

# COVER SHEET

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SEC Registration Number

[illegible]

(Company's Full Name)

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(Business Address: No. Street City/Town/Province)
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**FERDINAND A. CONSTANTINO**

(Contact Person)

**(+632) 403-6910**

(Company Telephone Number)

1	2
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3	1
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Month Day  
(Fiscal Year)

**2017**  
**1 7 - A**

(Form Type)

0	6	Last	Fri
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Month Day  
(Annual Meeting)

	N.A.
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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

1,979

Total No. of Stockholders

Total 7.1100	
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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

[illegible]

File Number

LCU

[illegible]

Document ID

Cashier

STAMPS

## STAMPS

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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 31 December 2017
2. SEC Identification Number ASO-94-007160 3. BIR Tax Identification No. 126-004-450-721
4. Exact name of issuer as specified in its charter ARTHALAND CORPORATION (ALCO)
5. Metro Manila, Philippines ☐ (SEC Use Only)  
Province, Country or other jurisdiction of Industry Classification Code:  
incorporation or organization
7. 8/F Picadilly Star Building, 4<sup>th</sup> Avenue corner 27<sup>th</sup> Street,  
Bonifacio Global City, Taguig City 1634  
Address of principal office Postal Code
8. (+632) 403-6910  
Issuer's telephone number, including area code
9. Not Applicable  
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 Sec. 4 and 8 of the RSA:

<u>Title of Each Class</u>	<u>Number of Shares Outstanding</u>	<u>Amount of Debt Outstanding</u>
<b>Common Shares</b>	<b>5,318,095,199 (P0.18 par value)</b>	<b>None</b>
<b>Preferred Shares – Series A</b>	<b>12,500,000 (P1.00 par value)</b>	<b>None</b>
<b>Preferred Shares – Series B</b>	<b>20,000,000 (P1.00 par value)</b>	<b>None</b>

11. Are any or all of these securities listed on a Stock Exchange? Yes [ ☒ ] No [ ]  
If yes, state the name of such stock exchange and the classes of securities listed therein:

**Philippine Stock Exchange – ALL Outstanding Common Shares and Preferred Shares Series B ONLY.**

12. Check whether the issuer:

(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 that the registrant was required to file such reports): Yes [ ☒ ] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days: Yes [ ☒ ] No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

<u>Name of Shareholders</u>	<u>No. of Shares</u>	<u>Market Price (₱)</u> (as of 31 March 2018)	<u>Total Amount</u> (₱)
1. Edimax Investment Limited	296,460,000	0.860	254,955,600.00
2. Tina Keng	25,000,000	0.860	21,500,000.00
3. EQL Properties, Inc.	14,671,125	0.860	12,617,167.50
4. Urban Bank Trust Department – A/C No. 625	4,838,488	0.860	4,161,099.68
5. RBL Fishing Corporation	4,350,000	0.860	3,741,000.00
6. Veronica D. Reyes	3,799,272	0.860	3,267,373.92
7. Veronica D. Reyes and/or Cecilia D. Reyes	2,654,061	0.860	2,282,492.46
8. Theodore G. Huang and/or Corazon B. Huang	2,501,250	0.860	2,151,075.00
9. Anito Tan and/or Lita Tan	2,027,049	0.860	1,743,262.14
10. Lourdes D. Dizon	1,740,000	0.860	1,496,400.00

**Documents Incorporated by Reference:**

Audited Financial Statements for the period ended as of 31 December 2017

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## **PART I - BUSINESS AND GENERAL INFORMATION**

### **ITEM 1. Business**

#### **a. Corporate Overview**

**ARTHALAND CORPORATION (or “ALCO”, for brevity)** was incorporated on 10 August 1994<sup>1</sup> for the purpose of engaging in property development of residential, commercial, leisure and industrial projects. Its principal office is at the 8<sup>th</sup> Floor Picadilly Star Building, 4<sup>th</sup> Avenue corner 27<sup>th</sup> Street, Bonifacio Global City, Taguig City.

ALCO instituted several corporate actions in 2007 to prepare for its medium and long term business goals. It first underwent a quasi-reorganization and subsequently a recapitalization program which led to the entry of investors AO Capital Holdings 1 (AOCH1) and Elite Holdings, Inc., among others.

On 26 April 2011, CPG Holdings, Inc. (CPG), a holding company of leading food manufacturers domiciled in the Philippines, acquired a total of 1,800,000,000 ALCO common shares. On 24 September 2014, CPG acquired additional 342,619,910 ALCO common shares from the market.

On 22 September 2016, ALCO's authorized capital stock was increased<sup>2</sup> to ₱2,996,257,135.82 divided into ₱2,946,257,135.82 of Common shares (consisting of 16,368,095,199 Common shares with a par value of ₱0.18 per share), and ₱50,000,000.00 of redeemable, non-voting and non-participating Preferred shares (consisting of 50,000,000 Preferred shares with a par value of ₱1.00 per share).

Of the ₱50,000,000.00 increase in capital stock, ALCO issued cumulative, non-voting, non-participating, non-convertible Peso-denominated 12,500,000 Preferred shares (the “Series A Preferred Shares”) to Manchesterland Properties, Inc., and 20,000,000 Preferred shares (the “Series B Preferred Shares”) which are likewise cumulative, non-voting, non-participating, non-convertible and Peso-denominated, among other conditions, to the public.

All issued and outstanding Common shares and Series B Preferred shares of ALCO are listed with and traded in the Philippine Stock Exchange with the trading symbols “ALCO” and “ALCPB”, respectively.

Despite the recent capital increase, CPG and AOCH1 are the largest stockholders of ALCO with 40.29% and 26.02%, respectively, of the total issued and outstanding shares.

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<sup>1</sup> ALCO was originally registered as Urbancorp Realty Developers, Inc. but was renamed in 2003 as EIB Realty Developers, Inc. On 26 January 2009, the Securities and Exchange Commission approved anew the change of the corporate name to ArthaLand Corporation.

<sup>2</sup> The authorized capital stock was originally ₱2,946,257,135.82 divided into 16,368,095,199 Common shares only at a par value of ₱0.18 per share,

**b. Business/Projects**

ALCO's main business activity is the development of residential, commercial and leisure properties. It is geared to pursuing niched and boutique developments as well as opportunistic joint venture developments.

ALCO is a registered member of the United States Green Building Council (USGBC), an organization which sets the world standards for green buildings and sustainable developments. It adheres to the standards set by the USGBC Leadership in Energy and Environmental Design (LEED) program, a globally recognized green building rating system that warrants comprehensive, inclusive and calibrated measures in ensuring sustainability and environmentally sound practices.

ALCO is also an active member of the Philippine Green Building Council (PHILGBC), a collegial based, non-stock non-profit organization that promotes the sharing of knowledge on green building practices to ensure a sustainable environment. It aims to serve as a single voice in the promotion of holistic and market-based green building practices in the local industry and as a non-partisan venue of a green building rating system. ALCO's projects are subjected to the rigid screening and monitoring of the PHILGBC Building for Ecologically Responsive Design Excellence (BERDE) rating program.

ALCO has gained various seals of approval and has been acknowledged as the Best Boutique Developer by the Philippines Property Awards and as among the Top 10 Developers in the Philippines by BCI Asia. Since 2011, ALCO has been a recipient of the Environmental Leadership Award from the World Wide Fund for Nature (WWF-Philippines) for its staunch support for the group's Climate Change Adaptation program.

ALCO is the developer of Arya Residences, the pioneer and only top-end high rise residential development in the Philippines that is on target to achieve dual green building certification. Due to its strict adherence to the global sustainability measures – from planning to construction, and even beyond turnover – Arya Residences is the first top-market condominium development in the Philippines to be awarded the USGBC LEED Gold certification. It is expected to achieve multiple star rating from the PHILGBC BERDE program.

Arya Residences has garnered national and international recognition for design, quality, and sustainability. The South East Asian Property Awards has chosen Arya Residences as the Best Residential Development in the Philippines in 2012 and 2013 while the Asia Pacific Property Awards recognized Arya Residences as the Best Residential High-rise Development in the Philippines for 2014 to 2015. Also, the Inaugural Philippines Property Awards acknowledged Arya Residences twice to be the Best Residential Development in Manila with the Best Residential Architectural Design, both in 2013 and 2014, and the project's first tower was awarded the Best Residential Interior Design by the same body in 2014.

ALCO's flagship office project, ArthaLand Century Pacific Tower (ACPT), is set to be the landmark of sustainability in Bonifacio Global City. This 30-storey AAA-grade office building located along the prime 5<sup>th</sup> Avenue is designed by SOM New York, the

same group that penned One World Trade Center and Burj Khalifa in Dubai. It has been pre-certified as LEED Gold and ALCO is targeting to secure a LEED Platinum certification for it.

The Philippines Property Awards recognized ACPT as the Best Green Development in the Philippines for 2016 and awarded it to have the Best Office Architectural Design. ACPT was highly commended for Best Office Development. The South East Asia Property Awards 2016, on the other hand, recognized ACPT to have the Best Office Architectural Design (Philippines) and the Best Green Development (Philippines), and conferred upon it the Special Recognition for Sustainable Design (South East Asia). ACPT was again awarded the Best Office Architectural Design as well as the Best Green Development in the Asia Property Awards of 2017.

With the completion of Arya Residences and ACPT, ALCO is now focused on expanding its business outside Metro Manila with the development of Cebu Exchange, a 38-storey LEED and Berde certified office building that will stand high in Barangay Lahug, Cebu City. Pre-selling began in September 2017 although construction will commence in the second quarter of 2018. Cebu Exchange will offer unit cuts ranging from 95 to 5,100 square meters. The large floor plate in its lower floors is perfect for business process outsourcing (BPO) companies while the upper floors can cater to traditional offices and executive offices.

Besides being designed to be a world-class workplace, Cebu Exchange is envisioned to be a complete ecosystem, with four retail floors for the convenience of its occupants. With a gross floor area of 110,000 square meters, Cebu Exchange boasts of being the largest green building in the country.

ALCO has also started planning for and will soon announce its first foray into developing a sustainable, master planned and integrated community in an eight-hectare property in Biñan City, Laguna, adjacent to the De La Salle University Science and Technology campus. This project will be catering to start-ups, incubators, students, faculty population and starter families within the area.

What makes ALCO different from other developers is that after a project is completed and/or turned over to the respective buyers or tenants thereof, ALCO continues to provide property management services to the condominium corporation or homeowners association. Post-completion involvement allows ALCO to maintain for years to come a high standard of maintenance quality in all its developments.

### **c. Subsidiaries**

Below are the domestic companies in which ALCO has shareholdings. ALCO has 100% ownership interest in these companies with the exception of Cebu Lavana Land Corporation.

- i. **Cazneau Inc.** was incorporated on 31 July 2008 principally to engage in the realty development business, including, but not limited to, the acquisition, construction, utilization and disposition, sale, lease, exchange or any mode of transfer of residential, industrial or commercial property. In September 2016, Cazneau acquired an 8.1-hectare property in Biñan, Laguna.



- ii. **Cebu Lavana Land Corporation (CLLC)** was incorporated on 11 September 2015 to principally engage in the realty development business. It is the vehicle ALCO used to acquire two parcels of adjacent land in Cebu City, Philippines, and develop the same into an office building to be known as Cebu Exchange. In January 2016, Rock & Salt B.V., a foreign private limited liability company existing and duly constituted under the laws of The Netherlands and managed by Arch Capital Management Company Limited, subscribed to 40% of CLLC's shares of stock.
- iii. **Emera Property Management, Inc.** was incorporated on 31 July 2008<sup>3</sup>. It was originally established to engage in the realty development business but now serves as the property management arm of ALCO.
- iv. **Manchesterland Properties, Inc. (MPI)** was incorporated on 27 March 2008 and is presently the registered owner of the commercial units in The Plaza at Arya Residences and some non-appurtenant parking slots therein.
- v. **Savya Land Development Corporation** was incorporated on 10 February 2017 principally to engage in the realty development business. It is the vehicle ALCO used to acquire two lots in Arca South located in Barangay West Bicutan, Taguig City.
- vi. **Urban Property Holdings, Inc. (UPHI)** was incorporated on 23 January 1995 and was established for the development of a housing project on its 33-hectare property located in Calamba, Laguna. This plan may, however, change subject to market conditions.
- vii. **Zileya Land Development Corporation** was incorporated on 28 December 2015 with the primary purpose of engaging in the realty development business. It is the investment vehicle used by ALCO in the acquisition of certain condominium units in Makati City.

Subject to matters disclosed in Item 3 (Legal Proceedings) of this Report, none of these subsidiaries are engaged in any bankruptcy, receivership or similar proceedings. Also, for the period covered by this Report, these subsidiaries are neither parties to any transaction which involves material reclassification, merger, consolidation or purchase or sale of a significant amount of assets, except as otherwise discussed herein.

#### **d. Competition**

Significant barriers to entry into the market are the considerable capital needed for the acquisition and development of land, the development expertise and reputation required from an experienced management team, and the technological know-how from a technical team, to name a few.

ALCO faces competition from other domestic property developers and the level of competition depends on product types, target market segments, location of developments and pricing, among others. Competition is also present in the

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<sup>3</sup> Emera was originally registered as Technopod, Inc. but was renamed on 30 October 2013.

procurement of raw materials particularly in a tight supply market.

ALCO views the major property players which are into the middle and high market categories for high-rise residential developments in the vicinity of ALCO's investment properties as direct competition. Further, ALCO competes with these property developers for high-caliber sales/leasing agents and brokers.

ALCO believes that given the desirability of the project locations, its strict adherence to quality, innovation and sustainability, its competitive pricing schemes and commitment to its projects even after sales, it will be able to compete effectively.

ALCO considers two (2) direct competition in the high-end residential market segment in terms of relative quality of development and pricing of products – Ayala Land, Inc. and Rockwell Land Corporation. These companies have been in the business many years earlier than ALCO and therefore, have stronger brand equity, longer track record, and financial mileage. In the office development front, ALCO competes with both large and medium-scale developers such as Ayala Land, Inc., The Net Group, Daiichi Properties, and other local developers, particularly in Cebu City. These companies are considered to have the greater share of the market at the moment.

ALCO intends to primarily capitalize on its niche market of true sustainable developments and doing projects which are unique and special in terms of design, sustainable features, and distinct locations. ALCO believes that it has started the grounds well in sustainable and luxurious projects being the first company to have a LEED and BERDE-registered residential project in the country, and intends to continue to provide distinguishing products with better quality at more competitive pricing. ALCO knows it can achieve this given its far less overhead costs, being a relatively leaner organization.

**e. Industry Risk**

The property development sector is cyclical and is subjected to the Philippine economic, political and business performance. The industry is dependent primarily on consumer spending for housing. In the past years, a significant portion of housing demand is being driven by purchases from the overseas workers' market. This exposes the industry to the economic performance of foreign countries of the overseas workers such as the United States, the Middle East and countries in Europe.

The office market has been largely driven by the BPO sector which caters largely to US and European customers. It is important to note that while the US and Europe remain to be the largest client-base contributors to the country's information technology and business process management (IT-BPM) sector, the industry is currently moving to high value and high potential markets in Australia, New Zealand and other neighboring countries in the region. Other than voice-based offshore services, the IT-BPM industry is also gearing towards high-value knowledge-based services including financial, legal, medical, architectural and animation sectors.

The BPO industry, organized under the IT-Business Process Association of the Philippines (IBPAP), comprises primarily of contact centers, back office operations and medical transcription, among others. The BPO industry has been experiencing



phenomenal growth since the mid-2000. In 2008-2009, however, demand for BPO office space dropped as a result of the global recession which led to a glut in office space and a reduction in rental rates. The industry saw a recovery in 2010 as BPO offices resumed their expansion plans which brought an upward adjustment in rental rates. The fast paced growth of this industry in the past five years as well as its prospects for the next five to ten years in Metro Manila and other emerging cities across the Philippines have become the major drivers of growth in the office sector of the property industry. The absorption rate of newly built office buildings in major central business districts and key cities remain high because of the requirements of these BPO companies.

Overall, the industry and necessarily, ALCO and its subsidiaries contend with risks relating to volatility in overseas remittances, interest rates, credit availability, foreign exchange, political developments, costs and supply of construction materials, wages, and changes in national and local laws and regulations governing Philippine real estate and investments. ALCO and its subsidiaries are sensitive (i) to the political and security situations of the country since its sales comes from both foreign and local investors, and (ii) to the performance of overseas remittances and the BPO sectors as these inflows find their way into investments in housing and other real estates.

ALCO has a very rigid credit approval system to ensure that its buyers are financially capable of meeting their payment schedules. It has a committee which evaluates credit worthiness of prospective buyers and regularly monitors the economic performance of the country and global players through internal research and consultations with its property consultants to be able to timely adjust policies on pricing, payment schemes and timing of new project launches.

**f. Sources and availability of raw materials**

Generally, construction of ALCO's project/s is awarded to qualified reputable construction firms subject to a bidding process and Management's evaluation of contractors' qualifications and satisfactory working relationships. Construction materials, primarily cement and rebars, are normally provided by the contractors as part of their engagement. However, ALCO has the right and may opt to do away with bidding construction projects and/or to procure owner-supplied construction materials, should Management find the same to be more cost-effective for its projects.

**g. Advances to Related Parties**

In the regular conduct of business, ALCO, its subsidiaries and other related companies enter into intercompany transactions, primarily advances necessary to carry out their respective functions subject to liquidation and reimbursements for expenses. ALCO ensures that while these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks, they are fair and treated at arm's length.

Intercompany transactions between and among ALCO, its subsidiaries and related companies are discussed in the Audited Financial Statements hereto attached.

**h. Patents and Trademarks**

ALCO's operations are not dependent on patents, trademarks, copyrights and the like although ALCO sought from the Intellectual Property Office of the Philippines and was granted in 2010 the exclusive use of the tradename, logos and taglines "ArthaLand" and "Arya Residences". It was also granted in the first quarter of 2017 the exclusive use of the tradename and logos for "ArthaLand Century Pacific Tower" as well as "Cebu Exchange".

**i. Government approval for principal products or services**

ALCO secures various government approvals such as Environmental Compliance Certificates (ECCs), development permits and licenses to sell as part of its normal course of business.

ALCO does not foresee any material or adverse effect of existing and probable government regulations on its business.

**j. Cost and Effects of Compliance with Environmental Laws**

ALCO complied with all environmental regulatory requirements for both the pre-construction and operational phases of its projects Arya Residences, ArthaLand Century Pacific Tower and Cebu Exchange, and paid for the imposed dues.

ALCO goes beyond the mandatory environmental framework, being a member and supporter of the USGBC and the PHILGBC.

ALCO will definitely be obtaining the requisite government approvals for its subsequent projects based on the projects' timetable for development and pre-selling.

**k. Employees**

As of 31 December 2017, ALCO has a total of 79 personnel, 35 of whom are in management and 44 are non-managers<sup>4</sup>. As of the same period, ALCO also engaged 38 sales agents.

None of the above personnel is covered by a collective bargaining agreement.

It cannot be determined whether additional employees will be hired for the succeeding year but the same will be closely aligned with ALCO's actual and programmed growth.

**l. Working Capital**

In general, ALCO finances its projects through internally generated funds, loans from banks and sometimes, support from its major shareholders, such as the non-interest bearing loans obtained in 2015 from Centrobless Corporation<sup>5</sup>, a majority owned subsidiary of Century Pacific Group, Inc., which is the same majority shareholder of

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<sup>4</sup> These employees do clerical, administrative and operational day to day tasks, are given directives and do not have any authority to make decisions for the company.

<sup>5</sup> The loan amounting to ₱1,650,643,779.00 has a maturity date of 31 December 2018.

CPG, ALCO's largest stockholder at present, and in September 2017 from Signature Office Property, Inc.<sup>6</sup>, which is majority-owned and chaired by ALCO Director Jaime Enrique Y. Gonzalez.

The amount spent on development activities and its percentage vis-à-vis ALCO's revenues during the last two (2) fiscal years are reflected and discussed in ALCO's Audited Financial Statements for the period covered by this Report hereto attached.

## **ITEM 2. Properties**

ALCO, by itself or through special purpose companies abovementioned, has interests in various properties in the country.

ALCO is the registered owner of the 2,233-square meter property (Lot 5 Block 5)<sup>7</sup> along 5<sup>th</sup> Avenue within BGC's E-Square on which ACPT now stands. The building will be mainly leased out to provide a source of recurring income for ALCO.

Cazneau is the registered owner of the eight-hectare property in Biñan City, Laguna on which an integrated community will be established, with the target market for the townhouses, villas and other housing that will be built therein being the students and employees of the various schools in the vicinity, as well as other locators.

CLLC is the owner of the two parcels of adjacent land in Barangay Lahug, Cebu City with a total area of 8,440 square meters. The office building to be known as Cebu Exchange will rise on this property.

MPI was the registered owner of the 6,357-square meter property (Lot 4 Block 1) along McKinley Parkway on which Arya Residences currently stands. This property was conveyed to Arya Residences Condominium Corporation in December 2016 but MPI retained ownership over the commercial units in The Plaza at Arya Residences and a number of non-appurtenant parking slots therein.

UPHI is the registered owner of a 33-hectare raw land<sup>8</sup> located at the junction of the city limits of Tagaytay City and the provincial boundaries of Laguna and Cavite/Batangas. The portion of the property lying within the Tagaytay City limits is nestled along the fairway of Tagaytay Highlands Golf and Country Club. Approximately one hectare of this property was expropriated as discussed in the succeeding Item 3.

Savya purchased two lots in Arca South located in Barangay West Bicutan, Taguig City. These are expected to be turned over by the seller this 2018.

Zileya is the registered owner of various commercial units in Mid-land Mansions Condominium located at 839 A. Arnaiz Avenue, Legazpi Village, 1200 Makati City.

ALCO also has in its portfolio 8.5 hectares in Laurel, Batangas and 1.9 hectares in Tagaytay, but the plans for these properties have yet to be determined at this time.

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<sup>6</sup> This loan amounting to ₱207,051,912.00 also has a maturity date of 31 December 2018.

<sup>7</sup> In 2016, ALCO adopted the fair value model of accounting for investment properties restating this property from cost to fair value at ₱1.66 billion.

<sup>8</sup> This property is presented in 2017 at fair value amounting to ₱464.48MM.

### Operating Lease Commitments as Lessee

ALCO is a lessee under non-cancellable operating leases covering office space with a term of three years and three months subject to renewal options and provisions for escalation.

The future minimum rental payables under these non-cancellable operating leases are as follows:

	2017	2016	2015
Within one (1) year	<b>P 10,333,726</b>	P 16,140,214	P 9,255,935
After one (1) year but not more than five years	<b>46,766,678</b>	18,600,665	29,784,662
	<b>P 57,100,404</b>	P 34,740,879	P39,040,597

The total rental expense recognized from these operating leases amounted to P13.9MM., P10.40MM and P10.50MM in 2017, 2016 and 2015, respectively<sup>9</sup>.

### Operating Lease Commitments as Lessor

In 2017, ALCO entered into various lease agreements for ACPT for periods ranging from five (5) years to ten (10) years. All lease agreements include an annual escalation clause of 5%. However, the lease contracts do not provide for any contingent rent.

