 88 days with 6.3% interest

(iii) Parent Company

The Parent Company started to grant short-term loans to KPMI in June 2015 with loan balance of P200.0 million as at December 31, 2018 (2017 - P127.0 million).

As at December 31, 2018, KPMI has outstanding short-term loans as follows:

Release date	Principal amount	Outstanding balance as at December 31 2017	Transactions		Outstanding balance as at December 31 2018	Terms and Conditions
			Availment	Payment		
June 16, 2017	52,000,000	52,000,000	-	-	52,000,000	Unsecured, 90 days with renewal, interest rates: 2017 - 2.8% to 3.5%; 2018 - 3% - 6.3%
November 27, 2017	50,000,000	50,000,000	-	-	50,000,000	
December 4, 2017	25,000,000	25,000,000	-	-	25,000,000	
		127,000,000	-	-	127,000,000	
March 12, 2018	18,000,000	-	18,000,000	-	18,000,000	Unsecured, 90 days with renewal and interest of 3.0% to 6.3%
April 7, 2018	25,000,000	-	25,000,000	-	25,000,000	
December 14, 2018	30,000,000	-	30,000,000	-	30,000,000	90 days with 5.9% interest
		127,000,000	73,000,000	-	200,000,000	

Interest income recognized from these loans by the Parent Company amounted to P6.4 million for the year ended December 31, 2018 (2017 - P2.4 million and 2016 - P2.5 million). Accrued interest receivable amounted to P1.2 million as at December 31, 2018 (2017 - P0.3 million).

Total interest income earned from these loan agreements amounted to P10.7 million for the year ended December 31, 2018 (2017 - P11.5 million; 2016 - P10.0 million). Accrued interest receivable amounted to P1.2 million as at December 31, 2018 (2017 - P0.7 million).

(d) *Management fees*

Since 2013, the Parent Company had management agreement with its related companies for a monthly fee. The monthly management fee is subject to change depending upon the extent and volume of services provided by the Parent Company. This covers regular consultancy, financial reporting, personnel and administration services. The agreement is considered renewed every year thereafter, unless one party gives the other a written notice of termination at least three (3) months prior to the expiration date. In January 2018, the monthly management fee being charged to Kepventure, Kepwealth, Inc. and KIVI is P5,000, P23,000 and P15,000, respectively, (2017 - P2,500, P12,000 and P15,000; 2016 - P2,200, P9,000, and P15,000, respectively). The management agreement with Kepwealth Property was terminated last October 31, 2017 due to the sale of Kepwealth Property to a third party.

The Parent Company also provides accounting services to KECI, an entity under common control, for a monthly management fee of P20,000 in 2018 (2017 and 2016 - P25,000). The agreement is considered renewed every year thereafter, unless one party gives the other a written notice of termination at least three (3) months prior to the anniversary date.

Management fees earned amounted to P0.8 million in 2018 (2017 - P1.8 million; 2016 - P1.4 million). As at December 31, 2018, there was no intention from any of the parties to terminate the management services.

(e) *Other income*

In 2014, the Parent Company entered in to a Memorandum of Understanding (MOU) with KPMI to assist the latter in its bidding activities for projects for a 1% share in revenue. The Parent Company received P0.4 million in December 2018 (2017 and 2016 - nil) and is recognized under "other income" in the consolidated statement of income.

(f) *Key management personnel*

Outstanding balance related to salaries and other employee benefits of key management personnel amounting to P10.0 million as at December 31, 2018 is presented within accrued expenses under accounts payable and other current liabilities account in the consolidated statement of financial position (2017 - P5.4 million) (Note 9).

There were no long-term benefits, including share-based payments, provided to key management personnel in 2018, 2017, and 2016.

The following related party transactions and balances were eliminated for the purpose of preparing the consolidated financial statements:

	2018	2017	2016
As at December 31			
Investment in subsidiaries	110,165,069	110,165,069	110,165,069
Advances to subsidiaries	765,000	1,126,722	3,926,722
For the years ended December 31			
Dividend income	36,175,000	107,327,500	15,672,168
Management fees	780,000	600,000	360,000



### **Note 11 - Share capital and share premium**

The Class "A" and Class "B" shares of stock are identical in all respects and have P1 par value per share, except that Class "A" shares are restricted to ownership of Philippine nationals. Class "B" shares are 18% and 82% owned by Philippine nationals and foreign nationals, respectively, as at December 31, 2018 and 2017. Each share has a right to one (1) vote.

Details of share capital and share premium as at December 31, 2018 and 2017 are as follows:

Authorized - P1 par value	
Class A	90,000,000
Class B	200,000,000
	<u>290,000,000</u>
Issued	
Class A	39,840,970
Class B	33,332,530
	<u>73,173,500</u>
Share capital	
Share premium	<u>73,203,734</u>

Details of the Parent Company's shares as at December 31, 2018 and 2017 are as follows:

Treasury shares	
Class A	3,674,000
Class B	11,696,081
	<u>15,370,081</u>
Weighted average number of shares	
Class A	36,166,970
Class B	21,636,449
	<u>57,803,419</u>

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Parent Company's track record of registration of securities as at December 31:

Common shares	Number of shares registered	Issue/offer price	Date of approval	Number of holders of securities
2018				
Class "A"	36,166,970	1.00	June 30, 2000	380
Class "B"	21,636,449	1.00	June 30, 2000	55
	<u>57,803,419</u>			
2017				
Class "A"	36,166,970	1.00	June 30, 2000	382
Class "B"	21,636,449	1.00	June 30, 2000	56
	<u>57,803,419</u>			

There are 422 total shareholders per record holding both Class A and B shares as at December 31, 2018 (2017 - 424 total shareholders).

**Note 12 - Retained earnings; treasury shares**

The portion of retained earnings, corresponding to the undistributed equity in net earnings of the associates, is not available for distribution as dividends until declared by the associates.

Retained earnings are further restricted to the extent of treasury shares with the following details as at December 31, 2018 and 2017:

	Shares	Cost
Class "A"	3,674,000	13,408,963
Class "B"	11,696,081	9,214,013
	15,370,081	22,622,976

The Parent Company's BOD declared cash dividends of P0.10 per share or P5.8 million in 2018 and 2017 and P6.0 million in 2016 as follows:

	2018	2017	2016
Date of declaration and approval	June 22	June 16	June 17
Date of shareholders' record	July 6	July 3	July 1
Date paid	July 31	July 27	July 27

In 2018, 2017, and 2016, GMRI declared cash dividend amounting to P70.0 million, P131.0 million and P20.0 million, respectively. Out of this amount, the Parent Company received P35.2 million, P65.8 million, and P10.0 million in 2018, 2017, and 2016, respectively.

In 2018, GRDC declared cash dividend amounting to P1.5 million (2017 and 2016 - nil). The Parent Company received the amount of P0.8 million. Outstanding dividend due to shareholders as at December 31, 2018 amounted P0.7 million (2017 - nil) as reported under current liabilities in the consolidated statement of financial position.

Dividend declared and paid attributable to NCI amounted to P34.5 million, P63.2 million, and P9.7 million in 2018, 2017, and 2016, respectively.

Total cash dividend paid by the Group amounted to P40.3 million, P69.0 million and P15.7 million in 2018, 2017, and 2016, respectively.

As at December 31, 2018, total unrestricted retained earnings of the Parent Company amounted to P184.2 million (2017 - P157.6 million). The amount of unrestricted retained earnings is in excess of 100% of its paid-up capital as at December 31, 2018 and 2017. The Parent Company declared and paid cash dividends on a regular basis to comply with Section 43, Power to Declare Dividends, of the Corporation Code of the Philippines. The Parent Company declares dividend based upon the favorable result of operations and the availability of unappropriated retained earnings.

**Note 13 - Operating expenses**

Operating expenses for the years ended December 31 consist of:

	Notes	2018	2017	2016
Salaries, wages, and employee benefits	10	14,563,534	11,128,786	7,469,971
Taxes and licenses		5,011,407	5,905,403	5,941,319
Professional fees		3,837,820	2,231,907	342,891
Repairs and maintenance		2,525,584	39,783	44,201
Rental expense		1,209,949	-	-
Transportation and travel		830,059	572,446	607,792
Utilities		641,847	574,654	545,499
Membership dues		515,217	456,000	410,184
Provision for impairment losses	3, 4	497,115	660,748	135,663
Depreciation and amortization	7, 8	315,652	310,552	412,651
Office supplies		173,955	126,184	153,746
Commission		-	409,846	-
Others		1,277,240	1,161,315	662,673
		31,399,379	23,577,624	16,726,590

Other expenses consist of bank charges, business development expenses, and various items that are individually immaterial.