In addition, MPI has existing various lease agreements for its retail units in The Plaza at Arya Residences with terms ranging from two to five years. The agreements also provide for various escalation rates for the duration of the lease. Accrued rent receivables amounted to P21.0MM and P8.1MM as at 31 December 2017 and 2016, respectively. Advance rent from tenants amounted to P10.8MM and P2.0MM as at 31 December 2017 and 2016, respectively.

Security deposits received from tenants amounted to P17.0MM and P2.8MM as at 31 December 2017 and 2016, respectively.

## **ITEM 3. Legal Proceedings**

As of the date of this Report, with the exception of the following cases, neither ALCO nor any of its subsidiaries is a party to any legal action arising from the ordinary course of its respective businesses:

### **1. Termination of Trust Account**

In February 2015, ALCO filed a claim before the Regional Trial Court of Makati City, Branch 149 in relation to the petition for liquidation of Export and Industry Bank represented by the Philippine Deposit Insurance Corporation (PDIC). ALCO maintained a Trust Account with the bank prior to its closure in April 2012 and had demanded from PDIC the termination of said account and the release of the owner's duplicate copies of three transfer certificates of title which had been placed in the custody of the bank's Trust Department. ALCO does not have any interest in the

<sup>9</sup> This is discussed in Note 21 of ALCO's Audited Financial Statements for the period covered by this Report.

remaining assets of the bank to be liquidated, but it was constrained to make this claim before the liquidation court given that PDIC refused to act on the matter.

## **2. Quieting of Title**

UPHI filed a complaint for quieting of title, among other reliefs, before the Regional Trial Court of Calamba, Laguna, Branch 36 because of the erroneous issuance of tax declarations by the City of Tagaytay covering UPHI's 33-hectare property. Trial is ongoing with the City of Tagaytay presenting its evidence.

## **3. Expropriation**

Petitioner National Power Corporation (NAPOCOR) filed in November 1995 before the Regional Trial Court of Calamba, Laguna, Branch 34, a Petition for Expropriation of Properties to be affected by the Tayabas-Dasmariñas 500 kV transmission line right, which included a portion of UPHI's property with an area of about one (1) hectare. The court issued a Writ of Possession in favor of NAPOCOR in 1996.

In July 1999, NAPOCOR and UPHI agreed to refer the determination of just compensation for UPHI to commissioners. UPHI did not question the propriety of expropriation any further but continued to participate in the proceedings having found NAPOCOR's valuation unreasonable and to enable it to submit evidence as and when the commissioners required the same. The matter was eventually elevated before the Court of Appeals in 2015 and is still pending resolution to date.

## **4. Claim for Refund**

- a. A buyer<sup>10</sup> offered to purchase a unit in Arya Residences, paid the reservation fee and signed the Reservation Agreement, which reads, in part, that should the buyer "fail to pay any of the amounts due xxx, the Seller shall have the sole option to (i) cancel the sale and forfeit in its favor all payments made xxx." A total of ₱950,000.00 was paid in a span of less than one (1) year and the buyer defaulted in the rest of the obligations. The sale was, therefore, cancelled accordingly. The buyer demanded a refund of all payments made by filing a complaint before the Housing and Land Use Regulatory Board (HLURB) on May 2017, as well attorney's and appearance fees.

In a Decision dated 19 January 2018, the HLURB dismissed the complaint for lack of merit, primarily because of Republic Act No. 6552, otherwise known as the "Realty Installment Buyer Protection Act", for a buyer to be entitled to refund, he or she must have paid at least two (2) years of installments, and even then, only the cash surrender value of the payments shall be refunded, which is equivalent to 50% of the total payments made.

- b. Another buyer<sup>11</sup> offered to purchase a unit in Arya Residences in November 2012, paid the reservation fee but failed to pay the final amortization and other charges which became due in January 2014 on the ground that a viewing of the unit was not allowed beforehand, notwithstanding that pursuant to the Contract

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<sup>10</sup> The complainant is Ms. Bernadette Villaseñor.

<sup>11</sup> The complainant is Ms. Anita Medina-Yu.

to Sell signed, full payment of the account is required prior to turnover of the unit. A viewing of the unit is not scheduled until the account is fully paid since inspection is the initial step of the turnover process. All buyers of Arya Residences were treated in the same manner.

In November 2017, the buyer filed a complaint before the HLURB and demanded the return of all payments made in a span of one (1) year amounting to P942,718.53.

Both parties having submitted their respective Position Paper, the complaint is now submitted for decision.

## **5. Labor**

- a. In an Order dated on 03 July 2017, the Department of Labor and Employment (DOLE) found ALCO non-compliant with certain labor standards per Rules 1020, 1030, 1040, 1050 and 1065. Records, however, show that ALCO is in fact compliant. A Memorandum of Appeal was filed in October 2017 because serious errors in the finding of facts were committed by DOLE which, if not corrected, would cause grave or irreparable damage or injury to ALCO. Among the reliefs sought are the recall of the Order for Compliance and a finding that ALCO is fully compliant with labor laws and occupational health and safety standards. As of the date of this Report, there is no resolution to the Appeal.
- b. In an Order dated 29 November 2017, the DOLE found that ALCO did not comply and failed to effect corrective actions on noted deficiencies per Rules 1050, 1060 and 1065 within the period prescribed by the Labor Laws Compliance Officer. A Memorandum of Appeal was filed in February 2018 seeking, among others, the recall of the Order for Compliance and a finding that ALCO is fully compliant. ALCO did institute corrective measures and in fact completed the noted deficiencies prior to the issuance of the Order for Compliance. As of the date of this Report, there is no resolution to the Appeal.

The potential effect of the foregoing cases on the financial statements of ALCO and its subsidiaries cannot be determined at the moment. However, it is believed that the effect thereof, if there is any, is not significant.

## **ITEM 4. Submission of Matters to a Vote of Security Holders**

With the exception of the election of the members of the Board of Directors for the year 2017-2018 to hold office as such and until their respective successors are duly nominated, elected and qualified, there was no matter submitted to a vote of its stockholders during the Annual Stockholders' Meeting held on 30 June 2017.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### ITEM 5. Market for Issuer’s Common Equity and Related Stockholder Matters

#### a. Market Information

Only the Common shares and the Preferred shares Series B of ALCO are traded in the Philippine Stock Exchange.

The following are the highlights of quarterly trading:

	2018			2017			2016		
Quarter	High	Low	Close	High	Low	Close	High	Low	Close
1	0.86	0.84	0.86	1.28	1.24	1.24	0.25	0.23	0.23
2	- 0 -	- 0 -	- 0 -	1.22	1.12	1.17	0.295	0.29	0.29
3	- 0 -	- 0 -	- 0 -	1.06	1.03	1.04	0.275	0.265	0.265
4	- 0 -	- 0 -	- 0 -	0.90	0.87	0.90	0.43	0.40	0.40

#### b. Security Holders

The total shares issued and outstanding are as follows:

Common	-	5,318,095,199
Preferred Series A	-	12,500,000
Preferred Series B	-	20,000,000.

As of 31 December 2017, the number of shareholders of record is as follows:

Common	-	1,971
Preferred Series A	-	1
Preferred Series B	-	7.

ALCO’s public ownership percentage as of said period is 25.864%.

Article Seventh of ALCO’s Articles of Incorporation provides that ALCO’s shares of stock are not subject to pre-emptive rights of the stockholders and may therefore be issued in such quantities at such times and with such features as the Board of Directors may determine and prescribe provided, that the Preferred shares shall be redeemable, non-voting and non-participating. Article Tenth further provides that no issuance or transfer of shares of stock shall be allowed if it will reduce the ownership of Filipino citizens to less than the percentage required by law.

ALCO’s top 20 stockholders of Common shares as of 31 December 2017 are as follows:

Name of Shareholders	No. of Shares	%
1. CPG Holdings, Inc.	2,017,619,910	37.938
2. AO Capital Holdings I, Inc.	1,383,730,000	26.019
3. PCD Nominee Corporation – Filipino	1,278,467,307	24.040
4. Edimax Investment Limited	296,460,000	5.575



5. Elite Holdings, Inc.	119,809,996	2.253
6. PCD Nominee Corporation – Non-Filipino	87,808,218	1.651
7. Tina Keng	25,000,000	0.470
8. EQL Properties, Inc.	14,671,125	0.276
9. Urban Bank Trust Department – A/C No. 625	4,838,488	0.091
10. RBL Fishing Corporation	4,350,000	0.082
11. Veronica D. Reyes	3,799,272	0.071
12. Veronica D. Reyes and/or Cecilia D. Reyes	2,654,061	0.050
13. Theodore G. Huang and/or Corazon B. Huang	2,501,250	0.047
14. Anito Tan and/or Lita Tan	2,027,049	0.038
15. Lourdes D. Dizon	1,740,000	0.033
16. Kwan Yan Dee and/or Christina Dee	1,631,250	0.031
17. Dante Garcia Santos	1,631,250	0.031
18. Luciano H. Tan	1,505,950	0.028
19. Samuel Uy	1,087,500	0.020
20. Datacom Systems Corp.	1,004,394	0.019
<b>TOTAL</b>	<b>5,252,337,020</b>	<b>98.763</b>

The sole shareholder of the Preferred shares Series A is MPI, a wholly-owned subsidiary of ALCO.

ALCO's top stockholders of Preferred shares Series B as of 31 December 2017 are as follows:

<b>Name of Shareholders</b>	<b>No. of Shares</b>	<b>%</b>
1. PCD Nominee Corporation – Filipino	19,583,840	97.919
2. PCD Nominee Corporation – Non-Filipino	180,060	0.900
3. Dominic G. Hing	114,000	0.570
4. Antonio T. Chua	35,100	0.176
5. Chiong Ching G. Ping and/or Maria Gracia J. Tan	29,000	0.145
6. Chiong Ching Go Ping and/or Chiong Bio Go Ching	29,000	0.145
7. Ching Bun Teng Tiu and/or Chiong Ching Go Ping and/or Ongking Giovanna Joy Tan	29,000	0.145
<b>TOTAL</b>	<b>20,000,000</b>	<b>100.000</b>

### c. Dividends

ALCO declared cash dividends to Common stockholders, as follows:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount</u>
28 June 2013	26 July 2013	22 August 2013	₱0.012/common share
10 March 2014	28 March 2014	22 April 2014	₱0.036/common share
09 March 2015	23 March 2015	08 April 2015	₱0.012/common share
28 February 2017	14 March 2017	07 April 2017	₱0.012/common share
21 March 2018	06 April 2018	02 May 2018	₱0.012/common share

ALCO declared cash dividends to holders of Preferred shares Series B, as follows:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount</u>
08 February 2017	24 February 2017	06 March 2017	₱1.76145/Series B share
10 May 2017	25 May 2017	06 June 2017	₱1.76145/Series B share
09 August 2017	23 August 2017	06 September 2017	₱1.76145/Series B share
26 October 2017	24 November 2017	06 December 2017	₱1.76145/Series B share
10 January 2018	09 February 2018	06 March 2018	₱1.76145/Series B share

No dividends were declared in 2016.

Whether ALCO still plans to declare dividends within the next twelve (12) months is uncertain but the same shall always be subject to Section 2, Article VII of ALCO's By-laws which provides, as follows:

“Dividends shall be declared from the unrestricted retained earnings of the Corporation, including stock dividends from paid-in surplus, at such time and in such amounts as the Board of Directors may determine. Dividend declarations shall not in any manner reduce the paid-in capital of the Corporation. Unless otherwise resolved by the Board of Directors, a fraction of one-half or more of a share owing to a stockholder resulting from a declaration of stock dividends shall be issued as one full share, while a fraction of less than one-half share shall be disregarded.

“Declaration of stock dividends shall be submitted to a stockholders' meeting for approval within forty (40) business days from such approval by the Board of Directors. The record date for stock dividends shall not be earlier than the date of approval by the stockholders.

“Declaration of cash dividends shall have a record date which shall not be less than ten (10) business days but not more than thirty (30) business days from the date of declaration by the Board of Directors.”

**d. Recent Sales of Unregistered or Exempt Securities**

There are no recent sales of unregistered or exempt shares of ALCO.

**ITEM 6. Management's Discussion and Analysis or Plan of Operation**

**FINANCIAL POSITION**

**31 December 2017 vs. 31 December 2016**

	<b><u>31 Dec 2017</u></b>	<b><u>31 Dec 2016</u></b>	<b><u>Change</u></b>
Cash and cash equivalents	<b>₱721,795,236</b>	990,742,203	-27%
Financial assets at fair value through profit or loss (FVPL)	<b>387,879,631</b>	2,050,075,279	-81%
Trade and other receivables	<b>186,274,230</b>	301,089,586	-38%
Real estate for sale	<b>2,646,731,618</b>	1,722,192,699	54%
Creditable withholding taxes (CWT)	<b>253,188,078</b>	243,216,792	4%
Investment properties	<b>6,457,315,253</b>	4,534,143,705	42%
Property and equipment	<b>39,743,166</b>	20,071,668	98%
Deferred tax assets	<b>61,212,233</b>	15,282,811	301%
Other assets	<b>492,672,321</b>	184,828,088	167%
Total Assets	<b>₱11,246,811,766</b>	10,061,642,831	12%
Loans payable	<b>₱4,268,892,416</b>	3,111,038,703	37%

Accounts payable and other liabilities	<b>824,456,920</b>	899,207,290	-8%
Due to a related party	<b>286,666,691</b>	249,789,836	15%
Retirement liability	<b>50,668,546</b>	47,244,365	7%
Net deferred tax liabilities	<b>752,508,368</b>	644,775,603	17%
Total Liabilities	<b>6,183,192,941</b>	4,952,055,797	25%
Capital stock	<b>989,757,136</b>	989,757,136	0%
Additional paid-in capital	<b>2,031,441,541</b>	2,031,441,541	0%
Retained earnings	<b>2,085,398,501</b>	2,098,281,063	-1%
Cumulative re-measurement gains on retirement liability – net of tax	<b>7,448,391</b>	3,022,025	146%
Parent Company's shares held by a subsidiary	<b>(12,500,000)</b>	(12,500,000)	0%
Total equity attributable to the Parent Company	<b>5,101,545,569</b>	5,110,001,765	-0.2%
Non-controlling interest	<b>(37,926,744)</b>	(414,731)	-9045%
Total Equity	<b>5,063,618,825</b>	5,109,587,034	-1%
Total Liabilities And Equity	<b>₱11,246,811,766</b>	10,061,642,831	12%

ALCO's total resources as of 31 December 2017 was at ₱11.25 billion, or about 12% higher than the 31 December 2016 level of ₱10.06 billion due to the following:

*27% Decrease in Cash and Cash Equivalents*

The decrease was due to normal operating and project related disbursements including final payment of Cebu property.

*81% Decrease in Financial Assets at Fair Value through Profit or Loss (FVPL)*

The reduction was due to partial termination of money market placements which were subsequently used to fund property acquisition and the on-going projects of the group.

*38% Decrease in Trade and Other Receivables*

The decrease was largely due to collection of maturing accounts, as well as the application of previous advances to contractors against their 2017 progress billings.

*54% Increase in Real Estate for Sale*

The increase was mainly accounted for by the cost of property acquired in Q1 2017 and the on-going development at the Cebu Project.

*42% Increase in Investment Properties*

The increase was largely attributable to the appraisal increment and additional construction costs of ACPT that were recognized and recorded during the year.

*98% Increase in Property and Equipment*

The increase is basically due to the new office and transportation equipment acquired as well as leasehold improvements made during the year.

*301% Increase in Deferred Tax Assets*

This refers to the net operating loss of a subsidiary for the previous and current years which were recognized in full as NOLCO in 2017.

*167% Increase in Other Assets*

The increase was largely accounted for by VAT inputs from the property acquired and advance payments made to suppliers and contractors.

*37% Increase in Loans Payable*

Net increase was attributable to borrowings made during the year to finance the on-going projects particularly for ACPT and Cebu Exchange.

*8% Decrease in Accounts Payable and Other Liabilities*

The net decrease was largely due to payments made to suppliers as well as contractors and the full payment of the Cebu property in Q3 2017.

*15% Increase in Due to a Related Party*

This pertains to additional advances made by shareholders for CLLC.

*7% Increase in Retirement Liability*

The increase was due to additional provisions for the year to comply with the requirements of PAS 19.

*17% Increase in Net Deferred Tax Liabilities*

The increase was directly attributable to the additional gain on change in fair value of investment properties that was recognized during the year.

*146% Increase in Cumulative re-measurement gains (losses) on retirement liability*

The difference represents year-end adjustments on cumulative re-measurement gains on ALCO's retirement liability in compliance with the requirement under PAS 19 using the latest actuarial valuation report.

*9045% Decrease in Non-Controlling Interests*

Significant decrease in non-controlling interest was attributed to pre-income losses incurred in CLLC.

## FINANCIAL POSITION

### 31 December 2016 vs. 31 December 2015

	<b>31 Dec 2016</b>	<b>31 Dec 2015 As Restated</b>	<b>Change</b>
Cash and cash equivalents	990,742,203	604,613,767	64%
Financial assets at fair value through profit or loss (FVPL)	2,050,075,279	732,635,225	180%
Trade and other receivables	301,089,586	1,831,115,193	-84%
Real estate for sale	1,722,192,699	1,558,711,101	10%
Creditable withholding taxes (CWT)	243,216,792	214,119,974	14%
Investment properties	4,534,143,705	2,005,226,322	126%
Property and equipment	20,071,668	17,202,058	17%
Deferred tax assets	15,282,811	32,010	47644%
Other assets	184,828,088	190,629,078	-3%
<b>Total Assets</b>	<b>10,061,642,831</b>	<b>7,154,284,728</b>	<b>41%</b>
Loans payable	3,111,038,703	3,091,768,912	1%

Accounts payable and other liabilities	<b>899,207,291</b>	<b>1,377,927,383</b>	-35%
Due to a related party	<b>249,789,836</b>	-	100%
Retirement liability	<b>47,244,365</b>	<b>40,801,518</b>	16%
Net deferred tax liabilities	<b>644,775,602</b>	<b>352,484,029</b>	83%
<b>Total Liabilities</b>	<b>4,952,055,797</b>	<b>4,862,981,842</b>	2%
Capital stock	<b>989,757,136</b>	<b>957,257,136</b>	3%
Additional paid-in capital	<b>2,031,441,541</b>	<b>75,000,000</b>	2609%
Retained earnings	<b>2,098,281,063</b>	<b>1,258,055,239</b>	67%
Cumulative re-measurement gains on retirement liability – net of tax	<b>3,022,025</b>	<b>990,511</b>	205%
Parent Company's shares held by a subsidiary	<b>(12,500,000)</b>	-	100%
Total equity attributable to the Parent Company	<b>5,110,001,765</b>	<b>2,291,302,886</b>	123%
Non-controlling interest	<b>(414,731)</b>	-	100%
Total Equity	<b>5,109,587,034</b>	<b>2,291,302,886</b>	123%
<b>Total Liabilities And Equity</b>	<b>10,061,642,831</b>	<b>7,154,284,728</b>	41%

ALCO's total resources as of 31 December 2016 was at ₱10.06 billion, or about 41% higher than the 31 December 2015 level of ₱7.15 billion due to the following:

*64% Increase in Cash and Cash Equivalents*

The increase can be attributed to the collection of the prior year's receivables, shareholders' advances in CLLC, as well as down payments from sales of the few remaining unsold units in Arya Residences and from the pre-selling of some units of Cebu Exchange, most of which were invested in short term placements.

*180% Increase in Financial Assets at Fair Value through Profit or Loss (FVPL)*

The significant increase is mainly brought about by proceeds from the Parent Company's ₱2.0 billion Series B Preferred shares issuance in December 2016, which are invested in money market placements pending actual use.

*84% Decrease in Trade and Other Receivables*

The decrease can be largely attributed to the 2015 trade receivable balances which had matured and were collected in 2016 as well as the application of previous advances to contractors against their 2016 progress billings.

*10% Increase in Real Estate for Sale*

The increase is basically accounted for by the additional investments made and paid by ALCO during the year for its other ongoing projects.

*14% Increase in Creditable Withholding Taxes*

The additional creditable withholding taxes were attributable to the collections of receivables both from prior and current years' sales of Arya Residences units.

*126% Increase in Investment Properties*

The significant increase was brought about by the adoption of fair value accounting for the Group's investment properties which included restatement prior years' balances.

*17% Increase in Property and Equipment*

The increase is basically due to the acquisition of new office machinery, furniture and fixtures, and transportation equipment.

*47644% Increase in Deferred Tax Assets*

This refers to the net operating loss of a subsidiary for the previous and current years which were recognized in full as NOLCO in 2016.

*35% Decrease in Accounts Payable and Other Liabilities*

The decrease is accounted for by payments made to the different contractors and suppliers of the Group, among others.

*100% Increase in Due to a Related Party*

The increase is due to the advances made by a shareholder to CLLC as previously mentioned in the discussion for Cash and Cash equivalent.

*16% Increase in Retirement Liability*

The increase is due to additional provisions for the year to comply with the requirements of PAS 19, as supported by the latest independent third party actuarial valuation report.

*83% Increase in Net Deferred Tax Liabilities*

The increment is attributable to this year's gain on change in fair value of investment properties.

*2609% Increase in Additional paid-in capital*

This is largely accounted for by the additional or over par payments made by subscribers to the Series B Preferred shares issuance last December 2016.

*67% Increase in Retained Earnings*

The consolidated net income of the Group for the year contributed to the increase in this year's reported retained earnings.

*205% Increase in Cumulative remeasurement gains (losses) on retirement liability*

The difference represents year-end adjustments on cumulative re-measurement gains on ALCO's retirement liability in compliance with the requirement under PAS 19 using the latest actuarial valuation report.

*100% Increase in Parent Company's Shares Held by a Subsidiary*

This represents a subsidiary's subscription to the Series A Preferred shares issued by the Parent company in 2016.

*100% Increase in Non-controlling Interest*

This represents the 40% share of a third party shareholder in CLLC's net equity for 2016.

## **FINANCIAL POSITION**

### **31 December 2015 vs. 31 December 2014**

	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>	<b>Change</b>
Cash and cash equivalents	<b>604,613,082</b>	834,733,453	-28%

Financial assets at fair value through profit or loss (FVPL)	<b>732,635,225</b>	272,072,660	169%
Trade and other receivables	<b>1,831,115,193</b>	1,946,089,269	-6%
Real estate for sale	<b>1,550,936,177</b>	713,026,538	118%
Investment properties	<b>1,391,323,861</b>	1,367,498,286	2%
Property and equipment	<b>17,202,058</b>	28,597,607	-40%
Net deferred tax assets	<b>12,382,953</b>	11,839,572	5%
Other assets	<b>403,208,031</b>	372,057,900	8%
Total Assets	<b>6,543,416,580</b>	5,545,915,285	18%
Loans payable	<b>3,091,768,912</b>	2,765,827,162	12%
Accounts payable and other liabilities	<b>1,368,361,438</b>	880,784,527	55%
Retirement liability	<b>40,801,518</b>	33,672,130	21%
Net deferred tax liabilities	<b>180,664,234</b>	167,026,381	8%
Total Liabilities	<b>4,681,596,102</b>	3,847,310,200	22%
Capital stock	<b>957,257,136</b>	955,107,136	0%
Additional paid-in capital	<b>75,000,000</b>	75,000,000	0%
Retained earnings	<b>828,572,831</b>	668,555,690	24%
Accumulated unrealized actuarial gains (losses)	<b>990,511</b>	(57,741)	1815%
Total Equity	<b>1,861,820,478</b>	1,698,605,085	10%
Total Liabilities And Equity	<b>6,543,416,580</b>	5,545,915,285	18%

ALCO's total resources as of 31 December 2015 was at ₱6.50 billion, or about 18% higher than the 31 December 2014 level of ₱5.50 billion due to the following:

*28% Decrease in Cash and Cash Equivalents*

The decrease was due to temporary placements of excess cash in higher yielding bank deposits, presented in the financial statements as Financial assets at fair value through profit or loss (FVPL).

*169% Increase in Financial Assets at Fair Value through Profit or Loss (FVPL)*

The increase was due to additional short-term placement of excess cash.

*6% Decrease Trade and Other Receivables*

The decrease was due to collection of maturing accounts.

*118% Increase in Real Estate for Sale*

The significant increase was mainly due to the acquisition cost of a land in Cebu City.

*40% Decrease in Property and Equipment*

The decrease was mainly due to the full depreciation of the Arya Residences Sales Pavilion in 2015.

*8% Increase in Other Assets*

The increase is primarily due to additional creditable withholding taxes and investments in long-term time deposits with certain local banks.



*12% Increase in Loans Payable*

The increase was mainly due to a loan obtained to partially fund the construction of ArthaLand Century Pacific Tower.

*55% Increase in Accounts Payable and Other Liabilities*

The significant increase represents remaining payable to the landowner of the Cebu real property acquired during the year.

*21% Increase in Retirement Liability*

The increase is due to additional provisions for the year to comply with the requirements of PAS 19 and the latest actuarial valuation report for ALCO.

*8% Increase in Net Deferred Tax Liabilities*

The change was mainly due from increase in Other Income.

*24% Increase in Retained Earnings*

The increase was due to the Net income for the year.

*1815% Increase in Accumulated Unrealized Actuarial Gains*

This is a result of year-end adjustment to comply with the requirements of PAS 19 and latest actuarial valuation report for ALCO.

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## RESULTS OF OPERATIONS

### 31 December 2017 vs. 31 December 2016

	<u>31 Dec 2017</u>	<u>31 Dec 2016</u>	<u>Change</u>
Revenues	<b>₱463,538,594</b>	451,075,061	3%
Cost of sales and services	<b>328,509,674</b>	393,674,538	-17%
Gross income	<b>135,028,920</b>	57,400,523	135%
Administrative expenses	<b>278,065,313</b>	298,360,928	-7%
Selling and marketing expenses	<b>48,493,636</b>	66,767,530	-27%
Operating expenses	<b>326,558,949</b>	365,128,458	-11%
Income (loss) from operations	<b>(191,530,029)</b>	(307,727,935)	-38%
Gain on change in fair value of investment properties	<b>428,390,699</b>	1,417,865,206	-70%
Finance costs	<b>(80,663,240)</b>	(80,348,345)	0%
Other income – Net	<b>67,443,318</b>	147,643,198	-54%
Income before income tax	<b>223,640,748</b>	1,177,432,124	-81%
Income tax expense	<b>85,240,763</b>	355,015,749	-76%
Net income	<b>138,399,985</b>	822,416,375	-83%
Other comprehensive income			
Change in actuarial gain - Net of tax	<b>4,426,366</b>	2,031,514	118%
Total comprehensive income	<b>142,826,351</b>	824,447,889	-83%

## Results of Operations for the year ended 31 December 2017 compared to the year ended 31 December 2016.

### *17% Decrease in Cost of Sales and Services*

The decrease in cost of sales was due to the decrease in revenues from sales of the few remaining units in Tower 2.

### *7% Decrease in Administrative Expenses*

The decline was attributable to less manpower related cost, taxes and licenses, insurance premium and utility expenses paid during the year.

### *27% Decrease in Selling and Marketing Expenses*

The decrease was mainly attributable to lower commission expenses and lesser marketing efforts in 2017 as compared to previous year.

### *70% Decrease in Gain on Change in Fair Value of Investment Properties*

The decrease was due to first time adoption of fair valuation for investment properties in 2016 and thus substantial appraisal gain was recognized in previous year as compared to current year.

### *54% Decrease in Other Income – Net*

The decrease was attributable to the “Day 1 Gain” on a larger loan acquired in 2016 as compared to 2017.

### *76% Decrease in Income Tax Expense*

The decrease is attributable to the tax effect of gain on change in fair value of investment properties in 2016.

### *118% Increase in Change in Actuarial Gain – Net of tax*

This is a result of year-end adjustment to comply with the requirements of PAS 19 based on the latest actuarial valuation report.

## RESULTS OF OPERATIONS

### 31 December 2016 vs. 31 December 2015

	<b>31 Dec 2016</b>	<b>31 Dec 2015 As Restated</b>	<b>Change</b>
Revenues	<b>451,075,061</b>	1,587,578,861	-72%
Cost of sales and services	<b>393,674,538</b>	1,043,700,643	-62%
Gross income	<b>57,400,523</b>	543,878,218	-89%
Administrative expenses	<b>298,360,928</b>	244,806,979	22%
Selling and marketing expenses	<b>66,767,530</b>	69,323,793	-4%
Operating expenses	<b>365,128,458</b>	314,130,772	16%
Income (loss) from operations	<b>(307,727,935)</b>	229,747,446	-234%
Gain on change in fair value of investment properties	<b>1,417,865,206</b>	33,495,000	4133%
Finance costs	<b>(80,348,345)</b>	(40,566,579)	98%
Other income - Net	<b>147,643,198</b>	122,372,763	21%
Income before income tax	<b>1,177,432,124</b>	345,048,630	241%

Income tax expense	<b>355,015,749</b>	98,017,162	262%
Net income	<b>822,416,375</b>	247,031,468	233%
Other comprehensive income			
Change in actuarial gain - Net of tax	<b>2,031,514</b>	1,048,252	94%
Total comprehensive income	<b>824,447,889</b>	248,079,720	232%

## Results of Operations for the year ended 31 December 2016 compared to the year ended 31 December 2015.

### *72% Decrease in Revenue*

Lesser revenue was recognized inasmuch as there were very few remaining units left for sale in 2016 as compared to the previous year.

### *62% Decrease in Cost of Sales and Services*

The decrease in cost of sales is directly related to the decrease in revenues mentioned in the foregoing.

### *22% Increase in Administrative Expenses*

The increase is basically attributable to documentation and other expenses incurred during the year in relation to the turnover and titling of fully paid units in Arya Residences Towers 1 and 2.

### *4133% Increase in Gain on Change in Fair Value of Investment Properties*

The significant increase is due to the Group's adoption of fair value model of accounting for investment properties which also resulted in the restatement of prior years' reports.

### *98% Increase in Finance Costs*

The increase is due to amortization of "Day 1" gain on loan discounting.

### *21% Increase in Other Income – Net*

The increase is largely accounted for by income from forfeited collections.

### *262% Increase in Income Tax Expense*

The substantial increase is attributable to the tax effect of gain on change in fair value of investment properties.

### *94% Increase in Change in Actuarial Gain – Net of tax*

This is a result of year-end adjustment to comply with the requirements of PAS 19 based on the latest actuarial valuation report.

## RESULTS OF OPERATIONS 31 December 2015 vs. 31 December 2014

	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>	<b>Change</b>
Revenue from real estate sales	<b>1,584,016,397</b>	2,053,012,855	-23%
Cost of real estate sold	<b>1,043,700,643</b>	1,216,469,030	-14%
Gross income	<b>540,315,754</b>	836,543,825	-35%
Administrative expenses	<b>244,556,979</b>	289,460,170	-16%

Selling and marketing expenses	<b>69,323,793</b>	76,377,533	-9%
Operating expenses	<b>313,880,772</b>	365,837,703	-14%
Income from operations	<b>226,434,982</b>	470,706,122	-52%
Finance costs	<b>-40,566,579</b>	-75,914,834	-47%
Other income - Net	<b>125,934,371</b>	24,068,982	423%
Income before income tax	<b>311,802,774</b>	418,860,270	-26%
Income tax expense	<b>87,968,491</b>	215,105,595	-59%
Net income	<b>223,834,283</b>	203,754,675	10%
Other comprehensive income			
Change in actuarial gain (loss) - Net of tax	<b>1,048,252</b>	-2,114,558	150%
Total comprehensive income	<b>224,882,535</b>	201,640,117	12%

**Results of Operations for the year ended 31 December 2015 compared to the year ended 31 December 2014.**

*23% Decrease in Revenue from Real Estate Sales*

Balance for 2015 represents the remaining unrecognized revenues from Arya Residences. Substantial portions of sales from the said project were already recognized in prior years.

*14% Decrease in Cost of Real Estate Sold*

The resulting cost of real estate sold recognized for the current year applies to said remaining unrecognized revenues.

*16% Decrease in Administrative Expenses*

The decline in administrative expenses was mainly due to lower business taxes and decreased rental, depreciation and utility expenses caused by the retirement of the Arya Residences Sales Pavilion.

*9% Decrease in Selling and Marketing Expenses*

The decrease was mainly attributable to lower commission expenses during the year.

*47% Decrease in Finance Costs*

Lower interest expense was due to decreased bank loan balance in 2015 as compared with the previous year.

*423% Increase in Other Income – Net*

The other income for the current year includes a one-time gain resulting from the accounting treatment requiring a discounting of a non-interest bearing loan.

*59% Decrease in Income Tax Expense*

The decrease was due to lower financial tax base for the year as compared to 2014.

*150% Increase in Change in Actuarial Gain (loss) - Net of tax*

This is a result of year-end adjustment to comply with the requirements of PAS 19 and the latest actuarial valuation report for ALCO.

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## FINANCIAL RATIO

	December 2017	December 2016	December 2015
Current/Liquidity Ratio (Current Assets over Current Liabilities)	<b>1.55:1</b>	<b>3.08:1</b>	3.27:1
Solvency Ratio (Net income [Loss] before depreciation over total liabilities)	<b>0.02:1</b>	<b>0.17:1</b>	0.05:1
Debt-to-equity Ratio (Total debt to total equity)	<b>1.22:1</b>	<b>0.97:1</b>	2.12:1
Debt-to-equity (Interest-bearing) Ratio (Interest-bearing debt to total equity)	<b>0.52:1</b>	<b>0.31:1</b>	1.03:1
Asset-to-equity Ratio (Total assets over total equity)	<b>2.22:1</b>	<b>1.97:1</b>	3.12:1
Interest Rate Coverage Ratio (Pre-tax income before Interest over interest expense)	<b>3.87:1</b>	<b>15.80:1</b>	9.69:1
Profitability Ratio (Net income over total equity)	<b>0.03:1</b>	<b>0.16:1</b>	0.11:1

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations and other relationship of the company with unconsolidated entities or other persons created during the reporting period.

Except as otherwise disclosed separately and excluding those projects already in ALCO's pipeline as outlined in this Report, there are no other material commitments for capital expenditures as of the period covered by this Report.

There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenue or income from continuing operations.

There is no foreseen event that will cause a material change in the relationship between costs and revenues.

## ITEM 7. Financial Statements

ALCO's consolidated financial statements for the period ended as of 31 December 2017 were audited by Reyes Tacandong & Co., the details of which are stated below:

Accountant	:	Reyes Tacandong & Co.
Mailing Address	:	26/F Citibank Tower 8741 Paseo de Roxas, Makati City 1226
Certifying Partner	:	Ms. Michelle R. Mendoza-Cruz
C.P.A. Reg. No.	:	97380
TIN No.	:	201-892-183-000

PTR No.	:	6607962 issued on 03 January 2018 at Makati City
SEC Accreditation No.	:	Partner – No. 1499-A Group A (Valid until 31 August 2018)
BIR Accreditation No.	:	08-005144-12-2017 (Valid until 08 March 2020)

ALCO's consolidated financial statements for the period ended as of 31 December 2017 is incorporated herein by reference and hereto attached.

## **ITEM 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Article V of ALCO's By-laws provides, among others, that the External Auditor shall be appointed by its Board of Directors and shall receive such compensation or fee as may be determined by the Chairman or such other officer(s) as the Board of Directors may authorize.

Reyes Tacandong & Co. (RT&Co) was first appointed as ALCO's external auditor in 2012 and remains such to date. Ms. Carolina P. Angeles was the Certifying Partner for the years 2012-2016.

ALCO has not had any disagreement with its external auditor.

### Fees and Other Arrangements

The external auditor's fees are based on the estimated time that would be spent on an engagement and ALCO is charged on the experience level of the professional staff members who will be assigned to work on the engagement and generally, on the complexity of the issues involved and the work to be performed, as well as the special skills required to complete the work.

The audit fees of RT&Co insofar as ALCO is concerned are as follows:

2013	-	₱550,000.00
2014	-	₱750,000.00
2015	-	₱750,000.00
2016	-	₱950,000.00
2017	-	₱1,500,000.00

RT&Co rendered services to ALCO's subsidiaries with the exception of CLLC<sup>12</sup>, and its audit fees are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cazneau Inc.	₱120,000.00	₱100,000.00	₱80,000.00
Emera Property Management, Inc.	₱140,000.00	₱110,000.00	₱90,000.00
Manchesterland Properties, Inc.	₱300,000.00	₱270,000.00	₱180,000.00

<sup>12</sup> The external auditor of CLLC is Isla Lipana & Co., a PwC member firm. Its fees for 2017 and 2016 amount to ₱430,000.00 and ₱300,000.00, respectively, both of which are net of VAT. RT&Co was the external auditor of CLLC in 2015 and its fees amounted to ₱90,000.00, net of VAT.

Savya Land Development Corporation	₱110,000.00	- 0 -	- 0 -
Urban Property Holdings, Inc.	₱110,000.00	₱90,000.00	₱80,000.00
Zileya Land Development Corporation	₱100,000.00	₱80,000.00	₱80,000.00

RT&Co did not charge ALCO for non-audit work for the years 2012, 2013, 2014, 2015 and 2017. In 2016, however, RT&Co charged ALCO for non-audit work in the amount of ₱1.50MM in relation to the public offering of ALCO's Preferred Series B shares.

The foregoing fees are all exclusive of VAT.

## PART III – CONTROL AND COMPENSATION INFORMATION

### ITEM 9. Directors, including Independent Directors, and Executive Officers

#### a. Incumbent Directors and Positions Held/Business Experience for the Past Five (5) Years

<u>Name of Director</u>	<u>Directorship</u>	<u>Date of First Appointment</u>	<u>Age</u>
Ernest K. Cuyegkeng	Non-Executive	21 May 2007	71
Jaime C. Gonzalez	Executive	21 May 2007	72
Jaime Enrique Y. Gonzalez	Non-Executive	24 June 2011	41
Christopher Paulus Nicolas T. Po	Non-Executive	24 June 2011	47
Leonardo Arthur T. Po	Executive	01 August 2016	40
Ricardo Gabriel T. Po	Non-Executive	28 March 2012	50
Emmanuel A. Rapadas	Independent	24 June 2016	58
Hans B. Sicat	Independent	30 June 2017	57
Andres B. Sta. Maria	Independent	24 June 2016	69

**Ernest K. Cuyegkeng**, Filipino, is presently the Executive Vice President/Chief Financial Officer and Director of A. Soriano Corporation. His other concurrent positions include being the President and Director of Phelps Dodge Philippines International, and a Director of Seven Seas Resorts & Leisure, Prople, KSA Realty, iPeople, TO Insurance, Sumifru Singapore and Sumifru Philippines. He is also a Trustee of Andres Soriano Foundation and is a member of the Makati Business Club, Management Association of the Philippines and Financial Executive Institute of the Philippines. He holds a Bachelor of Arts degree in Economics and a Bachelor of Science degree in Business Administration, both from the De La Salle University. He also obtained a Masters degree in Business Administration from the Columbia Graduate School of Business in New York.

**Jaime C. González**, Filipino, presently ALCO's Vice Chairman and President, is a graduate of Harvard Business School (MBA) and of De La Salle University in Manila, with degrees in B.A. Economics (*cum laude*) and B.S. Commerce (*cum laude*). Mr. González led the transition of ALCO in 2008 and started the vision of what the company is now. He is also the founder and the Chairman and Chief Executive Officer of AO Capital Partners, a financial and investment advisory firm with headquarters in Hong Kong. He is presently a member of the Board of Directors of a number of companies and is the Chairman of IP E-games Ventures, Inc. which is listed in the Philippine Stock Exchange and is involved in information technology and new media, retail/food and beverage, natural resources, and real estate and resort development. Apart from these,



Mr. González is active in socio-cultural organizations such as the Philippine Map Collectors Society where he is the President, the World Presidents' Organization Philippine Chapter, Harvard Club New York Chapter, Philippine Institute of Certified Public Accountants, and the International Wine and Food Society. He was previously an independent director of Euromoney Institutional Investment PLC (a UK publicly listed media company) and the Southeast Asia Cement Holdings, Inc. (A subsidiary of Lafarge S.A.). He was the Vice Chairman and President of the Philippine International Trading Corporation and at one time, a special trade negotiator of the country's Ministry of Trade. Mr. González was once a partner in SGV & Company with principal focus on assisting clients in establishing or setting up joint venture projects throughout the region.

**Jaime Enrique Y. González**, Filipino, is the founder and currently the CEO of IP Ventures, Inc., a leading venture group that owns businesses that represent large retail brands such as Highlands Coffee, NBA Retail and Western Union. He is also the founder of IPVG Corp., E-games, and IP-Converge, Inc., which all listed on the Philippine Stock Exchange. He is a partner in the Kaikaku Fund (a Softbak-led fund), a venture capital focused on SE Asia, and a shareholder and director of Retail Specialist Inc., the exclusive retailer of Naturalizer and Florsheim brands in the Philippines. Enrique was IT Executive of the Year in 2008 and a finalist for the Ernst & Young Entrepreneur of the Year in 2011. He is also part of the Young Presidents Organization and sits on the Board of Trustees of Asia Society Philippines. He continues to hold the record of being the youngest person to have listed a company on the Philippine Stock Exchange at 27 years old. He has structured profitable exits such as PCCW Teleservices (sold to PCCW of Hong Kong), Prolexic Technologies (sold to Kennet Partners and eventually Akamai for over US\$ 300.0MM), and Level-up Games (sold to Asiasoft). Enrique is a columnist for Philippine Star covering entrepreneurship and business under Business Life section. He is an active evangelist for attracting foreign capital and partners into the Philippines, and has joined state visits under President Gloria Arroyo and most recently, President Rodrigo Duterte's state visit to China. He was instrumental in bringing in China Railway Engineering Corp (CREC), a Fortune 100 company, and Tianjin SULI cable (a Fortune 500 company) into the Philippines. Enrique went to Middlebury College, Asian Institute of Management and Harvard Business School. He is a Kauffman Fellow and part of the Class 21 Batch.

**Christopher Paulus Nicolas T. Po**, Filipino, is the Executive Chairman of Century Pacific Food, Inc., a food company listed in the Philippine Stock Exchange and trading under the symbol CNPF, and he concurrently serves as Chairman of Shakey's Pizza Asia Ventures, Inc., likewise a listed chain restaurant business trading under the symbol PIZZA, and as Chief Executive Officer of Century Pacific Group, Inc. (CPG). Prior to joining CPG, he was Managing Director for Guggenheim Partners, a US financial services firm, where he was in charge of the firm's Hong Kong office. Previously, he was a Management Consultant at McKinsey and Company working with companies in the Asian region. He also worked as the Head of Corporate Planning for JG Summit Holdings, a Philippine-based conglomerate with interests in food, real estate, telecom, airlines, and retail. He graduated *summa cum laude* from Wharton School and College of Engineering of the University of Pennsylvania with dual degrees in Economics (finance concentration) and applied science (system engineering) in 1991. He holds a Master degree in Business Administration from the Harvard University Graduate School of Business Administration. Mr. Christopher Po is a member of the board of

trustees of WWF-Philippines and the President of the CPG-RSPo Foundation.

**Leonardo Arthur T. Po**, Filipino, is concurrently Executive Vice President<sup>13</sup> and Treasurer of ALCO. He is likewise the Treasurer and Director of Century Pacific Food, Inc. and Shakey's Pizza Asia Ventures, Inc. He graduated *magna cum laude* from Boston University with a degree in Business Administration and has extensive and solid business development experience in the consumer marketing, finance and operations of fast moving consumer goods, food service, quick-serve restaurants, and real estate development.

**Ricardo Gabriel T. Po**, Filipino, is currently one of the Vice Chairmen and a Director of Century Pacific Food, Inc., and the Vice Chairman and Director of Shakey's Pizza Asia Ventures, Inc. He graduated *magna cum laude* from Boston University, Massachusetts, USA with a Bachelor of Science degree in Business Management. He also completed the Executive Program (Owner-President Management Program) at Harvard Business School in 2001. From 1990-2006, Ricardo was the Executive Vice President and Chief Operating Officer of the Century Pacific Group of Companies.

**Emmanuel A. Rapadas** is presently the Chief Financial Officer of Torre Lorenzo Development Corporation. He graduated *cum laude* from the University of the East with a Bachelor of Science degree in Accounting and holds a Masters in Business Administration from the Ateneo de Manila University. He has had training from Singapore Institute of Management (Job of the Chief Executive), the University of Asia and the Pacific (Strategic Business Economic Program) and the Institute of Corporate Directors (Independent Directors Certification Program). Prior to joining Torre Lorenzo, Mr. Rapadas was the CFO & Treasurer of Ortigas & Company from 2001 to 2014.

**Hans B. Sicat**, Filipino, has been involved with the global capital market for about three decades, being a trained mathematician and economist. He is currently the Managing Director and Country Manager for ING Bank, N. V., Manila Branch and sits in the boards of the Bankers Association of the Philippines and the Investment House Association of the Philippines. Prior to this, he was the President and CEO of the Philippine Stock Exchange (PSE) which he assumed in 2011. He also served as its Chairman and Independent Director for about eighteen months beforehand. He was President and CEO of the Securities Clearing Corporation of the Philippines, a role he held concurrent with the PSE post. Mr. Sicat finished his coursework for Ph.D. Economics Program at the University of Pennsylvania, Philadelphia, and earned his Master of Arts in Economics and Bachelor of Science in Mathematics at the University of the Philippines. He was conferred an Honorary Doctorate Degree in Business Administration by the Western University in Thailand. Mr. Sicat has diverse interests on the private side too, spanning financial services, Knowledge Process Outsourcing and real estate. He is Acting Chairman of LegisPro Corporation; Independent Director of Serica Balanced Fund & Master Fund, and Skycable Corporation. He sits as a Director in List Sotheby's Philippines and is on the Advisory Board of Fintonia Fund, which has an Asian FinTech focus. The Endeavor (Philippines) organization allows Mr. Sicat to interact, select and mentor high impact entrepreneurs, to connect them with global leaders. He is also a Director in the Philippine Map Collectors Society and was

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<sup>13</sup> The appointment of Mr. Po was made 28 February 2017.

active in leadership roles for six years in the Young Presidents Organization, Philippines Chapter, culminating as Chapter Chairman in 2009. For over two decades, he was an investment banker with Citigroup and its predecessor firms (Salomon Brothers & Citicorp Securities) in various roles in New York, Hong Kong & the Philippines.