**Note 14 - Income taxes**

The components of the income tax expense for the years ended December 31 are as follows:

	2018	2017	2016
Current	2,472,117	12,839,988	4,059,757
Final tax on interest income	440,619	184,703	117,274
Deferred	(36,837)	(243,474)	5,346
	2,875,899	12,781,217	4,182,377

The Group's deferred income tax liability, net as at December 31 consists of the following:

	2018		2017	
	Tax base	Tax effect	Tax base	Tax effect
Deferred income tax assets to be recovered within 12 months				
Accrued expenses	-	-	453,367	136,010
Allowance for doubtful accounts	-	-	53,860	16,158
	-	-	507,227	152,168
Deferred income tax liability to be settled after more than 12 months				
Impact of lease straight-lining	(5,334,576)	(1,600,372)	(5,488,620)	(1,646,586)
Deferred income tax liability, net	(5,334,576)	(1,600,372)	(4,981,393)	(1,494,418)

Certain deferred income tax assets were not recognized because management believes that future taxable profit will not be available against which the deductible temporary difference and carry-forward benefits of net operating loss carry-over (NOLCO) and excess minimum corporate income tax (MCIT) can be applied. Unrecognized deferred income tax assets and MCIT as at December 31 are follows:

	2018		2017	
	Tax base	Tax effect	Tax base	Tax effect
Accrued expenses	10,811,682	3,243,505	7,514,107	2,254,232
NOLCO	6,153,310	1,845,993	11,196,327	3,358,898
Allowance for doubtful accounts	1,767,667	530,300	1,807,940	542,382
Unearned rentals	613,581	184,074	262,560	78,768
Advance rentals	232,956	69,887	4,412,363	1,323,709
	19,579,196	5,873,759	25,193,297	7,557,989
MCIT	609,704	609,704	372,199	372,199
		6,483,463		7,930,188

Details of NOLCO and MCIT as at December 31, which can be applied as deduction from taxable income over the next three (3) years immediately following the year of such loss, are as follows:

Year incurred	Expiry year	2018		2017	
		NOLCO	MCIT	NOLCO	MCIT
2018	2021	-	330,446	-	-
2017	2020	3,797,876	147,536	3,797,876	147,536
2016	2019	2,355,434	131,722	2,355,434	131,722
2015	2018	-	-	5,043,017	92,941
		6,153,310	609,704	11,196,327	372,199

The movements in NOLCO as at December 31 are as follows:

	2018	2017
January 1	11,196,327	11,820,320
Expired	(4,104,134)	(4,263,748)
Applied	(938,883)	(158,121)
Addition	-	3,797,876
December 31	6,153,310	11,196,327

The movements in MCIT as at December 31 are as follows:

	2018	2017
January 1	372,199	322,307
Addition	330,446	147,536
Expired	(92,941)	(90,475)
Application	-	(7,169)
December 31	609,704	372,199

In August 2007, GMRI was registered as a developer/operator of Keppel Philippines Marine Special Economic Zone with the Philippine Economic Zone Authority (PEZA) pursuant to Presidential Proclamation No. 1329 dated July 16, 2007 and the provisions of Republic Act No. 7916, otherwise known as the amended "Special Economic Zone Act of 1995". With this registration, GMRI is entitled to the special tax rate of 5% on gross income, in lieu of all national and local taxes, except real property taxes on land owned by GMRI.

A reconciliation of the income tax at statutory income tax rate to income tax expense as shown in the consolidated statement of income is as follows:

	2018	2017	2016
Income tax computed at statutory income tax rate of 30%	5,119,460	20,296,170	8,382,593
Additions (reductions) to income taxes resulting from:			
Non-deductible expense	482,467	125,709	104,173
Change in unrecognized deferred income tax assets	1,485,309	1,913,937	1,164,198
Interest income subjected to final tax	21,246	(34,774)	(26,880)
Non-taxable income	(513,455)	(1,749,375)	(5,345,606)
Income subject to 5% on gross income	(3,719,128)	(2,235,173)	372,289
Difference between OSD and itemized deductions	-	(5,535,277)	(468,390)
Income tax expense	2,875,899	12,781,217	4,182,377

Income tax payable as at December 31, 2018 and 2017 amounted to P0.7 million and P1.1 million, respectively.

#### **Note 15 - Earnings per share**

Basic earnings per share is calculated by dividing the net income attributable to shareholders of the Group by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held as treasury shares, if any.

Earnings per share for the years ended December 31 is calculated as follows:

	Note	2018	2017	2016
Net income attributable to equity holders of the parent (a)		5,247,186	44,796,093	13,568,566
Weighted average number of shares outstanding (b)	11	57,803,419	57,803,419	57,803,419
Basic earnings per share (a, b)		0.091	0.775	0.235

The Group has no potential shares that will have a dilutive effect on earnings per share.

## Note 16 - Operating segments

For management reporting purposes, the Group's businesses are classified into the following business segments: (1) investment holding, and (2) real estate, with KPMI, a related party, and a third party, as key lessees. The Group's BOD reviews the performance of these reportable segments. Details of the Group's business segments are as follows:

	Investment holding	Real estate	Combined	Eliminations	Consolidated
<b>2018</b>					
Revenue					
KPMI and a third party Inter-segment, including interest income	19,516,577	18,910,268	38,426,845	-	38,426,845
Equity in net earnings of an associate	37,720,000	-	37,720,000	(37,720,000)	-
	-	10,037,399	10,037,399	-	10,037,399
<b>Total revenue</b>	<b>57,236,577</b>	<b>28,947,667</b>	<b>86,184,244</b>	<b>(37,720,000)</b>	<b>48,464,244</b>
Income before income tax	32,817,910	21,186,955	54,004,865	(36,940,000)	17,064,865
Income tax expense	(482,603)	(2,393,296)	(2,875,899)	-	(2,875,899)
<b>Net income</b>	<b>32,335,307</b>	<b>18,793,659</b>	<b>51,128,966</b>	<b>(36,940,000)</b>	<b>14,188,966</b>
<b>Other Information</b>					
Segment assets	373,636,030	749,624,030	1,123,260,060	(110,930,068)	1,012,329,992
Segment liabilities	16,042,453	4,853,949	20,896,402	(1,661,342)	19,235,060
Depreciation and amortization	76,455	239,197	315,652	-	315,652
<b>2017</b>					
Revenue					
KPMI and a third party Inter-segment, including interest income	7,322,919	75,166,326	82,489,245	-	82,489,245
Equity in net earnings of an associate	107,927,500	-	107,927,500	(107,927,500)	-
	-	8,742,280	8,742,280	-	8,742,280
<b>Total revenue</b>	<b>115,250,419</b>	<b>83,908,606</b>	<b>199,159,025</b>	<b>(107,927,500)</b>	<b>91,231,525</b>
Income before income tax	99,812,156	75,169,245	174,981,401	(107,327,500)	67,653,901
Income tax expense	(256,756)	(12,524,461)	(12,781,217)	-	(12,781,217)
<b>Net income</b>	<b>99,555,400</b>	<b>62,644,784</b>	<b>162,200,184</b>	<b>(107,327,500)</b>	<b>54,872,684</b>
<b>Other Information</b>					
Segment assets	324,677,988	802,079,901	1,126,757,889	(111,443,959)	1,015,313,930
Segment liabilities	8,639,374	4,639,478	13,278,852	(2,175,230)	11,103,622
Depreciation and amortization	22,550	288,002	310,552	-	310,552
<b>2016</b>					
Revenue					
KPMI and a third party Inter-segment, including interest income	6,460,883	26,270,740	32,731,623	-	32,731,623
Equity in net earnings of an associate	16,032,168	-	16,032,168	(14,410,000)	1,622,168
	-	10,314,776	10,314,776	-	10,314,776
<b>Total revenue</b>	<b>22,493,051</b>	<b>36,585,516</b>	<b>59,078,567</b>	<b>(14,410,000)</b>	<b>44,668,567</b>
Income before income tax	12,483,714	29,508,263	41,991,977	(14,050,000)	27,941,977
Income tax expense	(168,471)	(4,013,906)	(4,182,377)	-	(4,182,377)
<b>Net income</b>	<b>12,315,243</b>	<b>25,494,357</b>	<b>37,809,600</b>	<b>(14,050,000)</b>	<b>23,759,600</b>
<b>Other Information</b>					
Segment assets	225,257,892	915,305,757	1,140,563,649	(114,019,792)	1,026,471,857
Segment liabilities	3,494,337	9,948,917	13,443,254	(4,823,062)	8,620,191
Depreciation and amortization	4,350	408,301	412,651	-	412,651

Segment assets and segment liabilities are measured in the same way as in the consolidated financial statements. These assets and liabilities are allocated based on the operations of each segment.

Segment revenue, segment expenses, and segment results include transfers between business segments. Those transfers are eliminated in consolidation.

All of the Group's revenues are derived mainly from operations within Luzon, an island of the Philippines, hence, the Group did not present geographical information required by PFRS 8, Operating Segments.

Rental income from KPMI amounting to P12.8 million in 2018 comprise 26.6% of the Group's revenue (2017 - P12.8 million and 14.1%; 2016 - P12.8 million and 28.9%).

#### **Note 17 - Other matters**

In September 2003, the Parent Company filed a complaint against PNOC for specific performance with the Regional Trial Court (RTC) of Batangas City for the enforcement of the contract relating to the option to purchase a piece of land in Batangas. A judgment was rendered in January 2006 in favor of the Parent Company ordering PNOC to accept the payment of P4.1 million as full and complete payment of the purchase price, and to execute a Deed of Absolute Sale in favor of the Parent Company. PNOC, however, filed an appeal with the Court of Appeals (CA) in the same year which the CA dismissed on December 19, 2011.

On July 25, 2016, the Supreme Court (SC) affirmed the decision of the CA in December 2011 in the resolution dated May 14, 2012 and upheld the Parent Company's option to buy the land and remanded the case to the RTC of Batangas City to update the Parent Company's Filipino equity ownership. On December 14, 2016, SC's decision became final and executory and was recorded in the Books of Entries of Judgments. On September 14, 2018, the RTC issued resolution against the Parent Company. The Parent Company filed a motion for reconsideration on October 12, 2018, with the RTC to argue the merits. As at January 24, 2019, the Parent Company is still awaiting on the final resolution of the RTC.

The Parent Company's cash deposit of P4.1 million with the Court is presented in the consolidated statement of financial position under other non-current assets. The said piece of land is the subject of a lease agreement between the Parent Company and a third party and KPMI (Note 10).

#### **Note 18 - Financial risk management and capital management**

##### **18.1 Financial risk management**

The Group's activities expose it to a variety of financial risks: credit risk, interest rate risk, equity price risk, and liquidity risk that could affect its financial position and results of operations. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The BOD reviews and approves the policies for managing each of these risks, which are summarized below:

##### *(a) Credit risk*

The Group has adopted stringent procedures in extending credit terms to customers and in monitoring its credit risk. Majority of its lease transactions are with related parties with reliable credit history.

The loss allowance for other financial assets at amortized cost as at December 31, 2017 reconciles to the opening loss allowance on January 1, 2018 and to the closing loss allowance as at December 31, 2018 (Note 3).

There was no transition adjustment upon adoption of PFRS 9. See Note 20.5 for the previous accounting policy on impairment of other financial assets, including available-for-sale financial assets.

The Group transacts mostly with related parties with strong financial condition, thus, there is no requirement for collateral.

Receivables are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Significant concentration of credit risk in 2018 and 2017 pertains to the loan receivables from a related party amounting to P272.0 million and P242.0 million, respectively, which comprise 88% and 87% of the Group's loans and receivables in 2018 and 2017, respectively.

The table below shows the maximum exposure to credit risk of the financial assets of the Group:

	2018	2017
Financial assets:		
Cash and cash equivalents*	39,477,151	87,938,929
Receivables		
Loans receivable from a related party	272,000,000	242,000,000
Current portion of lease receivables**	3,697,045	4,404,538
Interest receivable	1,558,175	828,454
	316,732,371	335,171,921

\*Excluding cash on hand

\*\*Non-current portion of lease receivables arises from the straight-line recognition of rental income, hence, excluded

The table below shows the financial effect of collateral or credit enhancement to the Group's financial assets as at December 31:

	Gross maximum exposure	Net exposure
2018		
Financial assets:		
Cash and cash equivalents*	39,477,151	39,477,151
Receivables:		
Loans receivable from a related party	272,000,000	272,000,000
Current portion of lease receivables**	3,697,045	3,697,045
Interest receivable	1,558,175	1,558,175
	316,732,371	316,732,371
2017		
Financial assets:		
Cash and cash equivalents*	87,938,929	87,938,929
Receivables:		
Loans receivable from a related party	242,000,000	242,000,000
Current portion of lease receivables**	4,404,538	4,404,538
Interest receivable	828,454	828,454
	335,171,921	335,171,921

\*Excluding cash on hand

\*\*Non-current portion of lease receivables arises from the straight-line recognition of rental income, hence, excluded



(i) Credit quality

The table below shows the credit quality of the Group's financial assets as at December 31:

	Stage 1 - Performing	Stage 2 - Underperforming	Stage 3 - Non- performing	Total
2018				
Financial assets:				
Cash and cash equivalents	39,477,151	-	-	39,477,151
Receivables				
Loans receivable from a related party	272,000,000	-	-	272,000,000
Current portion of lease receivables	3,697,045	-	-	3,697,045
Non-trade	-	-	2,152,580	2,152,580
Interest receivable	1,558,175	-	-	1,558,175
	316,732,371	-	2,152,580	318,884,951
	Neither past due nor impaired (High grade)	Past due but not impaired	Impaired	Total
2017				
Financial assets:				
Cash and cash equivalents	87,938,929	-	-	87,938,929
Receivables				
Loans receivable from a related party	242,000,000	-	-	242,000,000
Current portion of lease receivables	3,697,045	254,125	453,368	4,404,538
Non-trade	-	-	2,152,580	2,152,580
Interest receivable	828,454	-	-	828,454
	334,464,428	254,125	2,605,948	337,324,501

The Group expects the current portion of the lease receivables to be realized within three (3) months from the end of the reporting period. The amounts due from related parties are all collectible and of good credit quality.

High grade assets are considered as having very low risk and can easily be converted to cash. These assets are considered for counterparties that possess strong to very strong capacity to meet their obligations.

In 2018 and 2017, past due but not impaired receivables are aged 90 to 120 days while impaired receivables are aged over 120 days.

(ii) Cash in bank

The Group has maintained business relationships with an accredited universal bank that has high credit standing in the financial services industry.

The remaining cash in the consolidated statement of financial position pertains to cash on hand which is not subject to credit risk.

(iii) Receivables

Loan, interest, lease, and other receivables from related parties

Credit exposure of the Group on loan and other receivables from related parties is considered to be low as there is no history of default and have strong credit standing of concerned related parties. Credit risk is negligible since the related parties are faithfully paying on normal credit terms based on contracts.

The maximum credit risk exposure is equal to the carrying amount as at December 31, 2018 and 2017 (Note 3).

Receivables from third parties

The credit quality of receivables that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

The Group does not hold any collateral in relation to these receivables.

None of the financial assets that are fully performing have been renegotiated in the last year.

*(b) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term loan receivable with interest rate being repriced on a periodic basis. Since the Group's long-term loan was granted to a related party, there is no requirement for collateral or guaranty (Note 10). The Group has no long-term loan receivable in 2018 (2017 - P37.5 million) (Note 3).

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates for the next financial year, with all other variables held constant, of the Group's income before tax (through the impact on floating rate receivables):

	Change in interest rates	Increase (decrease) on income before income tax
Loan receivables		
2018	+100 basis points	122,092
	-100 basis points	(122,092)
2017	+50 basis points	62,331
	-50 basis points	(62,331)

The Group determined the reasonably possible change in interest rate using the percentage changes in floating rates for the past three (3) quarters for the years ended December 31, 2018 and 2017.