**Andres B. Sta. Maria**, Filipino, was senior partner and a member of the executive committee of the law firm SyCip Salazar Hernandez & Gatmaitan. For over 25 years until he retired, he headed the firm's Special Projects Group, which focused on acquisitions, privatization, power and energy, and industrial and infrastructure projects. He studied at the University of the Philippines, Cornell University, and New York University and holds Bachelor of Science in Business Administration, Bachelor of Laws, and Master of Laws degrees. Before SyCip, he worked with the New York law firms Cleary Gottlieb Steen & Hamilton and Coudert Brothers. Mr. Sta. Maria maintains a private practice in commercial and corporate law.

#### Term of Office

The Board of Directors is composed of nine (9) members who are generally elected at an annual stockholders' meeting, and their term of office shall be one (1) year and until their successors shall have been elected at the next annual stockholders meeting and have qualified in accordance with the By-laws of ALCO.

#### **b. Corporate and Executive Officers and Positions Held/Business Experience for the Past Five (5) Years**

The following are the incumbent principal corporate officers of ALCO:

Chairman of the Board	Ernest K. Cuyegkeng
Vice Chairman and President	Jaime C. Gonzalez
Vice Chairman	Ricardo Gabriel T. Po
Executive Vice President and Treasurer	Leonardo Arthur T. Po
Corporate Secretary and General Counsel	Atty. Riva Khristine V. Maala

**Riva Khristine V. Maala**, Filipino, holds a Bachelor of Arts degree in Philosophy (*cum laude*) and a Bachelor of Laws degree, both from the University of the Philippines. She was an Associate Attorney of Fortun Narvasa and Salazar Law Offices before working in the banking industry for eleven years. Atty. Maala became ALCO's Head of Legal Affairs and Investor Relations on 01 October 2012 and likewise acted as its Assistant Corporate Secretary and Corporate Information Officer until 08 February 2017 when she was appointed as Corporate Secretary and General Counsel. In addition, she now performs the responsibilities of ALCO's Compliance Officer.

#### Term of Office:

The corporate officers of ALCO are appointed/elected by the Board of Directors at the organizational meeting following the stockholders' meeting for a term of one (1) year and until their successors are appointed/elected and have qualified in accordance with

the By-laws of ALCO.

**c. Significant Employees**

Other than the above-named directors and corporate officers, the following are significant or key personnel of ALCO who make a significant contribution to its business:

**Ninalyn S. Cordero**, Filipino, is the Head of Project and Business Development. She brings in twenty-five (25) years of experience in corporate finance, investment banking and business development. She has over ten (10) years of experience with a leading investment house as Vice President for Capital Markets. Prior to joining ALCO, she held a key position in Rockwell as Assistant Vice President handling business development in charge of research, product development and project conceptualization of new business and projects. She handled the business development of One Rockwell, the land acquisition of The Grove and the joint venture on the Rockwell Business Center.

**Gabriel I. Paulino**, Filipino, is the Head of Technical Services. He has over 35 years of professional experience in architectural and project management practice. He was formerly the Assistant Vice President for Design and Planning at Rockwell Land Corporation and worked on Edades Towers, The Grove, One Rockwell, Joya and the Powerplant Mall. Prior to Rockwell, he was a Senior Associate of Recio + Casas Architects. He was also involved in the Pacific Plaza Towers (Makati and Fort Bonifacio), Manansala at Rockwell, LKG Tower Ayala and Salcedo Park Towers Makati.

**Ferdinand A. Constantino**, Filipino, is the Chief Finance Officer. He is a Certified Public Accountant and a licensed Real Estate Broker. He obtained his degree in Accountancy from the Polytechnic University of the Philippines in 1982. His work experience includes being the Corporate Comptroller/Tax Manager of Century Canning Corporation (1995-2006), GM/Business Unit Head of CPGC Logistics Philippines, Inc. (2006-2013), and Finance Director of Century Pacific Food, Inc.

**Sheryll P. Verano**, Filipino, is the Head of Strategic Funding and Investments. She is a finance professional with more than 15 years experience in financial advisory, debt and equity capital raising, debt restructuring and mergers and acquisitions. Prior to joining ALCO, she was Associate Director in American Orient Capital Partners (Philippines) and was with the Global Corporate Finance group of SGV and Co. She received her CFA Charter in 2006 and was one of the topnotchers in the 1999 CPA Board Exams. She graduated *cum laude* from the University of the Philippines with a Bachelor of Science degree in Business Administration and Accountancy.

**Oliver L. Chan**, Filipino, is the Head of Sales Operations. He is a licensed mechanical engineer who obtained his degree from the University of Santo Tomas. Prior to joining ALCO, he was the Property Manager of Ayala Property Management Corporation who handled the operations of Ayala Land Inc.'s premiere retail and recreation centers, namely, the Greenbelt complex, Ayala Museum, San Antonio Plaza in Forbes Park and the retail spaces at The Residences at Greenbelt. Because of his strong customer service background, he is concurrently General Manager of Emera Property Management, Inc.,

the property management arm of ALCO not only for its flagship project, Arya Residences, but for all its development projects.

**Leilani G. Kanapi**, Filipino, joined the Corporation in March 2008 initially as part of the Technical Services team. She was eventually tasked to head the Procurement Department in August 2009. She worked previously with Rockwell Land Corporation where she took on roles in Estate Management, Handover and Project Development. Prior to that, she was with CB Richard Ellis as Business Development and Operations Manager for the Property and Facilities Management Group. Ms. Kanapi graduated from the University of Santo Tomas with a Bachelor of Science degree in Civil Engineering and obtained a Masters Degree in Business Administration from Pepperdine University USA where she also had the opportunity to join the Student Exchange Program in Marseille, France.

**d. Family Relationship**

With the exception of brothers Ricardo Gabriel T. Po, Christopher Paulus Nicolas T. Po and Leonardo Arthur T. Po, and father and son Jaime C. Gonzalez and Jaime Enrique Y. Gonzalez, the abovementioned incumbent directors and executive officers of ALCO are not related to each other, either by consanguinity or affinity.

**e. Involvement in Certain Legal Proceedings**

The above-named directors and corporate/executive officers of ALCO have not been involved during the past five (5) years up to the date of this Report in any bankruptcy proceeding or any proceeding involving a violation of securities or commodities laws or regulations, nor have they been convicted in a criminal proceeding. Neither has there been any order or judgment enjoining, barring, suspending or limiting their involvement in any type of business, securities, commodities or banking activities.

**ITEM 10. Compensation of Directors and Executive Officers**

**a. Compensation of Directors and Executive Officers**

Section 10, Article III of ALCO's By-laws provides that the "Board of Directors is empowered and authorized to fix and determine the compensation of its members, including profit sharing and other incentives, subject to the limitations imposed by law."

Beginning June 2016, the per diem given to each director for each meeting of the Board (special or regular) attended was increased to ₱75,000.00 for independent directors and ₱10,000.00 for regular directors, except for the Chairman of the Board who receives ₱100,000.00.

Each director is also paid a per diem of ₱2,500.00 for each committee meeting he attends, of which he is a member. These committees are the Executive Committee, the Audit Committee, the Stock Option and Compensation Committee and the Nomination Committee.

The current members of ALCO's various committees are:

Audit Committee	Emmanuel A. Rapadas, Chairman Hans B. Sicat Andres B. Sta. Maria
Stock Option and Compensation Committee	Jaime C. Gonzalez, Chairman Ricardo Gabriel T. Po Emmanuel A. Rapadas Hans B. Sicat
Nomination Committee	Ricardo Gabriel T. Po, Chairman Hans B. Sicat Andres B. Sta. Maria
Executive Committee <sup>14</sup>	Ernest K. Cuyegkeng, Chairman Jaime C. Gonzalez, Vice Chairman Ricardo Gabriel T. Po, Vice Chairman Jaime Enrique Y. Gonzalez Christopher Paulus Nicolas T. Po Leonardo Arthur T. Po Ferdinand A. Constantino

Section 7, Article IV, in turn, provides that the “Chairman, or such other officer(s) as the Board of Directors may authorize, shall determine the compensation of all the officers and employees of the Corporation. xxx”

## 2016

	<u>Salary</u> <sup>15</sup>	<u>Bonus</u>	<u>Others</u>
Directors and Executives	₱57.49M	₱5.91M	None
Officers (As a group unnamed)	₱14.81M	₱2.04M	None

## 2017

	<u>Salary</u> <sup>16</sup>	<u>Bonus</u>	<u>Others</u>
Directors and Executives <sup>17</sup>	₱49.53M	₱9.18M	None
Officers (As a group unnamed)	₱12.97M	₱1.30M	None

<sup>14</sup>The By-laws provides that the Executive Committee shall be composed of the Chairman of the Board, the President, the Chief Finance Officer and such other officers of the Corporation as may be appointed by the Board of Directors.

<sup>15</sup> Rounded-off.

<sup>16</sup> *Ibid.*

<sup>17</sup> In addition to the President, the four (4) highest paid executive officers of ALCO in 2017 are the following:

- i. Treasurer
- ii. Chief Finance Officer
- iii. Head, Project and Business Development, and
- iv. Head, Technical Services.

Estimated Compensation for 2018 (Collective)

	<u>Salary</u> <sup>18</sup>	<u>Bonus</u>	<u>Others</u>
Directors and Executives	₱65.62M	None <sup>19</sup>	None
Officers (As a group unnamed)			

**b. Standard Arrangement/Material Terms of Any Other Arrangement/Terms and Conditions of Employment Contract with Above Named Corporate/Executive Officers**

In ALCO's annual meeting held on 16 October 2009, the stockholders representing more than sixty-seven percent (67%) of all its issued and outstanding common shares which are entitled and qualified to vote approved the 2009 ALCO Stock Option Plan. The total amount of shares which are available and may be issued for this purpose will amount to 10% of ALCO's total outstanding capital stock at any given time. At present, this is equivalent to 511,809,520 shares. The Stock Option and Compensation Committee consisting of at least three (3) directors, one (1) of whom is an independent director, will administer the implementation of this plan.

Under the 2009 ALCO Stock Option Plan, the qualified employees eligible to participate are (i) members of the Board, with the exception of the independent directors; (ii) President and CEO and other corporate officers, which include the Corporate Secretary and the Assistant Corporate Secretary; (iii) Employees and Consultants who are exercising managerial level functions or are members of the Management Committee; and, (iv) Executive officers assigned to ALCO's subsidiaries or affiliates<sup>20</sup>.

The Stock Option and Compensation Committee is empowered to determine to whom the Options are to be granted, determine the price the Option is to be exercised (which in no case shall be below the par value of ALCO's common stock), decide when such Option shall be granted and its effectivity dates, and determine the number and class of shares to be allocated to each qualified employee. The Committee will also consider at all times the performance evaluation of the qualified employee and/or the result of the achievement of the objectives of ALCO each year.

The Option Period during which the qualified employee may exercise the option to purchase such number of shares granted will be three (3) years starting with the full year vesting in accordance with the following schedule:

- |  |                 |
|--|-----------------|
| (i) Within the first twelve (12) months from Grant Date                        | - up to 33.33%  |
| (ii) Within the 13 <sup>th</sup> to the 24 <sup>th</sup> month from Grant Date | - up to 33.33%  |
| (iii) Within the 25 <sup>th</sup> to 36 <sup>th</sup> month from Grant Date    | - up to 33.33%. |

On the Exercise Date, the qualified employee should pay the full Purchase Price or in such terms as may be decided upon by the Committee.

As of the date of this Report, options equivalent to 164,800,000 were granted.

<sup>18</sup> Collective amount was rounded-off.

<sup>19</sup> Whether bonuses will be given in 2018 is uncertain at this time.

<sup>20</sup> ALCO must have at least 50% equity holdings of said subsidiary or affiliate.



However, none of the qualified employees exercised their respective rights until October 2012 when the period within which they can do so expired. Whether options will be given in 2018 is uncertain at this time.

# **ITEM 11. Security Ownership of Certain Record and Beneficial Owners and Management**

## **(1) Security Ownership of Certain Record and Beneficial Owners of more than 5% of the Voting Shares (as of 31 December 2017)**

<i>Title of Class</i>	<i>Name and Address of Record Owners</i>	<i>Citizenship</i>	<i>Amount &amp; Nature of Ownership</i>	<i>% of Class</i>
Common	<b>CPG Holdings, Inc.</b>	Filipino	2,017,619,910 Direct 125,000,000 Indirect	40.289
Common	<b>AO Capital Holdings I, Inc.</b>	Filipino	1,383,730,000 Direct	26.019
Common	<b>Edimax Investment Limited</b>	British	296,460,000 Direct	5.5746

PCD Nominee Corporation (Filipino) is the holder of 1,278,467,307 Common shares, or 24.040 % of the total issued and outstanding Common shares of ALCO.

ALCO is not aware of any voting trust agreements involving its shares.

## **(2) Security Ownership of Management (as of 31 December 2017)**

There are no shares held or acquired beneficially by any of the directors and executive officers of ALCO other than the nominal shares held by said directors and executive officers.

<i>Title of Class</i>	<i>Name and Position of Record Owners</i>	<i>Citizenship</i>	<i>Amount &amp; Nature of Ownership</i>	<i>% of Class</i>
Common	<b>Ernest K. Cuyegkeng</b> <i>Chairman of the Board</i>	Filipino	1 <u>Direct and Beneficial</u> <u>Owner</u>	0.00 %

Common	<b>Jaime C. Gonzalez</b> <i>Vice Chairman and President</i>	Filipino	1 <u>Direct and</u> <u>Beneficial</u> <u>Owner</u>	0.00 %
Common	<b>Jaime Enrique Y. Gonzalez</b> <i>Director</i>	Filipino	1 <u>Direct and</u> <u>Beneficial</u> <u>Owner</u>	0.00 %
Common	<b>Christopher Paulus Nicolas T. Po</b> <i>Director</i>	Filipino	1 <u>Direct and</u> <u>Beneficial</u> <u>Owner</u>	0.00 %
Common	<b>Leonardo Arthur T. Po</b> <i>Executive Vice President and Treasurer</i>	Filipino	1 <u>Direct and</u> <u>Beneficial</u> <u>Owner</u>	N.A.
Common	<b>Ricardo Gabriel T. Po</b> <i>Director/Vice Chairman</i>	Filipino	1 <u>Direct and</u> <u>Beneficial</u> <u>Owner</u>	0.00 %
Common	<b>Emmanuel A. Rapadas</b> <i>Independent Director</i>	Filipino	1 <u>Direct and</u> <u>Beneficial</u> <u>Owner</u>	0.00 %
Common	<b>Hans B. Sicat</b> <i>Independent Director</i>	Filipino	1 <u>Direct and</u> <u>Beneficial</u> <u>Owner</u>	0.00 %
Common	<b>Andres B. Sta. Maria</b> <i>Independent Director</i>	Filipino	1 <u>Direct and</u> <u>Beneficial</u> <u>Owner</u>	0.00 %
None	<b>Riva Khristine V. Maala</b> <i>Corporate Secretary and General Counsel</i>	Filipino	0	N.A.
			-----	
		<b>TOTAL</b>	<b>9 shares</b>	

## ITEM 12. Certain Relationships and Related Transactions

In the regular conduct of its business, ALCO and its subsidiaries enter into intercompany transactions, primarily advances by ALCO to said subsidiary which are necessary to carry out the latter's functions subject to liquidation and reimbursements for expenses. ALCO ensures

that while these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks, they are fair and treated at arm's length. Intercompany transactions between ALCO and its subsidiaries for the period covered by this Report are discussed in the Audited Financial Statements hereto attached.

Except for the above and related disclosures in this Report, specifically Item 1, paragraphs g and l, there are no other transactions (or series of similar transactions) with or involving any of ALCO's subsidiaries, affiliates or related companies in which a director or an executive officer or a stockholder who owns ten percent (10%) or more of ALCO's total outstanding shares, or member/s of their immediate family, had or is to have a direct or indirect material interest.

## **PART IV – CORPORATE GOVERNANCE**

ALCO's compliance with its Manual of Corporate Governance is monitored by its Compliance Officer who is tasked, among others, to determine and measure such compliance with the said Manual.

ALCO submitted a revised Manual of Corporate Governance on 31 May 2017.

As of 31 December 2017, ALCO adopted substantially all the provisions of its Manual on Corporate Governance.

## **PART V – EXHIBITS AND SCHEDULES**

### **ITEM 13. Exhibits and Reports on SEC Form 17-C**

- a. Supplementary Schedules with separate independent auditors' opinion are appended to the Audited Financial Statements hereto attached.
- b. The Aggregate Market Value of Voting Stock held by Top 10 Non-Affiliates is in page 3 of this Report.
- c. There were no disclosures not covered by SEC Form 17-C (Current Report) filed in the last quarter of 2017.

*Nothing follows.*

**SIGNATURE PAGE**

Pursuant to the requirements of Section 17 of the Securities Regulations Code and Section 141 of the Corporation Code, this Report is signed on behalf of the issuer in **Taguig City** on this **11<sup>th</sup>** day of **April 2018**.

**ARTHALAND CORPORATION**

By:

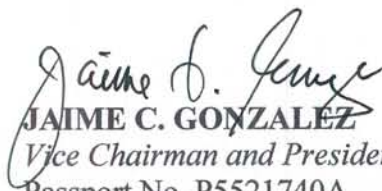


**ERNEST K. CUYEGKENG**

*Chairman of the Board*

Passport No. EC3327271

Issued on 31 January 2015 in Manila



**JAIME C. GONZALEZ**

*Vice Chairman and President*

Passport No. P5521740A

Issued on 05 January 2018 in Manila



**FERDINAND A. CONSTANTINO**

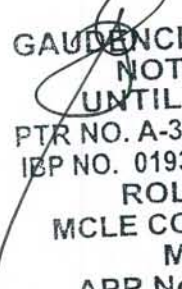
*Chief Finance Officer*

Passport No. EC5969532

Issued on 13 November 2015 in NCR South

SUBSCRIBED AND SWORN to before me this on this **11<sup>th</sup>** day of **April 2018** at **Taguig City, Philippines**, affiants exhibiting to me competent evidence of their respective identities as above indicated.

Doc. No. 240  
Page No. 49  
Book No. 7  
Series of 2018.



**GAUDENCIO A. BARBOZA JR.**  
**NOTARY PUBLIC**  
**UNTIL DEC. 31, 2018**  
PTR NO. A-3742910-1-3-18 TAGUIG  
IBP NO. 019326 / DEC. 22, 2017 RSM  
ROLL NO. 41969  
MCLE COMP. V No. 0021481  
MAY 2, 2016  
APP No. 26/(2017-2018)

**UNDERTAKING**

**ARTHALAND CORPORATION (ALCO)** undertakes to provide, without charge, a copy of its Annual Report, SEC Form 17-A, to any person soliciting a copy thereof upon written request addressed to the Corporate Secretary with principal office address at the 8/F Picadilly Star Building, 4<sup>th</sup> Avenue corner 27<sup>th</sup> Street, Bonifacio Global City, Taguig City.

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	9	4	0	0	7	1	6	0
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COMPANY NAME

A	R	T	H	A	L	A	N	D		C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S

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

8	/	F		P	i	c	a	d	i	l	l	y		S	t	a	r		B	u	i	l	d	i	n	g	,		4	t	h		A	v	e	n	u	e			
				c	o	r	n	e	r		2	7	t	h		S	t	r	e	e	t	,		B	o	n	i	f	a	c	i	o		G	l	o	b	a	l		C
				i	t	y	,		T	a	g	u	i	g		C	i	t	y																						

Form Type

A	A	C	F	S
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A
---	---	---

## COMPANY INFORMATION

Company's Email Address

—

Company's Telephone Number/s

(02) 403-6910

Mobile Number

—

No. of Stockholders

1,979

Annual Meeting (Month / Day)

Last Friday of 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

Ferdinand A. Constantino

Email Address

faconstantino@arthaland.com

Telephone Number/s

(02) 403-6910

Mobile Number

—

## CONTACT PERSON'S ADDRESS

8/F Picadilly Star Building, 4th Avenue corner 27th Street, Bonifacio Global City, Taguig 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.

**NOTE 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 shall not excuse the corporation from liability for its deficiencies.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR CONSOLIDATED FINANCIAL STATEMENTS**

The Management of **ARTHALAND CORPORATION AND SUBSIDIARIES** (the "**Group**") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the year ended **31 December 2017** in accordance with the prescribed financial reporting framework also indicated therein, and for such internal control as Management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.


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

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

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

**Reyes Tacandong & Co.**, the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed this **21 March 2018**, Taguig City, Philippines.

  
**ERNEST K. CUYEGKENG**  
*Chairman of the Board*

  
**JAIME C. GONZALEZ**  
*Vice Chairman and President*

  
**FERDINAND A. CONSTANTINO**  
*Chief Finance Officer*



## OATH

REPUBLIC OF THE PHILIPPINES )  
TAGUIG CITY

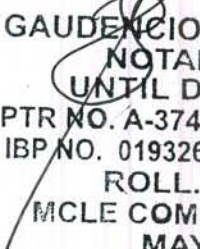
) SS.

I certify that on this **21<sup>st</sup>** day of **March 2018**, before me, a notary public duly authorized in the city named above to take acknowledgments, personally appeared the following whom I identified through competent evidence of identity to be the same persons described in the foregoing instrument, who acknowledged before me that they voluntarily affixed their signatures on the instrument for the purpose stated therein, and who declared to me that they executed the instrument as their free and voluntary act and deed and that they have the authority to sign on behalf of their principal:

<u>Name</u>	<u>Competent Evidence of Identity</u>	<u>Date/Place of Issue</u>
Ernest K. Cuyegkeng	Passport No. EC3327271	31 January 2015/Manila
Jaime C. Gonzalez	Passport No. P5521740A	05 January 2018/Manila
Ferdinand A. Constantino	Passport No. EC5969532	13 November 2015/NCR South

IN WITNESS WHEREOF, I hereunto set my hand and affix my notarial seal on the date and at the place above written.

Doc No. 419  
Page No. 85;  
Book No. 5;  
Series of 2018.

  
GAUDENCIO A. BARBOZA JR.  
NOTARY PUBLIC  
UNTIL DEC. 31, 2018  
PTR NO. A-3742910-1-3-18 TAGUIG  
IBP NO. 019326 / DEC. 22, 2017 RSM  
ROLL NO. 41969  
MCLE COMP. V No. 0021481  
MAY 2, 2016  
APP No. 26/(2017-2018)

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Arthaland Corporation and Subsidiaries  
8/F Picadilly Star Building  
4th Avenue corner 27th Street  
Bonifacio Global City, Taguig City

### *Opinion*

We have audited the accompanying consolidated financial statements of Arthaland Corporation and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2017, 2016 and 2015 in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis of Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to the audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

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







### **Fair Value Measurement**

The Group's investment properties amounted to ₱6,457.3 million as at December 31, 2017.

We focused our audit on assessing the appropriateness of the fair value measurement of investment properties because the process involves significant management judgment when selecting the appropriate valuation techniques and inputs used to determine fair value. Moreover, fair value measurement is significant to our audit as the investment properties account for 57% of the Group's total assets as at December 31, 2017 (see Notes 3 and 9 to the consolidated financial statements).

We have assessed the independence and competency of the appraiser engaged by the Group. We have also reviewed the reasonableness of the assumptions used to estimate the fair value of the Group's investment properties and ascertained these to be reasonably appropriate.

### *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), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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





*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

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





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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Michelle R. Mendoza-Cruz.

**REYES TACANDONG & Co.**

  
MICHELLE R. MENDOZA-CRUZ

Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 1499-A Group A

Valid until August 31, 2018

BIR Accreditation No. 08-005144-12-2017

Valid until March 8, 2020

PTR No. 6607962

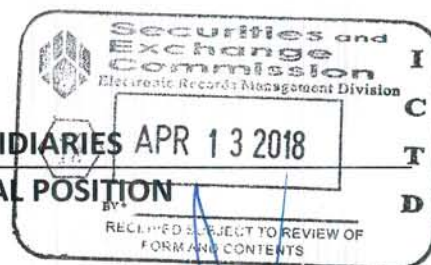
Issued January 3, 2018, Makati City

March 21, 2018

Makati City, Metro Manila



**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**



		<b>December 31</b>	
	Note	2017	2016
<b>ASSETS</b>			
Cash and Cash Equivalents	5	P721,795,236	P990,742,203
Financial Assets at Fair Value Through Profit or Loss (FVPL)	6	387,879,631	2,050,075,279
Trade and Other Receivables	7	186,274,230	301,089,586
Real Estate for Sale	8	2,646,731,618	1,722,192,699
Creditable Withholding Taxes (CWT)		253,188,078	243,216,792
Investment Properties	9	6,457,315,253	4,534,143,705
Property and Equipment	10	39,743,166	20,071,668
Deferred Tax Asset	22	61,212,233	15,282,811
Other Assets	11	492,672,321	184,828,088
		<b>P11,246,811,766</b>	<b>P10,061,642,831</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Loans payable	12	P4,268,892,416	P3,111,038,703
Accounts payable and other liabilities	13	824,456,920	899,207,290
Due to a related party	23	286,666,691	249,789,836
Retirement liability	20	50,668,546	47,244,365
Net deferred tax liabilities	22	752,508,368	644,775,603
Total Liabilities		<b>6,183,192,941</b>	<b>4,952,055,797</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock	14	989,757,136	989,757,136
Additional paid-in capital		2,031,441,541	2,031,441,541
Retained earnings		2,085,398,501	2,098,281,063
Cumulative remeasurement gains on retirement liability - net of tax	20	7,448,391	3,022,025
Parent Company's preferred shares held by a subsidiary	14	(12,500,000)	(12,500,000)
		<b>5,101,545,569</b>	<b>5,110,001,765</b>
<b>Non-controlling Interest</b>	4	<b>(37,926,744)</b>	<b>(414,731)</b>
Total Equity		<b>5,063,618,825</b>	<b>5,109,587,034</b>
		<b>P11,246,811,766</b>	<b>P10,061,642,831</b>

See accompanying Notes to Consolidated Financial Statements.

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31		
	Note	2017	2016	2015
<b>REVENUES</b>	15	<b>₱463,538,594</b>	₱451,075,061	₱1,587,578,861
<b>COST OF SALES AND SERVICES</b>	16	<b>328,509,674</b>	393,674,538	1,043,700,643
<b>GROSS INCOME</b>		<b>135,028,920</b>	57,400,523	543,878,218
<b>OPERATING EXPENSES</b>	17	<b>326,558,949</b>	365,128,458	314,130,772
<b>INCOME (LOSS) FROM OPERATIONS</b>		<b>(191,530,029)</b>	(307,727,935)	229,747,446
<b>GAIN ON CHANGE IN FAIR VALUE OF INVESTMENT PROPERTIES</b>	9	<b>428,390,699</b>	1,417,865,206	33,495,000
<b>FINANCE COSTS</b>	18	<b>(80,663,240)</b>	(80,348,345)	(40,566,579)
<b>OTHER INCOME - Net</b>	19	<b>67,443,318</b>	147,643,198	122,372,763
<b>INCOME BEFORE INCOME TAX</b>		<b>223,640,748</b>	1,177,432,124	345,048,630
<b>PROVISION FOR INCOME TAX</b>	22	<b>85,240,763</b>	355,015,749	98,017,162
<b>NET INCOME</b>		<b>138,399,985</b>	822,416,375	247,031,468
<b>OTHER COMPREHENSIVE INCOME</b>				
<i>Not to be reclassified to profit or loss -</i>				
Remeasurement gain on retirement liability	20	<b>6,323,380</b>	2,902,163	1,497,503
Income tax expense relating to item that will not be reclassified	22	<b>(1,897,014)</b>	(870,649)	(449,251)
		<b>4,426,366</b>	2,031,514	1,048,252
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>₱142,826,351</b>	₱824,447,889	₱248,079,720

(Forward)

Years Ended December 31				
	Note	2017	2016	2015
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company		<b>₱191,850,580</b>	₱840,225,824	₱247,031,468
Non-controlling interest	4	<b>(53,450,595)</b>	(17,809,449)	–
		<b>₱138,399,985</b>	₱822,416,375	₱247,031,468
<b>TOTAL COMPREHENSIVE INCOME</b>				
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company		<b>₱196,276,946</b>	₱842,257,338	₱248,079,720
Non-controlling interest	4	<b>(53,450,595)</b>	(17,809,449)	–
		<b>₱142,826,351</b>	₱824,447,889	₱248,079,720
<b>EARNINGS PER SHARE - Basic and diluted</b>	25	<b>₱0.0096</b>	₱0.1514	₱0.0465

See accompanying Notes to Consolidated Financial Statements.

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

		Years Ended December 31		
	Note	2017	2016	2015
<b>CAPITAL STOCK</b>	14			
Common - at ₱0.18 par value - issued and outstanding		<b>₱957,257,136</b>	₱957,257,136	₱957,257,136
Preferred - at ₱1.00 par value - issued		<b>32,500,000</b>	32,500,000	—
		<b>989,757,136</b>	989,757,136	957,257,136
<b>ADDITIONAL PAID-IN CAPITAL</b>				
Balance at beginning of year		<b>2,031,441,541</b>	75,000,000	75,000,000
Issuance of preferred shares	14	—	1,980,000,000	—
Stock issuance costs	14	—	(23,558,459)	—
Balance at end of year		<b>2,031,441,541</b>	2,031,441,541	75,000,000
<b>RETAINED EARNINGS</b>				
Balance at beginning of year		<b>2,098,281,063</b>	1,258,055,239	1,074,840,913
Net income for the year		<b>191,850,580</b>	840,225,824	247,031,468
Dividends declared during the year	14	<b>(204,733,142)</b>	—	(63,817,142)
Balance at end of year		<b>2,085,398,501</b>	2,098,281,063	1,258,055,239
<b>CUMMULATIVE REMEASUREMENT GAINS ON RETIREMENT LIABILITY</b>				
- Net of tax	20			
Balance at beginning of year		<b>3,022,025</b>	990,511	(57,741)
Remeasurement gain on retirement liability		<b>6,323,380</b>	2,902,163	1,497,503
Income tax expense relating to other comprehensive income for the year		<b>(1,897,014)</b>	(870,649)	(449,251)
Balance at end of year		<b>7,448,391</b>	3,022,025	990,511
<b>PARENT COMPANY'S PREFERRED SHARES HELD BY A SUBSIDIARY - at cost</b>	14	<b>(12,500,000)</b>	(12,500,000)	—
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		<b>5,101,545,569</b>	5,110,001,765	2,291,302,886
<b>NON-CONTROLLING INTEREST</b>	4			
Balance at beginning of year		<b>(414,731)</b>	—	—
Share in net loss during the year		<b>(53,450,595)</b>	(17,809,449)	—
Subscription to a subsidiary		<b>15,938,582</b>	17,394,718	—
Balance at end of year		<b>(37,926,744)</b>	(414,731)	—
		<b>₱5,063,618,825</b>	₱5,109,587,034	₱2,291,302,886

See accompanying Notes to Consolidated Financial Statements.

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

		Years December 31		
	Note	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>₱223,640,748</b>	₱1,177,432,124	₱345,048,630
Adjustments for:				
Gain on change in fair value of investment properties	9	<b>(428,390,699)</b>	(1,417,865,206)	(33,495,000)
Interest expense	12	<b>77,918,542</b>	79,540,215	39,713,231
Realized gain on disposals of financial assets at FVPL	6	<b>(37,576,414)</b>	(17,310,183)	(5,807,623)
Interest income	5	<b>(14,245,251)</b>	(10,692,204)	(11,159,810)
Retirement expense	20	<b>9,747,561</b>	9,345,010	8,626,891
Depreciation and amortization	10	<b>9,330,955</b>	8,214,176	19,282,497
“Day 1” gain on loan discounting	12	<b>(2,907,783)</b>	(80,883,656)	(89,952,419)
Unrealized holding gains on financial assets at FVPL	6	<b>(1,874,352)</b>	(5,856,676)	(635,227)
Loss (gain) on sale of property and equipment	10	<b>475,131</b>	(185,888)	(9,722)
Amortization of initial direct leasing costs	9	<b>249,952</b>	—	—
Foreign exchange gains	19	<b>(83,998)</b>	(600,156)	(2,407,067)
Operating income (loss) before working capital changes		<b>(163,715,608)</b>	(258,862,444)	269,204,381
Decrease (increase) in:				
Trade and other receivables		<b>115,652,434</b>	1,530,025,607	114,974,076
Real estate for sale		<b>(925,630,919)</b>	(208,501,533)	(1,247,408,190)
Other assets		<b>(307,844,233)</b>	5,800,990	(9,216,356)
Increase (decrease) in accounts payable and other liabilities		<b>(80,480,830)</b>	(482,170,697)	982,902,856
Net cash generated from (used for) operations		<b>(1,362,019,156)</b>	586,291,923	110,456,767
Income taxes paid		<b>(35,305,720)</b>	(107,942,444)	(95,716,195)
Interest paid		<b>(13,868,327)</b>	(27,210,251)	(32,261,650)
Interest received		<b>13,408,173</b>	10,692,204	11,159,810
Net cash provided by (used in) operating activities		<b>(1,397,785,030)</b>	461,831,432	(6,361,268)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from disposal of:				
Financial assets at FVPL		<b>2,611,246,414</b>	3,475,401,873	1,807,380,284
Property and equipment		<b>1,173,957</b>	2,101,160	734,722
Investment properties		<b>—</b>	6,630,000	5,154,000
Additions to:				
Investment properties	9	<b>(1,490,488,196)</b>	(1,069,211,637)	(116,097,990)
Financial assets at FVPL	6	<b>(909,600,000)</b>	(4,769,675,068)	(2,261,499,999)
Property and equipment	10	<b>(30,651,541)</b>	(12,999,058)	(8,611,948)
Net cash provided by (used in) investing activities		<b>₱181,680,634</b>	(₱2,367,752,730)	(₱572,940,931)

(Forward)



For the Years December 31				
	Note	2017	2016	2015
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net proceeds from:				
Loans payable	12	<b>₱2,050,662,463</b>	₱2,386,606,892	₱1,712,455,981
Due to a related party	23	<b>36,876,855</b>	249,789,836	—
Issuance of preferred shares		—	1,976,441,541	—
Payments of loans payable	12	<b>(951,520,000)</b>	(2,338,783,409)	(1,304,013,393)
Payment of dividends	24	<b>(204,884,469)</b>	—	(63,817,142)
Subscription of non-controlling interest		<b>15,938,582</b>	17,394,718	—
Collection of subscription receivable		—	—	2,150,000
Net cash generated from financing activities		<b>947,073,431</b>	2,291,449,578	346,775,446
<b>NET EFFECT OF EXCHANGE RATE CHANGES TO CASH AND CASH EQUIVALENTS</b>				
		<b>83,998</b>	600,156	2,407,067
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		<b>(268,946,967)</b>	386,128,436	(230,119,686)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
		<b>990,742,203</b>	604,613,767	834,733,453
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	5	<b>₱721,795,236</b>	₱990,742,203	₱604,613,767
<b>NONCASH FINANCIAL INFORMATION:</b>				
Transfer of raw land from “Real estate for sale” account to “Investment properties” account	8	<b>₱1,092,000</b>	₱45,019,935	₱—
Acquisition of real estate for sale asset on account		—	314,332,750	485,760,000
Transfer of properties for lease from “Investment properties” account to “Real estate for sale” account		—	—	87,118,415

See accompanying Notes to Consolidated Financial Statements.

# ARTHALAND CORPORATION AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. General Information

#### **Corporate Information**

Arthaland Corporation (the Parent Company or ALCO) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on August 10, 1994. ALCO's common shares and Series B preferred shares are listed for trading in the Philippine Stock Exchange (PSE). The Parent Company is primarily engaged in real estate development and leasing.

The Parent Company is currently 40.3% owned by CPG Holdings, Inc. (CPG), a holding company of leading food manufacturers incorporated in the Philippines, and 26.0% owned by AO Capital Holdings 1, Inc. (AOCH1), a holding company also incorporated in the Philippines.

In December 2016, the Parent Company made a follow-on offering of 20.0 million cumulative, nonvoting, nonparticipating and nonconvertible Peso-denominated perpetual Series B preferred shares at ₱1.00 par value a share at the issuance price of ₱100 a share (see Note 14).

The registered office and principal place of business of the Parent Company is located at 8/F Picadilly Star Building, 4th Avenue corner 27th Street, Bonifacio Global City, Taguig City.

#### **Composition of the Group**

The consolidated financial statements include the Parent Company and the following subsidiaries (collectively referred herein as “the Group”):

Subsidiary	Place of Incorporation	Effective % of Ownership	
		2017	2016
Cazneau, Inc. (Cazneau)	Philippines	100%	100%
Manchesterland Properties, Inc. (MPI)	Philippines	100%	100%
Emera Property Management, Inc. (EPMI)	Philippines	100%	100%
Urban Property Holdings, Inc. (UPHI)	Philippines	100%	100%
Zileya Land Development Corporation (ZLDC)	Philippines	100%	100%
Savya Land Development Corporation (SLDC)	Philippines	100%	—
Cebu Lavana Land Corp. (CLLC)	Philippines	60%	60%

All of the subsidiaries were established to engage primarily in real estate development and presently hold parcels of land for future development, except for EPMI which is a property management company and MPI which is also engaged in leasing of properties.

In 2017, the Parent Company subscribed to 100% shares of SLDC. SLDC was registered with the SEC on February 10, 2017 to engage primarily in real estate development.

In 2016, the stockholders and the Board of Directors (BOD) of CLLC approved the subscription of a new investor for 214,351 common shares at ₱100 par value a share and 118,982 preferred shares at ₱100 par value a share out of the unissued authorized capital stock of CLLC. The additional subscription resulted in the reduction of ALCO's ownership from 100% to 60%.

### **Major Projects**

The Parent Company's first major development project is the Arya Residences Towers 1 and 2 (Arya Residences) located in Bonifacio Global City (BGC), Taguig. Arya Residences is the first top-market condominium development in the Philippines to be awarded the US Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED) program Gold certification. It is expected to achieve multiple star rating from the Philippine Green Building Council's (PHILGBC) Building for Ecologically Responsive Design Excellence (BERDE) program. Arya Residences was completed on December 31, 2016.

In 2014, the Group started the construction of Arthaland Century Pacific Tower (ACPT), ALCO's flagship office project, which is set to be BGC's landmark of sustainability. This 30-storey AAA-grade office building located along the prime 5th Avenue is designed by SOM New York, the same group that penned the One World Trade Center and Burj Khalifa in Dubai, and is a building targeting dual certification. It has been pre-certified as LEED Gold and the Parent Company is targeting to secure a LEED Platinum certification for it. ACPT is registered with the Philippine Economic Zone Authority (PEZA) as an Ecozone Facilities Enterprise (see Note 22) and is expected to be completed in the second quarter of 2018.

In 2016, CLLC commenced the development of Cebu Exchange Project (Cebu Exchange), a 38-storey LEED and BERDE certified office building that will be developed in Barangay Lahug, Cebu City. Besides being designed to be a world-class workplace, Cebu Exchange is envisioned to be a complete ecosystem, with four retail floors for the convenience of its occupants. With a gross floor area of 110,000 square meters, Cebu Exchange boasts of being the largest green building in the country. Pre-selling began in September 2017 although construction will commence in the second quarter of 2018.

In 2017, Cazneau has started planning for and will soon announce its first foray into developing a sustainable, master planned and integrated community in an eight-hectare property in Biñan City, Laguna, adjacent to the De La Salle University Science and Technology campus. This project will be catering to start-ups, incubators, student, faculty population and starter families within the area.

### **Approval of the Consolidated Financial Statements**

The consolidated financial statements of the Group as at and for the years ended December 31, 2017 and 2016 were approved and authorized for issue by the BOD on March 21, 2018.

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## **2. Summary of Significant Accounting Policies**

### **Basis of Preparation**

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council (FRSC) and adopted by the SEC, including SEC pronouncements. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC).

### **Measurement Bases**

The consolidated financial statements are presented in Philippine Peso (Peso), the Group's functional and presentation currency. All values are stated in absolute amounts, unless otherwise indicated.

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for fair value through profit or loss (FVPL) and investment properties which are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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 measurement is based on the presumption that the transaction to sell the asset or transfer or the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses market observable data to the extent possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Group (working closely with external qualified valuers) using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset or liability that market participants would take into account.

Further information about assumptions made in measuring fair values is included in the following:

- Note 3 - Significant Accounting Judgments, Estimates and Assumptions
- Note 6 - Financial Assets at FVPL
- Note 9 - Investment Properties
- Note 27 - Fair Value Measurement

Fair values are categorized into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognized by the Group at the end of the reporting period during which the change occurred.

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

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of following amended PFRS which the Group adopted effective for annual periods beginning on or after January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.
- Amendment to PFRS 12, *Disclosures of Interests in Other Entities - Clarification of the Scope of the Standard* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the disclosure requirements in PFRS 12 apply to interests in entities within the scope of PFRS 5, Non-current Assets Held for Sale and Discontinued Operations, except for summarized financial information for those interests (i.e. paragraphs B10-B16 of PFRS 12).

The adoption of the foregoing amended PFRS did not have any material effect on the consolidated financial statements. Additional disclosures have been included in the notes to consolidated financial statements, as applicable.

#### **New and Amended PFRS Not Yet Adopted**

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2017 and have not been applied in preparing the consolidated financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39 (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at FVPL that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

- PFRS 15, *Revenue from Contracts with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).
- Amendment to PFRS 15, *Revenue from Contracts with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.
- PIC Q&A No. 2016-04, *Application of PFRS 15 “Revenue from Contracts with Customers” on Sale of Residential Properties under Pre-completion Contracts* – The interpretation provide implementation guidance, in relation to the mandatory adoption of the new revenue accounting standard in 2018, specifically on accounting for revenue from the sale of a residential property unit under pre-completion stage by a real estate developer that enters into a Contract to Sell with a buyer – whether the sale meet the criteria for revenue recognition over time.
- Amendments to PAS 40, *Investment Property - Transfers of Investment Property* – The amendments clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property has occurred.
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

Effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – This standard replaces PAS 17, *Leases*, and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees’ statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group except for PFRS 15 and PFRS 16. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

### **Basis of Consolidation**

*Subsidiaries.* Subsidiaries are entities controlled by the Parent Company. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:

- power over investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee affect its returns.

Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Parent Company obtains control, and continue to be consolidated until the date such control ceases.

The financial statements of the subsidiaries are prepared using the same reporting period of the Parent Company. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses, are eliminated in full.

A change in ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognized in profit or loss. If the Group retains interest in the previous subsidiary, then such interest is measured at fair value at the date control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an AFS investment depending on the level of influence retained.

Non-controlling interest represents the portion of net assets and profit or loss not held by the Parent Company and is presented separately in the Group's consolidated statements of comprehensive income and within equity in the Group's consolidated statements of financial position, separate from equity attributable to equity holders of the Parent Company.

## **Financial Assets and Liabilities**

*Date of Recognition.* Financial assets and liabilities are recognized in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial instrument. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date.

*Initial Recognition.* Financial assets and financial liabilities are recognized initially at fair value. Directly attributable transaction costs are included in the initial measurement of financial instruments, except for financial instruments classified at FVPL.

*“Day 1” Difference.* Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss. In cases where there are no observable data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference.

*Classification of Financial Instruments.* The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities at amortized cost.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

The Company does not have AFS financial assets, HTM investments and financial liabilities at FVPL.

*Financial Assets at FVPL.* Financial assets at FVPL include financial assets held for trading acquired for the purpose of selling in the near term and financial assets designated upon initial recognition as at FVPL. Financial assets at FVPL are carried in the consolidated statements of financial position at fair value. Realized and unrealized gains and losses on these assets are recognized under “Other income - net” account in profit or loss.

The Group classified its investment in money market fund under this category.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Group’s cash and cash equivalents, trade and other receivables (excluding advances for project development and accrued rent receivable under straight-line basis of accounting), deposits, investment in time deposits and amounts held in escrow are classified under this category.



Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

*Other Financial Liabilities at Amortized Cost.* Other financial liabilities at amortized cost pertain to issued financial instruments or their components that are not classified or designated at FVPL and contain obligations to deliver cash or another financial asset to the holder to settle the obligation other than by the exchange of fixed amount of cash or another financial asset for a fixed number of own equity.

The Group's loans payable, accounts payable and other liabilities (excluding payable to buyers, advance rent and statutory liabilities) and due to a related party are classified as other financial liabilities at amortized cost.

### **Derecognition of Financial Instruments**

*Financial Assets.* A financial asset (or when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either:  
(a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When 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.

### **Impairment of Financial Assets**

The Group assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments and probability that borrower will enter bankruptcy or other financial reorganization. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

### **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### **Classification of Financial Instruments Between Debt and Equity**

A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole.

### **Debt Issue Costs**

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in profit or loss.

### **Real Estate for Sale**

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV).

Cost includes acquisition cost plus any other directly attributable costs of developing the asset to its saleable condition and cost of improving the properties up to the reporting date. Directly attributable costs include amounts paid to contractors, borrowing costs, planning and designing costs, costs of site preparation and construction overheads. Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when incurred.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less estimated costs to complete and the estimated costs to sell. NRV in respect of land under development is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete the construction and less an estimate of the time value of money to the date of completion.

### **Borrowing Costs**

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. When borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

### **Investment Properties**

Investment properties are properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business or for administrative purposes.

Investment properties were previously measured at cost, including transaction costs. Cost comprises the purchase price and any directly attributable costs in developing and improving the properties. Cost also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

The Group adopted the fair value model for accounting for its investment properties. Under this method, investment properties are initially measured at cost but are subsequently remeasured at fair value at each reporting date, which reflects market conditions at the reporting date. The fair value of investment properties is determined using market data approach and income approach by independent real estate appraiser. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. For the purposes of these consolidated financial statements, in order to avoid double counting, the fair value reported in the financial statements is reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and minimum lease payments.

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

Investment properties are derecognized when either those have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statements of comprehensive income in the year of retirement or disposal.

#### **Property and Equipment**

Property and equipment are carried at cost less accumulated depreciation and amortization and impairment losses.