*(c) Equity price risk*

Equity price risk is the risk that the fair value of equities will decrease resulting from changes in the levels of equity indices and the value of individual stocks.

The Group's price risk exposure relates to its quoted equity investments where values will fluctuate as a result of changes in market prices.

Such quoted equity investments are subject to price risk due to changes in market values arising from factors specific to the instruments or its issuer or factors affecting all instruments traded in the market.

The effect on other comprehensive income (as a result of a change in fair value of instruments held as financial asset at FVOCI/available-for-sale financial asset) due to a reasonably possible change in indices, with all other variables held constant, is as follows:

	Change in equity price	Increase (decrease) on other comprehensive income
Quoted club share		
2018	+10	2,000,000
	-10	(2,000,000)
2017	+3	512,821
	-3	(512,821)

The Group determined the reasonably possible change in equity pricing percentage changes in the fair value for the past three (3) years.

*(d) Liquidity risk*

Liquidity risk is the risk that the entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents and loans. The Group also monitors its risk to shortage of funds through monthly evaluation of the projected and actual cash flow information. The table below summarizes the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as at December 31.

	On demand	Less than 3 months	3 to 12 months	More than one year	Total
2018					
Financial liabilities					
Accounts payable and other current liabilities*	318,198	12,131,413	-	-	12,449,611
Refundable deposits	-	-	2,409,883	-	2,409,883
	318,198	12,131,413	2,409,883	-	14,859,494
2017					
Financial liabilities					
Accounts payable and other current liabilities*	257,086	7,116,554	-	-	7,373,640
Refundable deposits	-	-	487,080	-	487,080
	257,086	7,116,554	487,080	-	7,860,720

\*Excluding output VAT, advance rentals, provisions, other taxes, and payables

There is no material liquidity risks given minimal liabilities relative to available liquid assets.

18.2 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group monitors capital using a debt to equity ratio, which is total liabilities divided by total equity. Total liabilities include current and noncurrent liabilities. Equity comprises all components of equity.

The Group's objective is to ensure that there are no known events that may trigger direct or contingent financial obligation that is material to the Group, including default or acceleration of an obligation that will require increased capitalization.

The debt to equity ratios as at December 31 are as follows:

	2018	2017
Total liabilities	19,235,060	11,103,622
Total equity	993,094,932	1,004,210,308
Debt to equity ratio	0.019:1	0.011:1

The Group is not exposed to externally imposed capital requirement and there were no changes in the Group's approach to capital management during the year.

### 18.3 Fair value estimation of financial assets and liabilities

#### (a) Receivables

Due to the short-term nature of the Group's financial instruments, the carrying amounts approximate their fair values as at December 31, 2018 and 2017. The carrying amounts of interest-bearing long-term loan receivables approximate their fair values due to periodic repricing based on market interest rates.

#### (b) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets

The fair value of quoted equity instruments is determined by reference to quoted market bid price at the close of business at the end of the reporting dates since this is actively traded in organized financial markets. Unquoted financial asset is valued using Level 3 inputs, less any allowance for impairment loss.

#### (c) Fair value hierarchy

As at December 31, 2018 and 2017, the Group classifies its quoted financial assets at fair value through other comprehensive income/available-for-sale financial asset amounting to P35.0 million and P20.0 million, respectively, under Level 1 of the fair value hierarchy. During the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

### **Note 19 - Critical accounting estimates, assumptions, and judgments**

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates, and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. The estimates, assumptions, and judgments used are based upon management's evaluation of the relevant facts and circumstances as at the date of the consolidated financial statements. These 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 could differ from such estimates.

The estimates, assumptions, and judgments that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### 19.1 Critical accounting estimates and assumptions

##### *(a) Estimated useful lives of condominium units*

The Group's management determines the estimated useful lives and related depreciation and amortization charges for its condominium units. This estimate is based on the expected future economic benefit to the Group. Management will increase the depreciation and amortization charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete assets that have been abandoned or sold. Management believes that the current estimated useful lives of condominium units (Note 20.7) approximate the actual economic benefits of these assets to the Group. Further, management does not foresee any changes in terms of business operations that would warrant reassessment of estimated useful lives. The carrying values of the investment properties are disclosed in Note 7. As at December 31, 2018 and 2017, the condominium units were already fully depreciated.

##### *(b) Impairment of financial assets*

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are discussed in Note 18.1(a).

#### 19.2 Critical accounting judgments

##### *(a) Operating lease - Group as lessor*

The Group has entered into various commercial property leases on its investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties as the Group considered, among others, the length of the lease term as compared with the estimated life of the assets, the present value of the minimum lease payments at inception of the lease does not substantially cover the fair value of the leased asset, absence of: i) ownership transfer at the end of the lease term; and ii) option to purchase the asset at a sufficiently lower amount than fair value. The leased assets are also not of a specialized nature. The Group's operating lease contracts are accounted for as non-cancellable operating leases. In determining whether a lease contract is cancellable or not, the Group considers, among others, the significance of the penalty, including economic consequence to the lessee. Total rent income arising from operating leases amounted to P22.7 million for the year ended December 31, 2018 (2017 - P18.0 million and 2016 - P20.5 million).

*(b) Contingencies*

The Group is currently involved in a legal proceeding and claims by third parties. The estimate of the probable cost for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings and claims by third parties will have a material effect on the Group's consolidated financial statements (Note 17).

*(c) Impairment of investment properties*

The Group assesses impairment on investment properties whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. The Group recognizes an impairment loss if such indications are present and whenever the carrying amount of an asset exceeds its recoverable amount. This requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Group to conclude that these assets are impaired. Any resulting additional impairment loss could have a material adverse impact on the Group's financial condition and results of operations.

As at December 31, 2018 and 2017, there are no noted indicators of impairment on the Group's investment properties. The carrying values of investment properties amounted to P205.3 million and P205.9 million as at December 31, 2018 and 2017, respectively.

*(d) Determining impairment of other current assets*

Management believes that the Group's input VAT and CWT may not be recoverable because of the expected future minimal transactions where the Group's input VAT and CWT will be utilized. Provision for impairment loss amounted to P4.4 million as at December 31, 2018 (2017 - P3.5 million) (Note 4).

The amount and timing of recorded expenses for any period would therefore differ based on the judgment or estimates made. If assessment of recoverability of input VAT and CWT was favorable, the Group's recorded expense would decrease by P1.6 million in 2018 (2017 - P1.4 million).

*(e) Impairment of financial asset at FVOCI/available-for-sale financial assets*

The Group recognizes impairment losses on financial asset at FVOCI/available-for-sale financial assets when there has been a significant or prolonged decline in the fair value of such investments below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In determining whether the decline in value is significant, the Group considers historical volatility of market price (i.e., the higher the historical volatility, the greater the decline in fair value before it is likely to be regarded as significant) and the period of time over which the market price has been depressed (i.e., a sudden decline is less significant than a sustained fall of the same magnitude over a longer period). Future events could cause the Group to conclude that these assets are impaired. Any resulting additional impairment loss could have a material impact on the Group's consolidated financial statements. Allowance for impairment amounted to P0.9 million as at December 31, 2018 and 2017. Details of the equity investments are shown in Note 5. Details of the sensitivity analysis performed on change in market price are shown in Note 18.1 (c).

*(f) Impairment of investments in associates*

Investments in associates carried at equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

To determine if its investment in CLI is impaired, the Group evaluates whether its ownership interest in the net assets of its associate after fair value adjustments on non-depreciable non-current assets of CLI amounting to P2.3 billion in 2017 (2018 - nil) is less than its cost. Other factors considered are financial health, and short and long-term business outlook, including operational and financing cash flows. As at December 31, 2018 and 2017, CLI's net assets after fair value adjustments amounted to P2.4 billion, hence, the asset is deemed not impaired. The carrying value of investment in CLI amounted to P337.6 million as at December 31, 2018 and 2017 (Note 6).

*(g) Recognition of deferred income tax assets*

The Group's assessment on the recognition of certain deferred income tax assets on non-deductible temporary differences, and carryforward benefit of NOLCO and MCIT, is based on the forecasted taxable income of the following subsequent periods. This forecast is based on the Group's past results and future expectations on revenues and expenses. Management believes that future taxable profit may not be available against which these temporary differences and carryforward benefit of NOLCO and excess MCIT can be applied, thus, no deferred income tax assets and MCIT were recognized as at December 31, 2018 and 2017 (Note 14).

**Note 20 - Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**20.1 Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial asset at FVOCI/available-for-sale financial assets.

The preparation of the consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where estimates and assumptions are significant to the consolidated financial statements are disclosed in Note 19.

## Changes in accounting policies and disclosures

### (a) *New interpretation and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing January 1, 2018:

- *PFRS 9, 'Financial Instruments'* (effective January 1, 2018), deals with the classification, measurement, and impairment of financial instruments, as well as hedge accounting. PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39 with a single model that has three (3) classification categories: amortized cost, fair value through other comprehensive income, and fair value through profit or loss. Classification under PFRS 9 is driven by the entity's business model for managing the financial assets and whether the contractual characteristics of the financial assets represent solely payments of principal and interest. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at fair value through profit or loss. For such liabilities, changes in fair value related to changes in own credit risk are presented separately in other comprehensive income. Upon adoption of PFRS 9, the Group retained its recognition policy for change in fair value of available-for-sale financial asset in other comprehensive income. In addition, the adoption did not impact the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities designated at fair value through profit or loss and the Group does not have any such liabilities.

The impairment rules of PFRS 9 introduce an expected credit losses model that replaces the incurred loss impairment model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39. Given the nature of the Group's receivables and historical collection rate, the Group did not recognize additional provision for impairment losses.

The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges. The Group has no hedging activities as at December 31, 2018 and 2017.

- *PFRS 15, 'Revenue from contracts with customers'* (effective January 1, 2018), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and, thus has the ability to direct the use and obtain the benefits from the good or service. Under the new standard, the notion of control replaces the existing notion of risks and rewards. The standard replaced PAS 18, Revenue, and PAS 11, Construction contracts, and related interpretations. A five-step process must be applied before revenue can be recognized which include: (i) identification of contracts with customers; (ii) identification of the separate performance obligation; (iii) determination of the transaction price of the contract; (iv) allocation of the transaction price to each of the separate performance obligations; and (v) recognition of revenue as each performance obligation is satisfied. Revenue may also be recognized earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome, etc.) - minimum amounts must be recognized if these are not at significant risk of reversal. Further, the point at which revenue is able to be recognized may shift: some revenue which is currently recognized at a point in time at the end of a



contract may have to be recognized over the contract term and vice versa. The Group adopted the standard on January 1, 2018 but did not impact its consolidated financial statements as its revenues are mainly derived from management and director's fees, dividends, interest, and rental income, which are all fixed in amount and the period covered is defined. Additionally, leases are outside the scope of PFRS 15, and therefore, there will be no significant impact on the Group's financial statements upon adoption on January 1, 2018.

*(b) New standards, amendments, and interpretations to existing standards not yet adopted*

A number of new standards, amendments, and interpretations to existing standards are effective for annual periods after January 1, 2018, and have not been early adopted nor applied by the Group in preparing these consolidated financial statements. None of these standards are expected to have significant effect on the consolidated financial statements of the Group, while the most relevant one is set out below:

- *PFRS 16, 'Leases'* (effective January 1, 2019). The standard now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The International Accounting Standards Board (IASB) has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Earlier application is permitted, but only in conjunction with PFRS 15, Revenue from contracts with customers. In order to facilitate transition, entities can choose a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use asset and the lease liability, rather than full retrospective application; furthermore, the 'simplified approach' does not require a restatement of comparatives. In addition, as practical expedient entities are not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are "grandfathered"). The Group will continue to assess the impact of PFRS 16 closer to the date of mandatory adoption (Group as lessor) but has initially assessed it to not have a significant impact on the consolidated financial statements since lease term is only for 12 months with annual renewal.

## **20.2 Basis of consolidation**

The consolidated financial statements comprise the financial statements of Parent Company and its subsidiaries as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018. The Group uses uniform accounting policies; any difference between the subsidiaries and Parent Company are adjusted properly.

All intra-group balances, transactions, and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

### *Assessment of control*

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Non-controlling interests (NCI) pertain to the equity in a subsidiary not attributable, directly, or indirectly to the Parent Company. NCI represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income and consolidated statement of total comprehensive income and within equity in the consolidated statement of financial position and consolidated statement of changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent Company and to the NCI, even if this results in the NCI having a deficit balance. Acquisitions of NCI are accounted for using the acquisition method, whereby the Group considers the acquisition of NCI as an equity transaction. Any premium or discount on subsequent purchases from NCI shareholders is recognized directly in equity and attributed to the owners of the parent. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

As at December 31, 2018 and 2017, NCI pertains to 44% and 5% ownership of KPMI Retirement Plan and KPMI, respectively in GRDC.

The financial information of GRDC and its wholly-owned subsidiary, GMRI, is provided below. This information is based on amounts before inter-company eliminations.

	2018			2017		
	GRDC	GMRI	Total	GRDC	GMRI	Total
Current assets	2,665,879	70,606,483	73,272,362	424,915	89,728,757	90,153,672
Noncurrent assets	3,229,782	571,912,912	575,142,694	3,843,282	606,640,134	610,483,416
<b>Total assets</b>	<b>5,895,661</b>	<b>642,519,395</b>	<b>648,415,056</b>	<b>4,268,197</b>	<b>696,368,891</b>	<b>700,637,088</b>
Current liabilities	2,316,473	646,939	2,963,412	1,252,389	367,072	1,619,461
Noncurrent liabilities	-	1,600,373	1,600,373	-	1,646,586	1,646,586
<b>Total liabilities</b>	<b>2,316,473</b>	<b>2,247,312</b>	<b>4,563,785</b>	<b>1,252,389</b>	<b>2,013,658</b>	<b>3,266,047</b>
Revenue	3,209,373	10,024,592	13,233,965	2,915,445	10,144,492	13,059,937
Other income	-	13,206,327	13,206,327	-	12,396,585	12,396,585
Net income	2,063,552	15,916,850	17,980,402	2,528,221	14,726,009	17,254,230
<b>Total comprehensive income</b>	<b>2,063,552</b>	<b>15,916,850</b>	<b>17,980,402</b>	<b>2,528,221</b>	<b>14,726,009</b>	<b>17,254,230</b>
Cash flows from:						
Operating activities	(1,095,036)	4,479,768	3,384,732	(2,824,159)	4,239,095	1,414,936
Investing activities	3,336,000	50,547,602	53,883,602	3,088,800	137,515,918	140,604,718
Financing activities	-	(70,000,000)	(70,000,000)	-	(131,000,000)	(131,000,000)
Net increase (decrease) in cash and cash equivalents	2,240,964	(14,972,630)	(12,731,666)	264,641	10,755,013	11,019,654
Accumulated balance of material NCI	-	-	358,232,249	-	-	383,814,469
Net income attributable to material NCI	-	-	8,941,780	-	-	10,076,591

There are no significant restrictions on the Group's ability to use the assets or settle liabilities within the Group. There is no difference on the voting rights on non-controlling interests compared to majority shareholders.

### 20.3 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three (3) months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risks of changes in value. These are carried in the consolidated statement of financial position at face amount or at nominal amount.

### 20.4 Receivables

Receivables are amounts due from customers for services performed in the ordinary course of business. These are generally due for settlement within the credit term of 30 to 60 days and, therefore, are all classified as current. Receivables are recognized initially at the amount of consideration that is unconditional unless these contain significant financing components, when these are recognized at fair value. The Group holds the receivables with the objective to collect the contractual cash flows and, therefore, measures them subsequently at amortized cost using the effective interest method.

Receivables arising from regular sale of services with average credit term of 30 to 60 days are measured at the original invoice amount which approximates fair value (as the effect of discounting is immaterial), less any provision for impairment. Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment.

Receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as non-current assets.

The Group applies the PFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized within operating expenses in the consolidated statement of income. When a receivable remains uncollectible after the Group has exerted all legal remedies, it is written-off against the allowance account for receivables. Subsequent recoveries of amounts previously written-off are credited against operating expenses in the consolidated statement of income.