The initial cost of property and equipment consists of the purchase price, including import duties, borrowing costs (during the construction period) and other costs directly attributable to bring the asset to its working condition and location for its intended use. Cost also includes the cost of replacing parts of such property and equipment when the recognition criteria are met and the present value of the estimated cost of dismantling and removing the asset and restoring the site where the asset is located.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally charged to operations in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization is calculated on a straight-line basis over the following estimated useful lives of the property and equipment:

	Number of Years
Office equipment	3 to 5
Furniture and fixtures	3
Leasehold improvements	3 to 5 or lease term, whichever is shorter
Transportation equipment	3 to 5

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully-depreciated assets are retained in the account until they are no longer in use and no further change for depreciation is made in respect to those assets.

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.

#### **Other Assets**

Other assets include value added tax (VAT), prepayments, deposits, investment in time deposit, amounts held in escrow and materials and supplies.

*VAT.* Revenues, expenses and assets are recognized net of the amount of VAT except where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority.

The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "Other assets" or "Accounts payable and other liabilities" accounts, respectively, in the consolidated statements of financial position.

*Deferred Input VAT.* In accordance with the Revenue Regulation (RR) No. 16-2005, input VAT on purchases or imports of the Group of capital goods (depreciable assets for income tax purposes) with an aggregate acquisition cost (exclusive of VAT) in each of the calendar month exceeding ₱1.0 million are claimed as credit against output VAT over 60 months or the estimated useful lives of capital goods, whichever is shorter. Deferred input VAT represents the unamortized amount of input VAT on capital goods. Deferred input that are expected to be claimed against output VAT for no more than 12 months after the financial reporting period are classified as other current assets. Otherwise these are classified as other noncurrent assets.

Where the aggregate acquisition cost (exclusive of VAT) of the existing or finished depreciable capital goods purchased or imported during any calendar month does not exceed ₱1.0 million, the total input VAT will be allowable as credit against output VAT in the month of acquisition.

*Prepayments.* Prepayments are expenses paid in advance and recorded as assets before these are utilized. Prepayments are apportioned over the period covered by the payment and charged to profit or loss when incurred.

*Materials and Supplies.* The Group recorded as assets several excess construction materials and supplies from the completed construction of its projects.

Deposits, investment in time deposit and amounts held in escrow qualify as financial assets.

#### **CWT**

CWT represent the amount withheld by the Group's customers in relation to its income. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

### **Impairment of Nonfinancial Assets**

The carrying amounts of the Group's nonfinancial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's net recoverable amount is estimated.

Any impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its net recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets of the Group. Impairment losses are recognized in profit or loss in the period incurred.

The net recoverable amount of an asset is the greater of its value in use or its fair value less costs to sell. Value in use is the present value of future cash flows expected to be derived from an asset while fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

### **Payable to Buyers**

Payable to buyers consist of amounts received by the Group from its customers as reservation fee for real estate sales. These are recorded at face amount in the consolidated statements of financial position and recognized as revenue in profit or loss when the revenue recognition criteria are met.

### **Advance Rent**

Advance rent are initially recognized at the value of cash received, and will generally be applied as lease payments within one year or in the last three (3) months of the lease term.

### **Capital Stock**

*Common Stock.* Common stock is measured at par value for all shares issued.

*Preferred Stock.* The Group's preferred stocks are cumulative, nonvoting, nonparticipating and nonconvertible. Preferred stock is classified as equity if this is nonredeemable, or redeemable only at the Group's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Group.

Preferred stock is classified as a liability if this is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

**Additional Paid-in Capital**

Additional paid-in capital is the proceeds and/or fair value of considerations received in excess of par value of the subscribed capital stock. Incremental costs incurred directly attributable to the issuance of new shares are recognized as deduction from equity, net of any tax. Otherwise, these are recognized as expense in profit or loss.

**Retained Earnings**

Retained earnings represent the cumulative balance of net income or loss, net of any dividend declaration and prior period adjustments.

**Parent Company's Shares Held by Subsidiary**

Shares of the Parent Company held by subsidiary are carried at cost and are deducted from equity. No gain or loss is recognized on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

**Basic and Diluted Earnings Per Share (EPS)**

Basic EPS is computed by dividing the net income for the period attributable to common equity holders of the Parent Company by the weighted average number of issued and outstanding and subscribed common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effects of any potentially dilutive convertible securities.

**Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. In addition, the following specific recognition criteria must also be met before revenue is recognized:

*Revenue from Real Estate Sales.* The Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectibility is also assessed by considering factors such as collections, credit standing of the buyer and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage-of-completion (POC) method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.

If any of the criteria under the full accrual or POC method is not met, the deposit method is applied until all the conditions for recording a sale are met. Any excess collections over the recognized receivables are included in the "Payable to Buyers" account under "Accounts payable and other liabilities" of the consolidated statements of financial position.

For income tax purposes, full recognition is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

*Rent Income.* Rent income arising from operating leases on investment properties is recognized on a straight-line basis over the lease terms, except for contingent rental income which is recognized in the period that it arises. Tenant lease incentives are recognized as a reduction of rental income on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, management is reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognized in profit or loss when the right to receive those amounts arises.

*Common Use Service Area (CUSA) Fees.* CUSA fees are recognized as income once earned. These are charged monthly and are based on the lessee's proportionate share on the common areas.

*Project Management Fees.* Revenue is recognized in profit or loss when the related services are rendered.

*Interest Income.* Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

*Other Income.* Income from other sources is recognized when earned during the period.

#### **Cost and Expenses Recognition**

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

*Cost of Real Estate Sales.* Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works.

For income tax purposes, full recognition is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

*Cost of Services.* Cost of services is recognized as expense when services are rendered.

*Operating Expenses.* Operating expenses constitute cost of administering the business and cost of selling and marketing condominium units for sale. It includes commissions, marketing and selling expenses and other operating expenses, among others. Operating expenses are recognized as incurred.

*Finance Costs.* Finance costs are recognized in profit or loss using the effective interest method.



### **Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment 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 inception of the lease only if one of the following applies:

- a. there is a change in 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 or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfilment is dependent on a specified asset; or there is a substantial change to the asset;
- d. there is a substantial change to the asset.

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

*Group as Lessee.* Leases where all the risks and rewards and benefits of ownership of the assets are not substantially transferred to the Group are classified as operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight-line basis over the lease term.

*Group as Lessor.* Leases where the Group retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rent income. Contingent rents are recognized as income in the period they are earned.

### **Employee Benefits**

*Short-term Benefits.* The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

*Retirement Benefits.* The Group has an unfunded, non-contributory defined benefit plan covering all qualified employees. The retirement benefits cost is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Group recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and nonroutine settlements, and net interest expense or income in profit or loss. Net interest is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognizes restructuring-related costs.

Remeasurements comprising actuarial gains and losses are recognized immediately in other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The retirement liability is the aggregate of the present value of the retirement liability on which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

#### **Foreign Currency - Denominated Transactions**

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at reporting date. Resulting exchange differences arising on the settlement of or on translating such monetary assets and liabilities are recognized in profit or loss.

#### **Income Taxes**

*Current Tax.* Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

*Deferred Tax.* Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforwards of unused MCIT and NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same tax authority.

#### **Related Party Transactions**

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

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

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

#### **Segment Reporting**

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment reporting a strategic business unit that offers different products and serves different markets. Financial information on the Group's business segments is presented in Note 29 to the consolidated financial statements.

#### **Provisions and Contingencies**

Provisions are recognized when the Group has a present legal or constructive obligation 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, 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.

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements 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 to the consolidated statements of financial position when an inflow of economic benefits is probable.

#### **Events After the Reporting Period**

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

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### 3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### **Judgments**

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

*Determining Functional Currency.* Based on management's assessment, the functional currency of the Group has been determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the operations of the Group.

*Classifying Financial Instruments.* The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

*Recognizing Revenue and Cost of Real Estate Sales.* Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and completion of development. The buyer's commitment is evaluated based on collections, credit standing and location of the property. The Company's revenue and cost of real estate sales were recognized based on percentage of completion, which is determined based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred. Change in estimates may affect the reported amounts of revenue, cost of real estate sales and receivable from real estate sales.

Revenue from real estate sales amounted to ₱434.0 million, ₱439.2 million and ₱1,584.0 million in 2017, 2016 and 2015, respectively (see Note 15). Cost of real estate sales amounted to ₱320.5 million, ₱389.0 million and ₱1,043.7 million in 2017, 2016 and 2015, respectively (see Note 16).

*Classifying Between Real Estate for Sale and Investment Properties.* The Group determines whether a property qualifies as a real estate for sale or an investment property. In making its judgment, the Group considers whether the property is held for sale in the ordinary course of business, or held primarily to earn rentals or capital appreciation or both and is not substantially for use by, or in the operations of, the Group.

*Determining Highest and Best Use of Investment Properties.* The Group determines the highest and best use of its investment properties when measuring fair value. In making its judgment, the Group takes into account the use of the investment properties that is physically possible, legally permissible and financially feasible. The Group has determined that the highest and best use of the investment properties is their current use.

Investment properties amounted to ₱6,457.3 million and ₱4,534.1 million as at December 31, 2017 and 2016, respectively (see Note 9).

*Determining Lease Commitments - Group as Lessor.* The Group entered into various lease contracts for its office units in ACPT and retail units in Arya Residences. The term of the lease ranges from two (2) to 10 years. The lease agreements also provide for various escalation rates for the duration of the agreements.

The total rental income recognized from these operating leases amounted to ₱14.9 million, ₱8.1 million and nil in 2017, 2016 and 2015, respectively (see Note 21).

*Determining Lease Commitments - Group as Lessee.* The Group entered into a property lease as a lessee for its office premises, commercial units and parking slots. The Group has determined that the risks and benefits of ownership related to the leased properties are retained by the lessor. Accordingly, the leases are accounted for as operating leases.

Rental expense amounted to ₱13.9 million, ₱10.4 million and ₱10.5 million in 2017, 2016 and 2015, respectively (see Note 21).

*Determining Control or Joint Control over an Investee Company.* Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. On the other hand, joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group has determined that by virtue of the Parent Company's majority ownership of voting rights in its subsidiaries as at December 31, 2017 and 2016, it has the ability to exercise control over these investees.

### **Estimates and Assumptions**

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

*Determining Revenue and Cost Recognition.* The assessment process for the percentage of completion (POC) and the estimated development cost requires technical determination by management's specialist (project engineers) and involves significant judgment. The Group applied the POC method in determining real estate revenue and costs in 2016 and 2015. The POC is based on the proportion of cost incurred to date over total estimated cost of the real estate project. In 2017, the Company's revenue and cost of real estate sales from sales of completed real estate projects are accounted for using full accrual method.

Revenue from real estate sales amounted to ₱434.0 million, ₱439.2 million and ₱1,584.0 million in 2017, 2016 and 2015, respectively (see Note 15). Cost of real estate sales amounted to ₱320.5 million, ₱389.0 million and ₱1,043.7 million in 2017, 2016 and 2015, respectively (see Note 16).

*Estimating Fair Value of Investment Properties.* Investment properties are stated at fair values. The Group works closely with external qualified valuers who performed the valuation using the appropriate valuation techniques. The Group estimates expected future cash flows and discount rates. The valuation techniques and inputs used in the fair value measurement of investment properties are disclosed in Note 9 to the consolidated financial statements.

Investment properties amounted to ₱6,457.3 million and ₱4,534.1 million as at December 31, 2017 and 2016, respectively (see Note 9).

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the investment properties and the level of the fair value hierarchy.

*Determining NRV of Real Estate for Sale.* Real estate for sale is stated at lower of cost or NRV. NRV for completed real estate for sale is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate assets under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete the construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The carrying amount of real estate for sale amounted to ₱2,646.7 million and ₱1,722.2 million as at December 31, 2017 and 2016, respectively (see Note 8).

*Estimating Allowance for Impairment of Financial Assets.* A financial assets or group of financial assets, are assessed for indicators of impairment at end of each reporting period. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

No provision for impairment loss was recognized in 2017, 2016 and 2015. The carrying amounts of financial assets are as follows:

Asset Type	Note	2017	2016
Trade and other receivables*	7	<b>₱74,760,572</b>	₱71,669,073
Deposits	11	<b>66,444,390</b>	35,982,536
Amounts held in escrow	11	<b>20,096,757</b>	11,143,822
Investment in time deposits	11	<b>19,972,000</b>	17,402,000

\*Excluding advances for project development and accrued rent receivable under straight-line basis of accounting aggregating ₱111.5 million and ₱229.4 million as at December 31, 2017 and 2016, respectively.

*Estimating Useful Lives of Property and Equipment.* The Group reviews annually the estimated useful lives of property and equipment based on expected asset's utilization, market demands and future technological development. It is possible that the factors mentioned may change in the future, which could cause a change in estimated useful lives. A reduction in estimated useful lives could cause a significant increase in depreciation and amortization of property and equipment.

There were no changes in the estimated useful lives of property and equipment during 2017, 2016 and 2015. The carrying amount of property and equipment amounted to ₱39.7 million and ₱20.1 million as at December 31, 2017 and 2016, respectively (see Note 10).

*Assessing Impairment of Nonfinancial Assets.* The Group assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing whether there is any indication that an asset may be impaired, the Group considers the external and internal sources of information. External sources of information include but are not limited to unexpected significant decline in market value and any other significant changes with an adverse effect on the Group, whether it had taken place during period or will take place in the near future in the market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated. Internal sources of information include evidence of obsolescence or physical damage on an asset, significant changes with an adverse effect on the Group whether it had taken place during the period, or are expected to take place in the near future, to the extent to which, or in a manner in which, an asset is used or is expected to be used, and any other evidence that indicates that the economic performance of an asset is, or will be, worse than expected.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Recoverable amount represents the value in use, determined as the present value of estimated future cash flows expected to be generated from the continued use of the assets. The estimated cash flows are projected using growth rates based on historical experience and business plans and are discounted using pretax discount rates that reflect the current assessment of the time value of money and the risks specific to the asset.

No provision for impairment loss was recognized in 2017, 2016 and 2015.

The carrying amounts of nonfinancial assets are as follows:

Asset Type	Note	2017	2016
Advances for project development*	7	<b>₱100,270,487</b>	₱221,316,588
CWT		<b>253,188,078</b>	243,216,792
Property and equipment	10	<b>39,743,166</b>	20,071,668
Other assets**	11	<b>386,159,174</b>	120,299,730

\*presented under "trade and other receivables" account.

\*\*excluding deposits, investment in time deposits and amounts held for escrow aggregating ₱106.5 million and ₱64.5 million as at December 31, 2017 and 2016, respectively.

*Estimating Retirement Expense.* The determination of the Group's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20 to the consolidated financial statements and include among others, discount rate and salary increase rate. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement liability.

Retirement liability amounted to ₱50.7 million and ₱47.2 million as at December 31, 2017 and 2016, respectively (see Note 20).

*Assessing Realizability of Deferred Tax Assets.* The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the projected taxable income in the following periods. Based on the projection, not all future deductible temporary differences will be realized, therefore, only a portion of deferred tax assets was recognized.

The carrying amount of recognized deferred tax assets amounted to ₱85.7 million and ₱31.7 million as at December 31, 2017 and 2016, respectively. Unrecognized deferred tax assets amounted to ₱3.6 million and ₱1.4 million as at December 31, 2017 and 2016, respectively, as management assessed that these may not be realized in the future (see Note 22).

#### 4. Material Non-controlling Interest

The Group's non-controlling interest represents 40% non-controlling interest amounting to (₱37.9) million and (₱0.4) million as at December 31, 2017 and 2016, respectively, in CLLC. The net loss of CLLC allocated to non-controlling interest amounting to ₱53.5 million and ₱17.8 million in 2017 and 2016, respectively, is distributed based on the Parent Company's profit sharing agreement of 50:50 with Rock & Salt B.V.

The summarized financial information of CLLC, before intercompany eliminations, as at and for the year ended December 31, 2017 and 2016 follows:

	2017	2016
Current assets	<b>₱1,398,361,844</b>	₱1,100,970,490
Noncurrent assets	<b>76,414,030</b>	15,289,199
Current liabilities	<b>(885,380,958)</b>	(308,354,807)
Noncurrent liability	<b>(650,000,000)</b>	(810,290,234)
Net liability	<b>(₱60,605,084)</b>	(₱2,385,352)

	2017	2016
Income	<b>₱1,669,588</b>	₱672,059
Expenses	<b>(154,500,199)</b>	(51,573,768)
Loss before income tax	<b>(152,830,611)</b>	(50,901,709)
Deferred tax expense	<b>45,929,422</b>	15,282,811
	<b>(106,901,189)</b>	(35,618,898)
Other comprehensive income	—	—
Total comprehensive loss	<b>(₱106,901,189)</b>	(₱35,618,898)

	2017	2016
Cash flows from:		
Operating activities	<b>(₱532,216,770)</b>	(₱324,762,584)
Investing activities	<b>(15,195,407)</b>	(6,389)
Financing activities	<b>577,715,409</b>	445,658,141
Net increase in cash	<b>30,303,232</b>	120,889,168
Cash at beginning of year	<b>121,127,297</b>	238,129
Cash at end of year	<b>₱151,430,529</b>	₱121,127,297

CLLC commenced the development of Cebu Exchange in 2016 and has started its excavation in 2017. The construction is expected to be completed in 2021.



## 5. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	<b>₱35,000</b>	₱30,000
Cash in banks	<b>70,690,170</b>	34,869,125
Short-term placements	<b>651,070,066</b>	955,843,078
	<b>₱721,795,236</b>	₱990,742,203

Cash in bank earns interest at prevailing bank deposit rates and is immediately available for use in the current operations. Short-term placements are made for varying periods up to three (3) months or less and earn interest at the prevailing short-term investment rates.

Interest income is earned from the following (see Note 19):

	Note	2017	2016	2015
Short-term placements		<b>₱11,459,532</b>	₱9,350,701	₱9,542,269
Cash in banks		<b>2,503,854</b>	453,878	754,989
Investment in time deposits	11	<b>281,865</b>	887,625	862,552
		<b>₱14,245,251</b>	₱10,692,204	₱11,159,810

## 6. Financial Assets at FVPL

Movement in this account is as follows:

	Note	2017	2016
Balance at beginning of year		<b>₱2,050,075,279</b>	₱732,635,225
Disposals		<b>(2,573,670,000)</b>	(3,458,091,690)
Additions		<b>909,600,000</b>	4,769,675,068
Unrealized holding gains	19	<b>1,874,352</b>	5,856,676
Balance at end of year		<b>₱387,879,631</b>	₱2,050,075,279

Realized gains on disposal of financial assets at FVPL amounted to ₱37.6 million, ₱17.3 million and ₱5.8 million in 2017, 2016 and 2015, respectively (see Note 19).

The fair value of financial assets at FVPL is classified under Level 1 of the fair value hierarchy using quoted market prices (see Note 27).

## 7. Trade and Other Receivables

This account consists of:

	Note	2017	2016
Sale of real estate		<b>₱6,835,201</b>	₱15,678,222
Advances for project development		<b>100,270,487</b>	221,316,588
Due from a related party	23	<b>36,052,873</b>	36,052,873
Accrued rent receivable	21	<b>20,974,212</b>	8,103,925
Advances to employees		<b>7,925,948</b>	5,404,468
Interest receivable		<b>2,035,851</b>	1,198,773
Other receivables		<b>12,547,950</b>	13,703,029
		<b>186,642,522</b>	301,457,878
Allowance for impairment losses		<b>(368,292)</b>	(368,292)
		<b>₱186,274,230</b>	₱301,089,586

Receivables from sale of real estate pertain to receivables from sale of condominium units. These receivables are noninterest-bearing and generally collectible in monthly installments over a maximum period of three (3) years. Titles to the units sold under this arrangement are transferred to the buyers only upon full payment of the contract price.

Advances for project development pertain to downpayments made to contractors for the construction of the Group's real estate projects. These advances are applied against contractors' progress billings.

Accrued rent receivable pertains to rental income recognized using straight-line method of accounting.

Advances to employees represent salary and other loans granted to Parent Company's employees which are noninterest-bearing in nature and collectible through salary deductions.

Interest receivable includes accrual of interest from the Group's short-term placements.

Other receivables mainly include accrued project management fees.

## 8. Real Estate for Sale

This account consists of:

	2017	2016
Raw land	<b>₱1,268,419,016</b>	₱325,614,253
Assets under construction	<b>1,275,413,889</b>	978,084,141
Condominium units for sale	<b>102,898,713</b>	418,494,305
	<b>₱2,646,731,618</b>	₱1,722,192,699

The movements of this account follows:

	Note	2017	2016
Balance at beginning of year		<b>₱1,722,192,699</b>	₱1,558,711,101
Purchase of raw land		<b>942,804,763</b>	314,332,750
Cost of real estate sales	16	<b>(320,515,983)</b>	(389,043,136)
Construction costs incurred		<b>266,688,988</b>	254,596,763
Capitalized borrowing costs	12	<b>36,653,151</b>	28,615,156
Transfers to investment properties	9	<b>(1,092,000)</b>	(45,019,935)
Balance at end of year		<b>₱2,646,731,618</b>	₱1,722,192,699

#### **Raw Land**

Raw land pertains to parcels of land acquired by the Group for future development projects that are intended for sale.

In 2016, the Group transferred raw land amounting to ₱45.0 million from “real estate for sale” account to “investment properties” account because the Group has yet to determine the strategic use of the property (see Note 9). Accordingly, the property was recognized at its fair value amounting to ₱84.0 million.

#### **Assets under Construction**

Assets under construction consist of land and project development costs of ongoing real estate projects of the Group. As at December 31, 2017, this account includes the land and development costs of Cebu Exchange and project in Biñan, Laguna (see Notes 1 and 4).

In 2017, CLLC entered into an Omnibus Loan and Security Agreement (OLSA) with credit line of ₱2,350.0 million with a local bank, to partially finance the development and construction of Cebu Exchange. This OLSA provides that the loan outstanding balance amounting to ₱650.0 million is secured by parcels of land, together with any improvements thereon, located in Cebu City, aggregating ₱931.8 million (see Note 12).

#### **Condominium units for sale**

Condominium units for sale pertain to unsold and completed units of Arya Residences.

Condominium units with carrying amount of ₱102.9 million and ₱358.8 million as at December 31, 2017 and 2016, respectively, are under an unregistered real estate mortgage and were used as collateral for a loan with an outstanding balance of ₱100.0 million and ₱381.5 million as at December 31, 2017 and 2016, respectively (see Note 12).

General borrowings were used to partially finance the Group’s ongoing real estate projects. The related borrowing costs were capitalized as part of real estate for sale. The capitalization rate used to determine borrowing costs eligible for capitalization ranges from 3.0% to 3.5% in 2017 and in 2016 (see Note 12).

As at December 31, 2017 and 2016, real estate for sale is stated at cost which is lower than its NRV. There is no allowance for inventory write-down as at December 31, 2017 and 2016.

## 9. Investment Properties

Investment properties consist of:

	2017	2016
ACPT	<b>₱4,579,238,370</b>	₱3,067,015,343
Arya Residences:		
Commercial units	<b>1,110,864,000</b>	855,110,000
Parking slots	<b>206,653,883</b>	129,919,062
Raw Land:		
UPHI's Laguna and Tagaytay properties	<b>464,476,979</b>	398,122,800
Parent Company's Batangas and Tagaytay properties	<b>96,082,021</b>	83,976,500
	<b>₱6,457,315,253</b>	₱4,534,143,705

The movements of this account follows:

	Note	2017	2016
Balance at the beginning of year		<b>₱2,502,376,038</b>	₱1,391,323,861
Construction costs incurred		<b>1,412,490,012</b>	1,046,695,733
Capitalized borrowing costs	12	<b>68,169,703</b>	25,966,509
Transfers from real estate for sale	8	<b>1,092,000</b>	45,019,935
Disposals		–	(6,630,000)
		<b>3,984,127,753</b>	2,502,376,038
Cumulative gain on change in fair value		<b>2,460,158,366</b>	2,031,767,667
		<b>6,444,286,119</b>	4,534,143,705
Unamortized initial direct leasing costs		<b>13,029,134</b>	–
Balance at end of year		<b>₱6,457,315,253</b>	₱4,534,143,705

Movements of the cumulative gain on change in fair value are as follows:

	2017	2016
Balance at beginning of year	<b>₱2,031,767,667</b>	₱613,902,461
Gain on change in fair value during the year	<b>428,390,699</b>	1,417,865,206
Balance at end of year	<b>₱2,460,158,366</b>	₱2,031,767,667

Movements of the unamortized initial direct leasing costs in 2017 are as follows:

Balance at beginning of year	₱–
Additions	13,279,086
Amortization	(249,952)
Balance at end of year	<b>₱13,029,134</b>

### **ACPT**

ACPT is an office building under construction which is intended for lease (see Note 1).

### **Arya Residences' Commercial Units and Parking Slots**

These are retail establishments of MPI and parking slots of ALCO and MPI in Arya Residences which are intended for lease. These were used as collateral for loans payable with outstanding balance amounting ₱280.0 million and ₱300.0 million as at December 31, 2017 and 2016, respectively (see Note 12).

In 2016, MPI sold parking slots with original cost of ₱6.6 million for a total consideration of ₱5.9 million.

### **Raw Land**

UPHI's raw land, with fair value amounting to ₱464.5 million and ₱398.1 million as at December 31, 2017 and 2016, respectively, has a total area of 33 hectares and are located at Barangay Gonzalo Bontog, Calamba City and Barangay Calabuso, Tagaytay City. Portion of the UPHI's raw land is currently under expropriation proceedings filed by the National Power Corporation (NAPOCOR) with the Regional Trial Court of Calamba City, Laguna. Moreover, a complaint for quieting of title was filed by UPHI on October 18, 2010 because of the erroneous issuance of tax declarations by the City of Tagaytay covering UPHI's property located in Calamba City, Laguna. As at December 31, 2017 and 2016, management assessed that the potential effect of these cases on the Group's consolidated financial statements is not significant.

Raw land of the Parent Company has a total area of 10.3 hectares located in Batangas and Tagaytay with fair value aggregating ₱96.1 million and ₱84.0 million as at December 31, 2017 and 2016, respectively.

Rental income, CUSA fees and cost of services from the investment properties are as follows:

	Note	2017	2016
Rental income	15	<b>₱14,858,157</b>	₱8,103,925
CUSA fees	15	<b>8,139,533</b>	—
Cost of services	16	<b>(7,993,691)</b>	(4,631,402)
		<b>₱15,003,999</b>	₱3,472,523

### **Fair Value Measurement**

Details of the valuation techniques used in measuring fair values of investment properties classified under Levels 2 and 3 of the fair value hierarchy are as follows:

Class of Property	Valuation Technique	Significant Inputs	2017	2016
ACPT	Land development approach	Discount rate	<b>8.7%</b>	8.5%
		Proposed rental rates (per sq.m.)	<b>₱1,250</b>	₱1,200
		Calculated no. of net leasable area	<b>27,809 sq.m</b>	27,809 sq.m.
		Vacancy rate	<b>5% - 75%</b>	5% - 75%
Arya Residences: Commercial units	Discounted cash flow approach (DCF)	Rental rate per square meter (sq.m.)	<b>₱2,360</b>	₱2,265
		Rent escalation rate per annum (p.a.)	<b>5%</b>	5%
		Discount rate	<b>6.17%</b>	8.5%
		Vacancy rate	<b>2%</b>	2%
Parking slots	Discounted cash flow approach	Rental rate per slot	<b>₱5,500</b>	₱5,500
		Rent escalation rate p.a.	<b>5%</b>	5%
		Discount rate	<b>6.17%</b>	8.5%
		Vacancy rate	<b>2%</b>	2%
Raw Land	Market data approach	Price per sq. m.	<b>₱1,400</b>	₱1,200
		Value adjustments	<b>5% - 65%</b>	15% - 20%

The description of the valuation techniques and inputs used in the fair value measurement are as follows:

#### **Land Development Approach**

Under this approach, the investment property is treated as office and commercial units development and the gross rental income that may be expected from the proposed leasable units are then estimated in accordance with the prevailing prices of comparable office and commercial units development within the immediate vicinity. Overhead and operating expenses, and developer's profit are deducted from the gross rental income. The resulting residual income is then attributed to the "raw" land value.

The valuation process consists of the following:

- Preparation of an office and commercial building study in accordance with the highest and best use concept of the land.
- Establishment of total rental income from lease of office and commercial units based on the current rental rates in similar office building within the immediate vicinity.
- Determination of development costs consisting of clearing and grading, survey, tilting services, construction of access roads, roadways, curbs and gutters, sewerage and drainage system, water supply and electrical distribution, rip-rapping and supervision and other contingency items considering current prices for construction materials, labor, contractor's profit and overhead expenses.
- Estimation of overhead and operating expenses such as promotion and advertisement, administrative and collection, taxes and miscellaneous expenses.

#### **Discounted Cash Flow Approach**

Under the DCF approach, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's estimated useful life including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF approach involves the projection of a series of cash flows on a real property interest. An appropriate, market-derived discount rate is applied to projected cash flow series to establish the present value of the income stream associated with the investment property.

Periodic cash flows of investment properties are typically estimated as gross income less vacancy and operating expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

The frequency of inflows and outflows are contract and market-derived. The DCF approach assumes that cash outflows occur in the same period that expenses are recorded.

*Sensitivity Analysis.* Generally, significant increases (decreases) in rental rate (per sq.m.) and rent escalation rate p.a. in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in discount rate and vacancy rate in isolation would result in a significantly lower (higher) fair value measurement.

### Market Data Approach

Market data approach involves the comparison of the UPHI's property and Batangas and Tagaytay properties to those that are more or less located within the vicinity of the appraised properties and are subject of recent sales and offerings. Adjustments were made to arrive at the market value by considering the location, size, shape, utility, desirability and time element.

The inputs to fair valuation are as follows:

- *Price per sq.m.* - estimated value prevailing in the real estate market depending on the location, area, shape and time element.
- *Value adjustments* - adjustments are made to bring the comparative values in approximation to the investment property taking into account the location, size and architectural features among others.

The reconciliation of the balances of investments properties classified according to level in the fair value hierarchy is as follows:

	2017		Total
	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Balance at beginning of year	₱482,099,300	₱4,052,044,405	₱4,534,143,705
Construction costs incurred	–	1,412,490,012	1,412,490,012
Gain on change in fair value	78,459,700	349,930,999	428,390,699
Capitalized borrowing costs	–	68,169,703	68,169,703
Unamortized initial direct leasing costs	–	13,029,134	13,029,134
Transfer from real estate for sale	–	1,092,000	1,092,000
Balance at end of year	₱560,559,000	₱5,896,756,253	₱6,457,315,253

	2016		Total
	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Balance at beginning of year	₱1,349,692,443	₱655,533,879	₱2,005,226,322
Gain on change in fair value	72,133,844	1,345,731,362	1,417,865,206
Construction costs incurred	–	1,046,695,733	1,046,695,733
Transfer from real estate for sale	45,019,935	–	45,019,935
Capitalized borrowing costs	–	25,966,509	25,966,509
Disposals	–	(6,630,000)	(6,630,000)
Transfer between levels	(984,746,922)	984,746,922	–
Balance at end of year	₱482,099,300	₱4,052,044,405	₱4,534,143,705

## 10. Property and Equipment

The balances and movements of this account consist of:

		2017				
	Note	Office Equipment	Furniture and Fixtures	Leasehold Improvements	Transportation Equipment	Total
<b>Cost</b>						
Balance at beginning of year		₱38,547,542	₱7,578,512	₱48,363,334	₱40,558,056	₱135,047,444
Additions		5,061,501	497,346	14,571,368	10,521,326	30,651,541
Disposals		(105,935)	–	–	(8,726,441)	(8,832,376)
Balance at end of year		43,503,108	8,075,858	62,934,702	42,352,941	156,866,609
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year		36,829,770	7,530,553	48,205,758	22,409,695	114,975,776
Depreciation and amortization	17	1,198,053	117,055	146,943	7,868,904	9,330,955
Disposals		(101,453)	–	–	(7,081,835)	(7,183,288)
Balance at end of year		37,926,370	7,647,608	48,352,701	23,196,764	117,123,443
<b>Carrying Amount</b>		<b>₱5,576,738</b>	<b>₱428,250</b>	<b>₱14,582,001</b>	<b>₱19,156,177</b>	<b>₱39,743,166</b>

		2016				
	Note	Office Equipment	Furniture and Fixtures	Leasehold Improvements	Transportation Equipment	Total
<b>Cost</b>						
Balance at beginning of year		₱37,467,642	₱7,534,354	₱48,363,334	₱33,992,553	₱127,357,883
Additions		1,079,900	44,158	–	11,875,000	12,999,058
Disposals		–	–	–	(5,309,497)	(5,309,497)
Balance at end of year		38,547,542	7,578,512	48,363,334	40,558,056	135,047,444
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year		35,803,169	7,391,289	47,948,094	19,013,273	110,155,825
Depreciation and amortization	17	1,026,601	139,264	257,664	6,790,647	8,214,176
Disposals		–	–	–	(3,394,225)	(3,394,225)
Balance at end of year		36,829,770	7,530,553	48,205,758	22,409,695	114,975,776
<b>Carrying Amount</b>		<b>₱1,717,772</b>	<b>₱47,959</b>	<b>₱157,576</b>	<b>₱18,148,361</b>	<b>₱20,071,668</b>

As at December 31, 2017 and 2016, fully depreciated property and equipment that are still being used by the Group amounted to ₱10.5 million and ₱10.0 million, respectively.

The Parent Company sold property and equipment with carrying amount of ₱1.6 million and ₱1.9 million as at December 31, 2017 and 2016, respectively, resulting in gain (loss) on disposal of (₱0.5 million) and ₱0.2 million as at December 31, 2017 and 2016, respectively.

## 11. Other Assets

This account consists of:

	Note	2017	2016
Input VAT		₱305,361,184	₱73,307,494
Deposits		66,444,390	35,982,536
Prepayments		62,413,744	43,186,452
Amounts held in escrow	12	20,096,757	11,143,822
Investment in time deposits		19,972,000	17,402,000
Deferred input VAT		16,864,439	2,264,763
Materials and supplies		1,519,807	1,541,021
		<b>₱492,672,321</b>	<b>₱184,828,088</b>



Deposits pertain to rental deposits, deposits for professional services, and guarantee deposits for the construction of the Group's real estate projects.

Prepayments consist of prepaid rent, taxes, insurance and other expenses which are amortized over a year.

Amounts held in escrow represents the debt service account required under an existing loan with a certain bank and the amount of which is equivalent to a quarterly principal and interest amortization. The outstanding loan balance under OLSA amounted to ₱1,497.8 million and ₱550.7 million as at December 31, 2017 and 2016, respectively (see Note 12).

Investment in time deposits pertains to US Dollar-denominated time deposits with terms of two (2) years and fixed interest rates ranging from 1.75% to 2.50% per annum. These time deposits are subject to a holding period of six (6) months from the date of issuance. In case of early retirement, the investment will earn interest based on regular deposit rates. Interest income earned from investment in time deposits amounted to ₱0.3 million, ₱0.9 million and ₱0.9 million in 2017, 2016 and 2015, respectively (see Note 5).

Materials and supplies are for the construction of Arya Residences.

## 12. Loans Payable

This account consists of:

	2017	2016
Local bank loans	<b>₱2,527,767,436</b>	₱1,487,174,369
Private funders	<b>1,741,124,980</b>	1,623,864,334
	<b>₱4,268,892,416</b>	₱3,111,038,703

Movements of this account follow:

	2017	2016
Balance at beginning of year	<b>₱3,256,599,287</b>	₱3,208,775,804
Availments	<b>2,050,662,463</b>	2,386,606,892
Payments	<b>(951,520,000)</b>	(2,338,783,409)
Balance at end of year	<b>4,355,741,750</b>	3,256,599,287
Unamortized "Day 1" gain	<b>(61,242,769)</b>	(116,503,414)
Unamortized debt issue cost	<b>(25,606,565)</b>	(29,057,170)
	<b>4,268,892,416</b>	3,111,038,703
Less current portion of loans payable	<b>1,841,124,980</b>	726,243,970
Long term portion of loans payable	<b>₱2,427,767,436</b>	₱2,384,794,733

The movement in "Day 1" gain follows:

	Note	2017	2016
Balance at beginning of year		<b>₱116,503,414</b>	₱84,499,117
Amortization		<b>(58,168,428)</b>	(48,879,359)
Additions	19	<b>2,907,783</b>	80,883,656
Balance at end of year		<b>₱61,242,769</b>	₱116,503,414

The movement in debt issue cost follows:

	2017	2016
Balance at beginning of year	<b>₱29,057,170</b>	₱32,507,775
Amortization	<b>(3,450,605)</b>	(3,450,605)
Balance at end of year	<b>₱25,606,565</b>	₱29,057,170

Future repayment of the principal follows:

	2017	2016
Within one year	<b>₱1,841,124,980</b>	₱726,243,970
After one year but not more than three years	<b>280,000,000</b>	1,650,643,779
More than three years	<b>2,234,616,770</b>	879,711,538
	<b>₱4,355,741,750</b>	₱3,256,599,287

#### **Local Bank Loans**

These are loans from local banks which are interest-bearing secured loans obtained to finance the Group's working capital requirements, project development and acquisition of properties. These loans have interest rates ranging from 3.0% to 5.81% per annum (p.a.) and 2.75% to 5.81% p.a. in 2017 and 2016, respectively.

Details and outstanding balances of loans from local banks as at December 31 follow:

Purpose	Security	Effective interest rate (p.a.)	2017	2016
Construction of ACPT	Payable in full on July 31, 2025; secured by an escrow account and real estate mortgage (see Note 11).	5.81%	<b>₱1,497,767,436</b>	₱550,654,369
Construction of Cebu Exchange	Payable on a quarterly basis within four (4) years from the date of initial drawdown; secured by raw land amounting to ₱931.8 million as at December 31, 2017 (see Note 8).	5.77%	<b>650,000,000</b>	—
Acquisition of land	Payable on a quarterly basis until July 5, 2019; secured by the commercial units of MPI and parking slots of ALCO and MPI in Arya Residences with carrying amount of ₱1,317.5 million and ₱985.0 million as at December 31, 2017 and 2016, respectively (see Note 9).	5.12%	<b>280,000,000</b>	300,000,000
Working fund	Payable monthly until June 11, 2018; secured by Arya Residences condominium units with carrying amount of ₱102.9 million and ₱358.8 million as at December 31, 2017 and 2016, respectively (see Note 8).	3.00%	<b>100,000,000</b>	381,520,000
Working fund	Payable in full on November 13, 2017; unsecured.	2.75%	—	255,000,000
			<b>₱2,527,767,436</b>	₱1,487,174,369

In 2015, the Parent Company entered into an OLSA for a credit line of ₱2,000.0 million, to partially finance the cost of construction and development of the ACPT. The loan is supported by 15 promissory notes that are maturing on July 2025. The Parent Company incurred debt issue cost amounting to ₱34.5 million in 2015. In addition, this OLSA provides the following:

- Loan outstanding balance is secured by first ranking and continuing real estate mortgage over present and future real estate assets in relation to the lot and building for the ACPT.
- A security trust agreement covering the maintenance of revenue and operating accounts, project receivables and project agreements (see Note 11).
- The Parent Company is required to maintain the following debt to equity ratio:

Period	Debt to Equity Ratio
2015	2.00 : 1.00
2016 to 2018	1.75 : 1.00
2019 to 2025	1.50 : 1.00

The outstanding loan balance under OLSA amounted to ₱1,497.8 million and ₱550.7 million as at December 31, 2017 and 2016.

Debt to equity ratio is calculated as total outstanding interest-bearing loans over total equity. The Parent Company's debt to equity ratio as at December 31 is as follows:

	2017	2016
Total liabilities	<b>₱1,967,491,406</b>	₱1,576,898,339
Total equity	<b>4,535,384,733</b>	4,705,965,817
	<b>0.43:1.00</b>	0.34:1.00

The Parent Company is compliant with the required debt to equity ratio as at December 31, 2017 and 2016.

In 2017, CLLC entered into an OLSA for a credit line of ₱2,350.0 million with a local bank, to partially finance the development and construction of Cebu Exchange. Loan proceeds will be received in several drawdowns within a period of four (4) years. In 2017, the first drawdown was received amounting to ₱650.0 million. In addition, this OLSA provides the following:

- Loan outstanding balance is secured by raw land amounting to ₱931.8 million, together with any improvements thereon, located in Cebu City.
- A pledge of shares of the Parent and Rock and Salt B.V., non-controlling interest, in CLLC in which shall be evidenced by that Contract of Pledge to be executed by the pledgers in favor of the lender in form and substance, acceptable to the latter, to secure the payment of the drawdowns on the loan, including the interest, penalties, fees and other charges thereon, as well as all sums due and payable by CLLC to the bank.

### **Private Funders**

Details of outstanding balances of loans from private funders at December 31 follow:

Purpose	Terms	Effective interest rate (p.a.)	2017	2016
Construction of ACPT	Payable in cash or in kind at the option of the lender on December 31, 2018, unsecured	3.75%	<b>₱1,591,325,936</b>	₱1,534,140,364
Construction of ACPT	Payable in cash or in kind at the option of the lender on December 31, 2018, unsecured	3.16%	<b>60,075,074</b>	–
Working fund	Payable in full on May 7, 2018, unsecured	3.50%	<b>40,000,000</b>	40,000,000
Working fund	Payable in full on July 23, 2018, unsecured	3.50%	<b>17,145,000</b>	17,145,000
Working fund	Payable in full on July 23, 2018, unsecured	3.50%	<b>16,302,970</b>	16,302,970
Working fund	Payable in full on April 2, 2018, unsecured	3.50%	<b>16,276,000</b>	16,276,000
			<b>₱1,741,124,980</b>	₱1,623,864,334

In 2015, the Parent Company entered into a non-interest bearing loan agreement with Centrobless Corporation (Centrobless), an entity under common control, with principal amount of ₱1,650.6 million to partially finance the construction of ACPT.

This loan is payable in cash or in kind at the option of Centrobless. In the event Centrobless elects to be paid in kind on maturity date, the Company shall pay the loan by dacion en pago with total space encompassing seven (7) floors of ACPT and 150 parking slots therein for ₱1,650.6 million. “Day 1” gain of ₱80.9 million in 2016 was recognized on this loan and is presented under “Other income - net” account in the consolidated statements of comprehensive income (see Note 19).

Outstanding balance of this loan amounted to ₱1,591.3 million and ₱1,534.1 million as at December 31, 2017 and 2016, respectively (see Note 23).

In 2017, the Parent Company entered into a non-interest bearing loan agreement with Signature Office Property, Inc. (SOPI), an entity under common control, with principal amount of ₱207.1 million, to finance the remaining construction of ACPT. Drawdowns aggregating ₱62.0 million were made in 2017 (see Note 23). The loan will mature on December 31, 2018.

This loan is payable in cash or in kind at the option of SOPI. In the event that SOPI elects to be paid in kind on maturity date, the Parent Company shall repay the loan by dacion en pago with the total saleable space estimated at 994 sq.m. and 10 parking slots in ACPT for ₱207.1 million. “Day 1” gain of ₱2.9 million in 2017 was recognized on this loan and is presented under “Other income - net” account in the consolidated statements of comprehensive income (see Note 19).

Outstanding balance of this loan amounted to ₱60.1 million as at December 31, 2017 (see Note 23).

### **Capitalized Borrowing Costs**

Borrowing costs capitalized are as follows:

	Note	2017	2016
Investment properties	9	<b>₱68,169,703</b>	₱25,966,509
Real estate for sale	8	<b>36,653,151</b>	28,615,156
		<b>₱104,822,854</b>	₱54,581,665

The range of capitalization rates used to determine the amount of capitalized borrowing costs is 3.0% to 3.5% in 2017 and 2016 (see Note 8).

### **Interest Expense**

Total interest expense charged under “Finance costs” consists of the following (see Note 18):

	2017	2016	2015
Interest expense on interest-bearing loans	<b>₱19,750,114</b>	₱30,660,856	₱34,259,929
Amortization of “day 1” gain on loan discounting	<b>58,168,428</b>	48,879,359	5,453,302
	<b>₱77,918,542</b>	₱79,540,215	₱39,713,231

### **13. Accounts Payable and Other Liabilities**

This account consists of:

	Note	2017	2016
Accounts payable:			
Third parties		<b>₱153,771,641</b>	₱299,993,140
Related party	23	<b>8,424,024</b>	5,678,057
Retention payable		<b>329,929,213</b>	292,557,574
Payable to buyers		<b>140,710,597</b>	139,796,738
Accrued expenses		<b>122,915,922</b>	128,166,786
Security deposits	21	<b>17,032,517</b>	2,824,148
Deferred output VAT		<b>15,466,182</b>	1,679,417
Withholding taxes payable		<b>11,309,420</b>	9,523,732
Advance rent	21	<b>10,787,533</b>	1,983,483
Construction bonds		<b>5,005,393</b>	—
Dividend payable		<b>4,597,364</b>	4,748,691
Output VAT		—	220,288
Others		<b>4,507,114</b>	12,035,236
		<b>₱824,456,920</b>	₱899,207,290

Accounts payable, which are noninterest-bearing and are normally settled within 30 days to one year, consist mainly of liabilities to Group’s suppliers.

Retention payable, which will be released after completion and satisfaction of the terms and conditions of the construction contract, pertains to amount retained by the Group from the contractors’ progress billings for the real estate projects of the Group.

Payable to buyers include reservation fees and collections received from prospective buyers and lessees, which are to be applied against the receivable upon execution of sales documents and to be applied as security deposits upon execution of lease contracts, respectively.

Accrued expenses, which are expected to be settled within the next 12 months, are the accruals for unbilled project costs, interest, utilities, salaries and wages and other employee benefits. Accrued interest amounted to ₱39.8 million and ₱33.9 million as at December 31, 2017 and 2016, respectively.

Security deposits pertain to the deposits made by the lessees of the ACPT which are refundable upon termination of the lease.

Deferred output VAT pertains to VAT from sales of property on installments. If the payments in the year of sale do not exceed twenty-five percent (25%) of the gross selling price, the transaction will be considered as a sale under installment, in which case VAT will be paid based on collection. This account also includes the deferred output VAT on the development fees charged to CLLC that is not yet collected.