The expected loss rates are based on the collection profiles over a period of 60 months before January 1, 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the bank interest rates to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

Prior to the adoption of PFRS 9, a provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Refer to Note 20.5 for other relevant accounting policies on receivables.

## **20.5 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity. The Group recognizes a financial instrument in the consolidated statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

### **20.5.1 Financial assets**

#### **(a) Classification**

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI. The Group reclassifies debt investments when and only when its business model for managing those assets changes. As at December 31, 2018 and 2017, the Group holds financial assets at FVOCI and at amortized cost.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

On the disposal of equity instruments classified as FVOCI, any related balance within the FVOCI reserve is reclassified to retained earnings.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three (3) measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of income.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated statement of income.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

#### Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the consolidated statement of total comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

#### (d) Impairment

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance. The relevant policy on impairment of receivables is disclosed in Note 20.4.

Until December 31, 2017, for equity investments, a significant or prolonged decline in the fair value of security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

#### (e) Accounting policies applied until December 31, 2017

The Group has applied PFRS 9 retrospectively, but has elected not to restate comparative information due to materiality. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy. Impairment is driven by incurred losses.

Until December 31, 2017, the Group classified its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity investments, and available for sale financial assets. As at December 31, 2017, the Group only has loans and receivables and available for sale financial assets with changes in fair value recognized in other comprehensive income.

## 20.5.2 Financial liabilities

### (a) Classification

The Group classifies its financial liabilities at initial recognition in the following categories: at FVPL (including financial liabilities held for trading and those designated at fair value) and financial liabilities at amortized cost. The Group only has financial liabilities at amortized cost as at December 31, 2018 and 2017.

Issued financial instruments or their components, which are not designated at FVPL, are classified as financial liabilities at amortized cost, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

### (b) Initial recognition and derecognition

Financial liabilities are initially recognized at fair value of the consideration received plus directly attributable transaction costs. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

### (c) Subsequent measurement

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

## 20.5.3 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counter party. As at December 31, 2018 and 2017, there are no financial assets and financial liabilities that were offset.

## 20.6 **Investments in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are accounted for using the equity method in the consolidated financial statements from the date on which it becomes an associate. Cumulative adjustments for periods prior to this event are not recognized.

Under the equity method, the investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any dividends declared and impairment in value. If an investor's share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statement of income reflects the Group's share in the results of operations of the associates. This is included in the "Equity in net earnings of associates" account in the consolidated statement of income. After the Group's interest is reduced to zero, additional losses are provided to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any change and discloses this, when applicable, in the consolidated statement of changes in equity.

When an associate makes dividend distributions to the Group in excess of the carrying amount, a liability should only be recognized if the Group is obliged to refund the dividend, has incurred a legal or constructive obligation or made payments on behalf of the associate. In the absence of such obligations, the Group recognizes the excess in net profit for the period. When the associate subsequently makes profits, the Group will start recognizing profits when they exceed the excess cash distributions recognized in net profit plus any previously unrecognized losses.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Unrealized gains arising from intercompany transactions with its associates are eliminated to the extent of the Group's interest in the associate, against the investment in the associate. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

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

## **20.7 Investment properties**

Investment property is defined as property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the common course of business.

The Group's investment property, principally comprising of land, building, and condominium units, are held for capital appreciation and is not occupied by the Group. The Group has adopted the cost model for its investment properties (Note 7).

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.



For a transfer from investment property to owner-occupied property or inventories, the deemed cost of the property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Land is not depreciated. Depreciation and amortization of other investment properties are computed using the straight-line method over the following estimated useful lives in years:

Building and improvements	7 to 25
Condominium units	25

The fair value of the investment properties is categorized as Level 3, which used adjusted inputs for valuation that are unobservable as at the date of valuation. The inputs used were asking prices of similar listings and offerings. Significant increases or decreases in asking price would result in higher or lower fair value of the asset.

Investment properties are derecognized when either these have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the year of retirement or disposal.

## 20.8 Property and equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the useful lives of the assets.

The assets' residual values, useful lives and method of depreciation are reviewed, and adjusted if appropriate, at each financial year-end. When a major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives in years:

Condominium units	15 to 25
Office machine, furniture and fixtures	1 to 5
Transportation equipment	5

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

## **20.9 Impairment of non-financial assets**

Assets that have an indefinite useful life, including land held for development, investment property (carried at fair value), and investment in subsidiaries, are not subject to depreciation and amortization and are tested annually for impairment.

Assets that have definite useful life are subject to depreciation and amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that are impaired are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in profit or loss.

## **20.10 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

### *(a) Financial instruments*

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1. The quoted financial asset at FVOCI/available-for-sale financial assets of the Group are classified under Level 1 category.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2. There are no financial instruments that fall under the Level 2 category.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The unquoted financial asset at FVOCI/available-for-sale financial assets of the Group fall under the Level 3 category. There were no transfers from one category to another in 2018 and 2017.

*(b) Non-financial assets or liabilities*

The Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The investment properties of the Group are classified under Level 3 category.

## **20.11 Equity**

*(a) Share capital and share premium*

Share capital is measured at par value for all shares issued. When the Group issues shares in excess of par, the excess is recognized as share premium. Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from share premium.

*(b) Treasury shares*

Treasury shares are recorded at cost and presented as a deduction from equity. When the shares are retired, the share capital account is reduced by the par value and the excess of cost over par value upon retirement is debited to share premium to the extent of the specific or average share premium when the shares were issued and to retained earnings for the remaining balance.

*(c) Retained earnings*

Retained earnings include current and prior year's results of operations, net of transactions with shareholders and dividends declared, if any.

Cash dividend distribution to the Group's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Group's BOD.

**20.12 Revenue, income, and expense recognition**

Adoption of PFRS 15, Revenue from customer contracts, did not have material impact in the Group's revenue and income accounting policy other than from the shift in the revenue recognition model from risks and rewards to control model.

*(a) Revenue and income*

The following specific recognition criteria must be met before revenue or income is recognized:

*(i) Management fees*

Management fees are recognized over time as the services are rendered based on the fixed terms and fixed price of the management contract.

*(ii) Directors' fees*

Directors' fees are recognized over time as the services are rendered based on the fixed terms and fixed price of the contract.

Other income not covered by PFRS 15, Revenue from customer contracts.

*(i) Rental income*

Rental income from investment properties is accounted for on a straight-line basis over the lease term.

*(ii) Interest income*

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

*(iii) Dividend income*

Dividend income is recognized at point in time when the shareholders' right to receive the payment is established.

*(b) Expenses*

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Expenses are recognized in profit or loss in the period these are incurred.

**20.13 Employee benefits**

Short-term employee benefits include items such as salaries and wages, social security contributions and non-monetary benefits, if expected to be settled wholly within 12 months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Group during the reporting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value, if material.

The related liability on employee benefits is derecognized when the obligation is discharged or cancelled.

**20.14 Leases - Group as lessor**

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

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

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

*Group as a lessor*

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from these operating leases is recognized on a straight-line basis over the lease term.

### *Refundable deposits*

Refundable deposits are measured initially at fair value and are subsequently measured at amortized cost using the using effective interest method. Refundable deposits are measured at the original amount (as the effect of discounting is immaterial). These are classified as current liabilities if payment is due within one (1) year or less (or in the normal operating cycle of the business if longer). If not, these are presented as non-current liabilities. These are derecognized once refunded to customers.

### *Advance rentals*

Advance rentals represent rentals paid in advance by the tenants that are to be applied in subsequent month's rental. These are classified as current liabilities if payment is due within one (1) year or less (or in the normal operating cycle of the business if longer). If not, these are presented as non-current liabilities. These are derecognized once applied against rent due.

## **20.15 Income taxes**

The income tax expense for the period comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates based on existing laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (NOLCO) and unused tax credits (excess MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates, and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

The Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred income tax liability arises from the initial recognition of goodwill. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets and liabilities are derecognized when related bases are realized/settled or when it is no longer realizable/due.

#### **20.16 Other assets**

Revenue, expenses, and assets are recognized net of the amount of value added tax except:

- where the tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the tax is recognized as part of the acquisition cost of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

Input VAT is carried at face amount or at nominal amount less allowance for impairment loss. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of other current assets or liabilities in the consolidated statement of financial position.

CWT is recognized as assets in the period such excess income tax payments become available as tax credits to the Group and carried over to the extent that it is probable that the benefit will flow to the Group. These are derecognized when there is a legally enforceable right, as prescribed by the applicable laws, to apply the recognized amounts against the related income tax due.

#### **20.17 Accounts payable and other current liabilities**

Accounts payable and other current liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established. These are recognized initially at fair value and subsequently measured at amortized cost using effective interest method. Accounts payable and other current liabilities are classified as current liabilities if payment is due within 12 months or less (or in the normal operating cycle of the business, if longer). If not, these are presented as non-current liabilities.

Accounts payables and other current liabilities are measured at the original invoice amount (as the effect of discounting is immaterial). The relevant policies on classification, recognition, measurement and derecognition are described in Note 20.5. Payables to government agencies and advance rentals are not considered financial liabilities but are derecognized similarly.

## **20.18 Earnings per share**

### *(a) Basic*

Basic earnings per share is calculated by dividing net income attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year, excluding common shares purchased by and held as treasury shares.

### *(b) Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential common shares. As at report date, the Parent Company has no dilutive potential common shares.

## **20.19 Operating segments**

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 16.

## **20.20 Provisions**

Provisions, if any, are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

## **20.21 Contingencies**

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes when inflows of economic benefits are probable. If it becomes virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

## **20.22 Events after the financial reporting date**

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



## Keppel Philippines Holdings, Inc. and Subsidiaries

### Schedule of Philippine Financial Reporting Standards and Interpretations Effective as at December 31, 2018

The following table summarizes the effective standards and interpretations as at December 31, 2018:

		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b>				
Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Measurement of Cash-settled Share-based Payment Transactions*			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
	Amendments to PFRS 3: Definition of a business			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

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		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 9, PFRS 7, and PAS 39: Hedge Accounting	✓		
	Amendments to PFRS 9 and PFRS 7: Mandatory Effective Date and Transition Disclosures	✓		
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments	✓		
	Amendments to PFRS 9, PFRS 7, and PAS 39: Hedge Accounting	✓		
	Amendments to PFRS 9 and PFRS 7: Mandatory Effective Date and Transition Disclosures	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*		✓	
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Application of the Consolidation Exception for Investment Entities	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	
<b>PFRS 11</b>	Joint Arrangements			✓
	Amendments to PFRS 11: Acquisition of an Interest in a Joint Operation			✓

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		Adopted	Not Adopted	Not Applicable
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Application of the Consolidation Exception for Investment Entities			✓
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers	✓		
	Amendment to PFRS 15: Clarification to PFRS 15	✓		
<b>PFRS 16</b>	Leases*	Not early adopted.		
<b>PFRS 17</b>	Insurance contracts*			✓
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
	Amendments to PAS 1 and PAS 8: Definition of material*		✓	
<b>PAS 2</b>	Inventories			✓
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments to PAS 1 and PAS 8: Definition of material*		✓	
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 16 - Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Acceptable Methods of Depreciation and Amortization			✓

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		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
<b>PAS 17</b>	Leases	✓		
<b>PAS 19 (Revised)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Contributions from Employees or Third Parties	✓		
	Amendment to PAS 19: Plan Settlement, Curtailment or Settlement*		✓	
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates			✓
	Amendment to PAS 21: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs			✓
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Revised)</b>	Separate Financial Statements	✓		
	Amendments to PAS 27: Use of Equity Method in Separate Financial Statements	✓		
<b>PAS 28 (Revised)</b>	Investments in Associates and Joint Ventures	✓		
	Amendments of PFRS 10, PFRS 12 and PAS 28: Application of the Consolidation Exception for Investment Entities	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contributions of Assets between an Investor and its Associate or Joint Venture	✓		
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value	✓		
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*		✓	
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓

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		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 40</b>	Investment Property	✓		
	Amendment to PAS 40: Transfers of Investment Property	✓		
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓

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		Adopted	Not Adopted	Not Applicable
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies	✓		
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration			✓
<b>IFRIC 23</b>	Uncertainty over Income Tax Treatments*		✓	
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

The standards, amendments and interpretations to existing standards marked with an asterisk (\*) have been issued but are not yet effective for December 31, 2018 financial statements. Unless otherwise stated, these standards, amendments and interpretations have not been early adopted.

The standards, amendments and interpretations to existing standards that are labeled as "Not Applicable" are already effective as at December 31, 2018 but are currently not relevant to the Group because it has currently no related transactions.

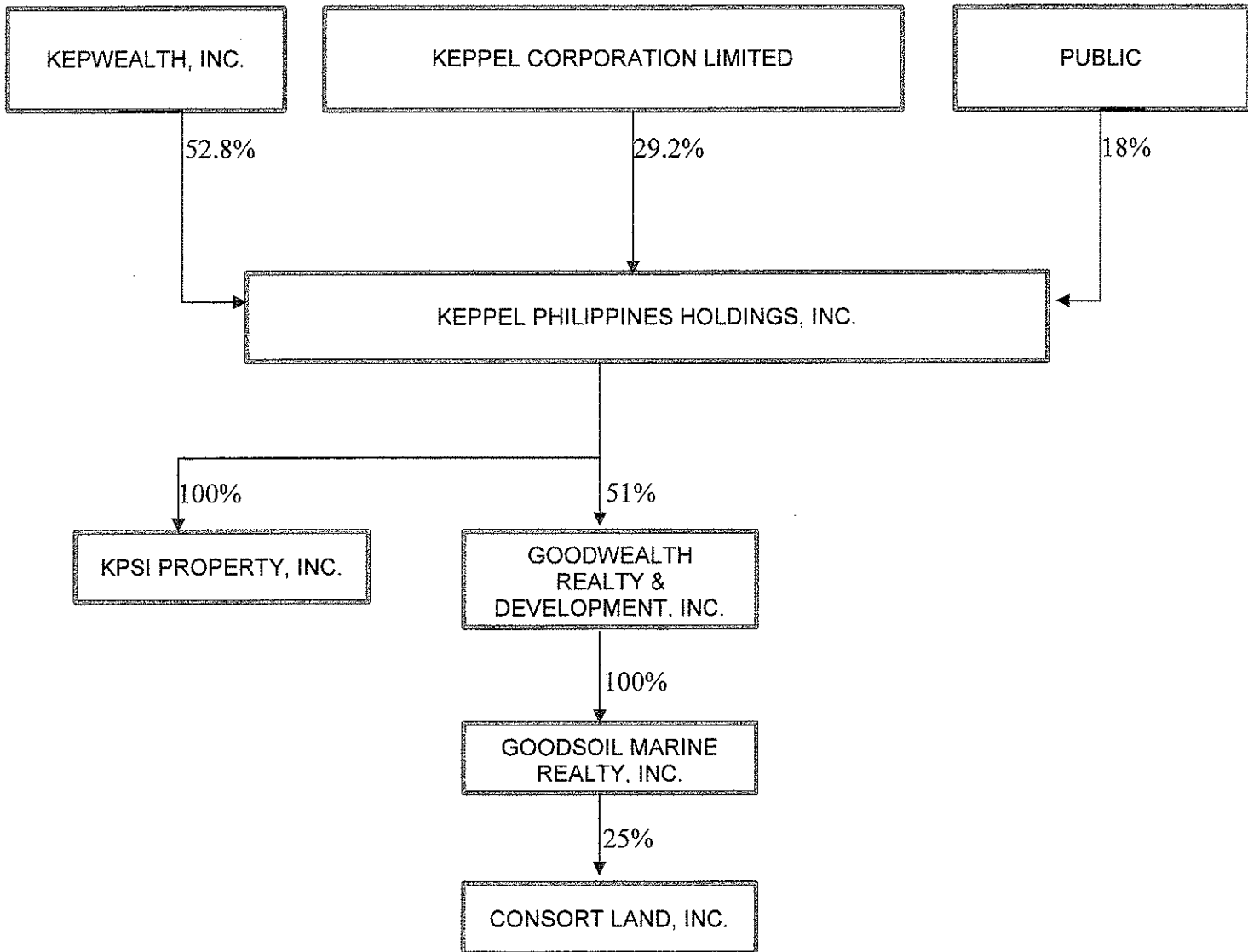
**Keppel Philippines Holdings, Inc.**

Reconciliation of Retained Earnings for Dividend Declaration  
As at December 31, 2018  
(All amounts in Philippine Peso)

Unappropriated Retained Earnings, based on audited financial statements, beginning		180,223,056
Less: Cumulative fair value adjustment		-
Unappropriated Retained Earnings, adjusted		180,223,056
Add: Net income actually earned/realized during the period	32,335,305	
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture		
Unrealized foreign exchange gain (except those attributable to cash and cash equivalents)		
Unrealized actuarial gain		
Fair value adjustment		
Fair value adjustment of investment property resulting to gain		
Adjustment due to deviation from PFRS/GAAP - gain		
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS		
Sub-total	32,335,305	212,558,361
Add: Non actual losses		
Depreciation on revaluation in revaluation increment (after tax)		
Adjustment due to deviation from PFRS/GAAP - loss		
Loss on fair value adjustment of investment property (after tax)		
Net income actually earned during the period		212,558,361
Add (Less):		
Dividend declarations during the year	(5,780,342)	
Appropriations of retained earnings during the year		
Reversals of appropriations		
Effects of prior period adjustments		
Treasury shares	(22,622,976)	
Accumulated share in income of an associate		
	(28,403,318)	184,155,043

### Keppel Philippines Holdings, Inc. and Subsidiaries

Map of the Group of Companies within which the Reporting Entity Belongs  
As at December 31, 2018





**Keppel Philippines Holdings, Inc. and Subsidiaries**

Key Financial Ratios

As at December 31, 2018 and 2017

(With comparative figures as at December 31, 2016)

	2018	2017	2016
A. Current and Liquidity Ratios			
1. Current ratio			
(Current assets/Current liabilities)	18.02	31.01	52.22
2. Acid test ratio or Quick ratio			
(Monetary current assets/Current liabilities)	17.96	30.93	52.20
B. Solvency ratio			
(Net income + depreciation)/Total liabilities	0.74	4.97	2.80
C. Debt to equity ratio			
(Total liabilities/Shareholders' equity)	0.02	0.01	0.01
D. Asset to equity ratio	1.02	1.01	1.01
E. Debt ratio			
(Total liabilities/Total assets)	0.02	0.01	0.01
F. Interest coverage ratio			
(EBIT/Interest expense)	-	-	-
G. Profitability ratios			
1. Return on assets (%)			
(Net income/Total assets)	1.40	5.40	2.31
2. Return on equity (%)			
(Net income/Shareholders' equity)	1.43	5.46	2.33
H. Earnings per share attributable to equity holders of parent (P)	0.09	0.078	0.24
I. Book value per share attributable to equity holders of parent (P)	10.98	10.73	10.05

**Keppel Philippines Holdings, Inc. and Subsidiaries**

Schedule A - Financial Assets  
As at December 31, 2018  
(All amounts in Philippine Peso)

Name of issuing entity and description of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the Consolidated Statement of Financial Position	Value based on market quotations at statement date	Income received and accrued
Financial assets at fair value through other comprehensive income*				
Wack-Wack Golf and Country Club, Inc.	1	35,000,000	35,000,000	
Universal Rightfield Property Holdings, Inc.	4,400,000	1	1	
Cash and cash equivalents**		35,000,001	35,000,001	
Receivables***		39,842,151	39,842,151	1,489,137
		277,255,220	277,255,220	10,720,062
		352,097,372	352,097,372	12,209,199

\* See Note 5 to the Consolidated Financial Statements.

\*\* See Note 2 to the Consolidated Financial Statements.

\*\*\* See Note 3 to the Consolidated Financial Statements.

**Keppel Philippines Holdings, Inc. and Subsidiaries**

Schedule B - Amounts Receivable from Directors, Officers,  
Employees, Related Parties and Principal Stockholders  
(Other than Related Parties)  
As at December 31, 2018  
(All amounts in Philippine Peso)

Name and designation of debtor	Beginning balance	Additions	Deduction		Current	Non-current	Ending balance
			Amount collected	Amount written-off			
<b>Accounts receivable</b>							
Keppel Philippines Marine, Inc.	32,931,722	12,948,212	(13,872,479)	-	3,697,045	28,310,410	32,007,455
Keppel Energy Consultancy, Inc.	-	360,000	(360,000)	-	-	-	-
Keppel IVI Investments, Inc.	-	480,000	(480,000)	-	-	-	-
Kepwealth, Inc.	-	276,000	(276,000)	-	-	-	-
Kepventure, Inc.	-	60,000	(60,000)	-	-	-	-
Keppel Subic Shipyard, Inc.	-	18,621	(18,621)	-	-	-	-
	<b>32,931,722</b>	<b>14,142,833</b>	<b>(15,067,100)</b>	<b>-</b>	<b>3,697,045</b>	<b>28,310,410</b>	<b>32,007,455</b>
<b>Loans receivable</b>							
Keppel Philippines Marine, Inc.	242,743,904	160,720,062	(129,984,580)	-	273,479,386	-	273,479,386
	<b>275,675,626</b>	<b>174,862,895</b>	<b>(145,051,680)</b>	<b>-</b>	<b>273,479,386</b>	<b>32,007,455</b>	<b>305,486,841</b>

\* Including interest receivable amounting to P1,479,386 and P743,904 as at December 31, 2018 and 2017, respectively. Information such as due dates, interest rates, terms of repayments and collateral, if any, are provided in Note 10 to the Consolidated Financial Statements.

See Notes 3 and 10 to the Consolidated Financial Statements.

**Keppel Philippines Holdings, Inc. and Subsidiaries**

Schedule C - Amounts Receivable from Related Parties  
 which are eliminated during the Consolidation of Financial Statements  
 As at December 31, 2018  
 (All amounts in Philippine Peso)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
Goodwealth Realty and Development Corporation	1,126,722	765,000	(1,126,722)	-	765,000	-	765,000
Total	1,126,722	765,000	(1,126,722)	-	765,000	-	765,000

**Keppel Philippines Holdings, Inc. and Subsidiaries**

Schedule D - Intangible Assets - Other Assets

December 31, 2018

(All amounts in Philippine Peso)

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
						<b>Not applicable</b>

**Keppel Philippines Holdings, Inc. and Subsidiaries**

Schedule E - Long-Term Debt  
As at December 31, 2018  
(All amounts in Philippine Peso)

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet"
<b>Not applicable</b>			

**Keppel Philippines Holdings, Inc. and Subsidiaries**

Schedule F - Indebtedness to Related Parties

As at December 31, 2018

(All amounts in Philippine Peso)

Name of affiliate	Beginning balance	Ending balance
Keppel Philippines Marine, Inc. (advance rental)	232,956	232,956
Keppel Philippines Marine, Inc. (security deposit)	232,956	232,956
	465,912	465,912

See Notes 9 and 10 to the Consolidated Financial Statements.

**Keppel Philippines Holdings, Inc. and Subsidiaries**

Schedule G - Guarantees of Securities of Other Issuers

As at December 31, 2018

(All amounts in Philippine Peso)

Name of issuing entity of securities guaranteed by the company for which statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by the company for which statement is filed	Nature of guarantee
<b>Not applicable</b>				



**Keppel Philippines Holdings, Inc. and Subsidiaries**

Schedule H - Share Capital  
As at December 31, 2018  
(All amounts in Philippine Peso)

Title of issue	Number of shares authorized	Number of shares issued and outstanding	Number of shares reserved for options, warrants, conversions, and other rights	Number of shares held by		
				Affiliates	Directors, officers, and employees	Others
Issued shares:						
Common class "A"	90,000,000	39,840,970	-	-	-	-
Common class "B"	200,000,000	33,332,530	-	-	-	-
Total	290,000,000	73,173,500	-	-	-	-
Less treasury shares:						
Common class "A"	-	3,674,000	-	-	-	-
Common class "B"	-	11,696,081	-	-	-	-
Total	-	15,370,081	-	-	-	-
Outstanding shares:						
Common class "A"	-	36,166,970	-	28,817,182	41	7,349,747
Common class "B"	-	21,636,449	-	18,609,835	3	3,026,611
Total	-	57,803,419	-	47,427,017	44	10,376,358

See Notes 11 and 12 to the Consolidated Financial Statements.