Advance rent pertain to the payments made in advance by the tenants to be applied to their rent payable in the immediately succeeding months or in the last three (3) months of the lease term.

Construction bonds represent noninterest-bearing deposits made by the lessees before the start of its construction in the ACPT and refundable upon fulfillment of contract provisions.

Other payables pertain to liabilities to SSS, PhilHealth and HDMF and dividend payables.

#### 14. Equity

The details of the Parent Company's number of common and preferred shares follow:

	2017		2016	
	Preferred	Common	Preferred	Common
Authorized	50,000,000	16,368,095,199	50,000,000	16,368,095,199
Par value per share	₱1.00	₱0.18	₱1.00	₱0.18
Issued and outstanding	32,500,000	5,318,095,199	32,500,000	5,318,095,199

#### Preferred Shares

The rollforward analysis of the issued and outstanding preferred shares as of December 31 follows:

	2017		2016	
	Number of Shares	Amount	Number of Shares	Amount
<b>Issued and Outstanding</b>				
Balance at beginning of year	32,500,000	₱32,500,000	—	₱—
Issuances during the year	—	—	32,500,000	32,500,000
Balance at end of year	32,500,000	32,500,000	32,500,000	32,500,000
<b>Parent Company's shares held by a subsidiary</b>				
	(12,500,000)	(12,500,000)	(12,500,000)	(12,500,000)
	20,000,000	₱20,000,000	20,000,000	₱20,000,000

On August 30, 2016, the Parent Company's BOD and stockholders approved the increase in authorized capital stock of ₱50.0 million consisting of 50 million preferred shares at ₱1.00 par value a share. The increase in authorized capital stock was approved by the SEC on September 22, 2016.

Of the ₱50.0 million increase in authorized capital stock, ALCO issued 12.5 million cumulative, nonvoting, nonparticipating and nonconvertible Peso-denominated preferred shares (the “Series A” preferred shares) to MPI and 20.0 million preferred shares (the “Series B” preferred shares) which are likewise cumulative, nonvoting, nonparticipating, and nonconvertible Peso-denominated, among other conditions, to the public at the issuance price of ₱100 a share at ₱1.00 par value a share. MPI acquired the 12.5 million Series A preferred shares at a ₱1.00 par value a share.

The Parent Company recognized additional paid-in capital related to the issuance of Series B preferred shares amounting to ₱1,980.0 million arising from the excess of the proceeds over par value of the shares sold. Total cost incurred in the offering and issuance of Series B preferred shares to the public amounted to ₱26.4 million consisting of ₱2.8 million which was charged to profit or loss and ₱23.6 million which was recognized as reduction to additional paid-in capital.

### **Common Shares**

As at December 31, 2017 and 2016, the Parent Company has issued and outstanding common shares of 5,318,095,199 amounting to ₱957.3 million.

The details and movement of the shares listed with PSE follows:

Date of SEC Approval	Type of Issuance	No. of Shares Issued	Issue/Offer Price
1996	Initial public offering	351,000,000	₱1.00
1998	Payment of subscription	256,203,748	1.00
1999	Stock dividends	410,891,451	1.00
2009	Payment of subscription	628,770,000	0.20
2010	Payment of subscription	100,000,000	0.20
2011	Payment of subscription	2,200,000,000	0.20
	Public offering of Series “B”		
2016	preferred shares	20,000,000	100

The Parent Company has 1,979 and 2,013 shareholders as at December 31, 2017 and 2016, respectively.

### **Dividend Declaration**

The Parent Company’s BOD and stockholders approved the following cash dividends to preferred and common stockholders:

Declaration Date	Stockholders of Record Date	Payment Date	Amount	Share	Dividend per Share
October 26, 2017	November 24, 2017	December 6, 2017	₱35,229,000	Series B preferred shares	₱1.76
August 9, 2017	August 23, 2017	September 6, 2017	35,229,000	Series B preferred shares	1.76
May 10, 2017	May 25, 2017	June 6, 2017	35,229,000	Series B preferred shares	1.76
February 28, 2017	March 14, 2017	April 7, 2017	63,817,142	Common	0.012
February 8, 2017	February 24, 2017	March 6, 2017	35,229,000	Series B preferred shares	1.76
			₱204,733,142		
March 9, 2015	March 23, 2015	April 8, 2015	₱63,817,142	Common	0.012

## 15. Revenues

The Group's revenues are as follows:

	Note	2017	2016	2015
Real estate sales		<b>₱433,964,838</b>	₱439,160,673	₱1,584,016,397
Rent income	21	<b>14,858,157</b>	8,103,925	–
CUSA fees	21	<b>8,139,533</b>	–	–
Project management fees		<b>6,576,066</b>	3,810,463	3,562,464
		<b>₱463,538,594</b>	<b>₱451,075,061</b>	<b>₱1,587,578,861</b>

Real estate sales pertain to revenues earned from the sale of condominium units in Arya Residences.

Rent income pertains to the revenues earned from various lease contracts of the Parent Company in ACPT and from retail units of MPI in Arya Residences which are recognized on a straight line basis under PAS 17, *Lease*.

Project management fees pertain to services rendered by EPMI to the Arya Residences Condominium Corporation (ARCC). The service contract has a term of seven (7) years commencing on December 1, 2014 for the management and maintenance of all common areas of Arya Residences.

## 16. Cost of Sales and Services

	Note	2017	2016	2015
Cost of real estate sales	8	<b>₱320,515,983</b>	₱389,043,136	₱1,043,700,643
Cost of services	9	<b>7,993,691</b>	4,631,402	–
		<b>₱328,509,674</b>	<b>₱393,674,538</b>	<b>₱1,043,700,643</b>

Cost of services consists of real property taxes, commission expense and other taxes pertaining to ACPT and MPI's investment properties.

## 17. Operating Expenses

Operating expenses are classified as follows:

	2017	2016	2015
Administrative	<b>₱278,065,313</b>	₱298,360,928	₱244,806,979
Selling and marketing	<b>48,493,636</b>	66,767,530	69,323,793
	<b>₱326,558,949</b>	<b>₱365,128,458</b>	<b>₱314,130,772</b>



Details of operating expenses by nature are as follows:

	Note	2017	2016	2015
Personnel costs		<b>₱133,377,623</b>	₱134,721,050	₱132,319,593
Advertising		<b>36,792,147</b>	43,239,749	18,027,303
Taxes and licenses		<b>33,321,044</b>	58,472,179	34,369,989
Management and professional fees		<b>33,152,440</b>	33,341,170	13,400,124
Communication and office expenses		<b>21,378,435</b>	18,242,802	12,910,462
Rent	21	<b>13,908,352</b>	10,357,319	10,478,643
Commissions		<b>11,701,489</b>	23,527,781	51,296,490
Insurance		<b>9,908,865</b>	12,074,379	9,971,139
Depreciation and amortization	10	<b>9,330,955</b>	8,214,176	19,282,497
Transportation and travel		<b>7,856,509</b>	5,593,670	4,886,530
Repairs and maintenance		<b>2,360,720</b>	2,181,796	2,316,718
Representation		<b>1,435,959</b>	3,018,354	883,885
Utilities		<b>1,416,796</b>	8,062,059	1,465,325
Others		<b>10,617,615</b>	4,081,974	2,522,074
		<b>₱326,558,949</b>	₱365,128,458	₱314,130,772

Personnel costs consist of:

	Note	2017	2016	2015
Salaries and other employee benefits		<b>₱123,630,062</b>	₱125,376,040	₱123,692,702
Retirement expense	20	<b>9,747,561</b>	9,345,010	8,626,891
		<b>₱133,377,623</b>	₱134,721,050	₱132,319,593

## 18. Finance Costs

This account consists of:

	Note	2017	2016	2015
Interest expense	12	<b>₱77,918,542</b>	₱79,540,215	₱39,713,231
Bank charges		<b>2,744,698</b>	808,130	853,348
		<b>₱80,663,240</b>	₱80,348,345	₱40,566,579

## 19. Other Income - Net

This account consists of:

	Note	2017	2016	2015
Realized gain on disposals of financial assets at FVPL	6	<b>₱37,576,414</b>	₱17,310,183	₱5,807,623
Interest income	5	<b>14,245,251</b>	10,692,204	11,159,810
Forfeited collections		<b>10,657,784</b>	31,696,556	8,496,305
"Day 1" gain on loan discounting	12	<b>2,907,783</b>	80,883,656	89,952,419
Unrealized holding gains on financial assets at FVPL	6	<b>1,874,352</b>	5,856,676	635,227
Gain (loss) on disposal of investment property		<b>(475,131)</b>	185,888	9,722
Foreign exchange gains		<b>83,998</b>	600,156	2,407,067
Others		<b>572,867</b>	417,879	3,904,590
		<b>₱67,443,318</b>	₱147,643,198	₱122,372,763

Others include net gain on disposal of property and equipment.

## 20. Retirement Liability

The Parent Company has an unfunded and non-contributory defined benefit retirement plan covering substantially all of its regular employees.

There are no unusual or significant risks to which the retirement liability exposes the Parent Company. However, in the event a benefit claim arises under the retirement liability, the benefit shall immediately be due and payable from the Parent Company.

The following tables summarize the components of retirement benefit costs recognized in the consolidated statements of comprehensive income (based on the report of an independent actuary dated January 31, 2018).

The components of retirement expense are as follows:

	2017	2016
Current service cost	<b>₱7,205,814</b>	₱7,272,293
Interest cost	<b>2,541,747</b>	2,072,717
	<b>₱9,747,561</b>	₱9,345,010

Movements in the present value of retirement liability are as follows:

	2017	2016
Balance at beginning of year	<b>₱47,244,365</b>	₱40,801,518
Current service cost	<b>7,205,814</b>	7,272,293
Interest cost	<b>2,541,747</b>	2,072,717
Remeasurement gain	<b>(6,323,380)</b>	(2,902,163)
Balance at end of year	<b>₱50,668,546</b>	₱47,244,365

The cumulative remeasurement gain on retirement liability recognized in other comprehensive income follows:

	<b>2017</b>		
	<b>Cumulative Remeasurement Gains</b>	<b>Deferred Tax (see Note 22)</b>	<b>Net</b>
Balance at beginning of year	<b>₱4,317,179</b>	<b>₱1,295,154</b>	<b>₱3,022,025</b>
Remeasurement gain	<b>6,323,380</b>	<b>1,897,014</b>	<b>4,426,366</b>
Balance at end of year	<b>₱10,640,559</b>	<b>₱3,192,168</b>	<b>₱7,448,391</b>

	<b>2016</b>		
	<b>Cumulative Remeasurement Gains</b>	<b>Deferred Tax (see Note 22)</b>	<b>Net</b>
Balance at beginning of year	<b>₱1,415,016</b>	<b>₱424,505</b>	<b>₱990,511</b>
Remeasurement gain	<b>2,902,163</b>	<b>870,649</b>	<b>2,031,514</b>
Balance at end of year	<b>₱4,317,179</b>	<b>₱1,295,154</b>	<b>₱3,022,025</b>

	<b>2015</b>		
	<b>Cumulative Remeasurement Gains</b>	<b>Deferred Tax (see Note 22)</b>	<b>Net</b>
Balance at beginning of year	<b>(₱82,487)</b>	<b>(₱24,746)</b>	<b>(₱57,741)</b>
Remeasurement gain	<b>1,497,503</b>	<b>449,251</b>	<b>1,048,252</b>
Balance at end of year	<b>₱1,415,016</b>	<b>₱424,505</b>	<b>₱990,511</b>

The principal assumptions used for the purpose of the actuarial valuation are as follows:

	<b>2017</b>	<b>2016</b>
Discount rate	<b>5.70%</b>	5.38%
Salary projection rate	<b>5.00%</b>	5.00%
Average remaining service years	<b>24.3</b>	22.5

The sensitivity analysis based on reasonable possible changes of assumptions as at December 31, 2017 and 2016 are presented below.

		<b>Effect on Present Value of Retirement Liability</b>	
		<b>Discount Rate</b>	<b>Salary Projection Rate</b>
<b>December 31, 2017</b>	<b>+1%</b>	<b>(₱3,758,936)</b>	<b>₱4,149,890</b>
	<b>-1%</b>	<b>4,543,249</b>	<b>(3,508,485)</b>
December 31, 2016	+1%	(3,288,817)	3,698,262
	-1%	4,011,251	(3,106,027)

The expected future benefit payments as at December 31, 2017 are as follows:

Financial Year	Amount
2018	₱12,288,901
2019	—
2020-2025	20,460,198

## 21. Commitments

### **Operating Lease Commitments - Group as Lessor**

In 2017, the Parent Company entered into various lease agreements in ACPT for periods ranging from five years to 10 years. All lease agreements include an escalation clause of 5% every year. The lease contracts do not provide for any contingent rent.

In addition, MPI has various lease agreements for its retail units in Arya Residences. The term of the lease ranges from two (2) to five (5) years. The lease agreements also provide for various escalation rates for the duration of the agreements.

Rent income recognized from these operating leases amounted to ₱14.9 million, ₱8.1 million, nil in 2017, 2016 and 2015, respectively (see Note 15). CUSA fees recognized amounted to ₱8.1 million in 2017 (see Note 15). Accrued rent receivable amounted to ₱21.0 million and ₱8.1 million as at December 31, 2017 and 2016, respectively (see Note 7). Advance rent from tenants amounted to ₱10.8 million and ₱2.0 million as at December 31, 2017 and 2016, respectively. Security deposits, which may be applied to unsettled balances or refunded at the end of the lease term, amounted to ₱17.0 million and ₱2.8 million in 2017 and 2016, respectively (see Note 13).

The future minimum lease payments to be received under non-cancellable operating leases as at December 31 are as follows:

	2017	2016
Within one year	₱51,106,339	₱16,140,214
After one year but not more than five years	297,618,072	18,600,665
More than five years	95,598,057	—
	<b>₱444,322,468</b>	<b>₱34,740,879</b>

### **Operating Lease Commitments - Group as Lessee**

The Parent Company is a lessee under non-cancellable operating leases where its office space is situated. The lease term for the office space is three years, with renewal options and provisions for escalation.

The total rent expense recognized from these operating leases amounted to ₱13.9 million, ₱10.4 million and ₱10.5 million in 2017, 2016 and 2015, respectively (see Note 17).

The future minimum rental payables under these non-cancellable operating leases as at December 31 are as follows:

	2017	2016
Within one year	₱10,333,726	₱16,140,214
After one year but not more than five years	46,766,678	18,600,665
	<b>₱57,100,404</b>	<b>₱34,740,879</b>

## 22. Income Taxes

The components of income tax expense are as follows:

	2017	2016	2015
<b>Reported in Profit or Loss</b>			
Current income tax expense:			
RCIT	<b>₱13,636,823</b>	₱72,606,507	₱73,413,668
Final taxes	<b>11,680,051</b>	6,129,472	2,069,509
MCIT	<b>17,560</b>	141,658	21,805
	<b>25,334,434</b>	78,877,637	75,504,982
Deferred income tax expense	<b>59,906,329</b>	276,138,112	22,512,180
	<b>₱85,240,763</b>	₱355,015,749	₱98,017,162
<b>Reported in OCI</b>			
Deferred tax expense related to remeasurement gain on retirement liability	<b>₱1,897,014</b>	₱870,649	₱449,251

### Deferred Tax Asset and Net Deferred Tax Liabilities

The components of the Group's recognized deferred tax assets and net deferred tax liabilities are as follows:

	2017	2016
<b>Deferred Tax Asset</b>		
NOLCO	<b>₱61,212,233</b>	₱15,282,811
<b>Net Deferred Tax Liabilities</b>		
Deferred tax assets:		
Retirement liability	<b>₱15,200,564</b>	₱14,173,310
NOLCO	<b>5,810,650</b>	1,398,976
Advance rent	<b>3,231,460</b>	595,045
Excess MCIT over RCIT	<b>141,658</b>	141,658
Allowance for impairment losses	<b>110,488</b>	110,488
	<b>24,494,820</b>	16,419,477
Deferred tax liabilities:		
Cumulative gain on change in fair value of investment properties	<b>738,047,510</b>	609,530,300
"Day 1" gain on loan discounting	<b>18,372,831</b>	34,951,024
Debt issue cost	<b>10,351,816</b>	10,351,816
Accrued rent receivable	<b>6,292,264</b>	2,431,178
Depreciation and amortization of investment properties	<b>3,913,568</b>	1,885,430
Foreign exchange gains	<b>25,199</b>	180,047
Excess of financial over taxable gross profit on sale of real estate	—	1,865,285
	<b>777,003,188</b>	661,195,080
<b>Net Deferred Tax Liabilities</b>	<b>₱752,508,368</b>	₱644,775,603

As at December 31, 2017 and 2016, the Group did not recognized deferred tax assets relating to the following:

	2017	2016
NOLCO	<b>₱3,587,596</b>	₱1,418,714
Excess MCIT over RCIT	<b>39,365</b>	23,992
Accrued rent	<b>4,800</b>	–
	<b>₱3,631,761</b>	₱1,442,706

Management has assessed that these may not be realized in the future.

#### **NOLCO and Excess MCIT over RCIT**

The details of the Group's NOLCO and Excess MCIT over RCIT are as follows:

#### **NOLCO**

Year Incurred	Balance at Beginning of Year	Incurred	Applied	Expired	Balance at End of Year	Valid Until
2017	₱–	₱175,937,705	₱–	₱–	₱175,937,705	2020
2016	58,602,053	–	–	–	58,602,053	2019
2015	828,504	–	–	–	828,504	2018
2014	904,446	–	19,933	884,513	–	2017
	₱60,335,003	₱175,937,705	₱19,933	₱884,513	₱235,368,262	

#### **Excess MCIT over RCIT**

Year Incurred	Balance at Beginning of Year	Incurred	Applied	Expired	Balance at End of Year	Valid Until
2017	₱–	₱17,560	₱–	₱–	₱17,560	2020
2016	141,658	–	–	–	141,658	2019
2015	21,805	–	–	–	21,805	2018
2014	2,187	–	–	2,187	–	2017
	₱165,650	₱17,560	₱–	₱2,187	₱181,023	

The reconciliation between the income tax expense based on statutory income tax rate and effective income tax rate reported in the consolidated statements of comprehensive income is as follows:

	2017	2016	2015
Income tax computed at statutory tax rate	<b>₱67,092,224</b>	₱353,229,637	₱103,514,589
Add (deduct) tax effect of:			
Nondeductible expenses and nontaxable income	<b>20,122,883</b>	12,377,366	(2,959,920)
Realized gain on disposals of financial assets at FVPL	<b>(2,584,244)</b>	(1,081,306)	(134,581)
Change in unrecognized deferred tax assets	<b>2,189,055</b>	504,532	44,901
Interest income subjected to final tax	<b>(1,282,203)</b>	(1,189,939)	(2,480,602)
Unrealized holding gains on financial assets at FVPL	<b>(562,306)</b>	(1,757,003)	(597,184)
Expired NOLCO	<b>265,354</b>	—	629,959
Stock issuance costs	—	(7,067,538)	—
	<b>₱85,240,763</b>	₱355,015,749	₱98,017,162

#### **PEZA Registration**

ACPT is registered with the Philippine Economic Zone Authority (PEZA) as an Ecozone Facilities Enterprise. The scope of its registered activity is limited to development, operation and maintenance of an economic zone.

Under the PEZA Registration Agreement, ACPT is entitled to:

- 5% Gross Income Tax (GIT), in lieu of all national and local taxes; and
- Tax and duty-free importation of capital equipment required for the technical viability and operation of the registered facilities or activities.

Any income from activities of ACPT outside the PEZA-registered activities is subject to regular corporate income tax.

As at December 31, 2017, ACPT Project is still under construction.

### **23. Related Party Transactions**

The Group, in its regular conduct of business, has transactions with its related parties. The following tables summarize the transactions with the related parties and outstanding balance arising from these transactions.

	Nature of Relationship	Note	Nature of Transaction	Amount of Transactions		Outstanding Balance	
				2017	2016	2017	2016
Due from a Related Party -							
CPG	Stockholder	7	Share purchase agreement	₱—	₱—	₱36,052,873	₱36,052,873

	Nature of Relationship	Note	Nature of Transaction	Amount of Transactions		Outstanding Balance	
				2017	2016	2017	2016
Loans Payable -		12					
Centrobless	Entity under common ownership		Non-interest bearing loans	P=	P825,321,890	P1,591,325,936	P1,534,140,364
SOPH	Entity under common management		Non-interest bearing loans	62,000,000	—	60,075,074	—
				P62,000,000	P825,321,890	P1,651,401,010	P1,534,140,364
Accounts Payable -							
CPG	Stockholder	13	Management fee	P8,424,024	P5,678,057	P8,424,024	P5,678,057
Due to a Related Party -							
			Advances for project development	P36,876,855	P249,789,836	P286,666,691	P249,789,836
Rock & Salt B.V.	Non-controlling interest		Interest expense	9,104,077	7,813,957	16,918,034	7,813,957

### **Share Purchase Agreement**

The Parent Company has an outstanding receivable from CPG amounting to P36.1 million as at December 31, 2017 and 2016 arising from the share purchase agreement between the Parent Company, CPG and AOCH1. Under the claw-back provision of the share purchase agreement, the Parent Company warrants the final resolution acceptable to CPG and its counsel with respect to the pending complaint involving the property owned by UPHI, which includes, among others, removing all doubt on the ownership of UPHI over the property. In the event the satisfactory evidence is submitted by the Parent Company to CPG, the latter shall pay to the Parent Company the entire claw-back amount or a portion thereof plus interest earned in which the claw-back amount was held in escrow.

### **Loans Payable**

Outstanding loans payable are unsecured, non-interest bearing and payable in cash or in kind at the option of the lenders. These loans will mature on December 31, 2018 (see Note 12).

### **Management Fee**

Management fees are recognized for management consultancy, development and administrative services provided by CPG. Outstanding balances are unsecured, noninterest-bearing, payable on demand and to be settled in cash.

### **Advances for Project Development**

In addition to the advances from the Parent Company, CLIC obtained from Rock & Salt B.V. 3.5% interest-bearing loans for its real estate projects with outstanding balance of P286.7 million and P249.8 million and recognized interest expense of P9.1 million and P7.8 million as at December 31, 2017 and 2016, respectively.

### **Compensation of Key Management Personnel**

The compensation of key management personnel are as follows:

	2017	2016	2015
Salaries and other employee benefits	P72,981,021	P63,395,457	P50,606,184
Retirement expense	4,782,219	4,830,248	3,134,101
	P77,763,240	P68,225,705	P53,740,285



## 24. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes:

	2016	Financing Cash Flows		Non-cash Changes			2017
		Availments/ Declaration	Payments	Day 1 Gain	Amortization of Day 1 gain	Amortization of Debt Issue Cost	
Loans payable	₱3,111,038,703	₱2,050,662,463	(₱951,520,000)	(₱2,907,783)	₱58,168,428	₱3,450,605	<b>₱4,268,892,416</b>
Due to a related party	249,789,836	36,876,855	—	—	—	—	<b>286,666,691</b>
Dividends payable	4,748,691	204,733,142	(204,884,469)	—	—	—	<b>4,597,364</b>
	<b>₱3,365,577,230</b>	<b>₱2,292,272,460</b>	<b>(₱1,156,404,469)</b>	<b>(₱2,907,783)</b>	<b>₱58,168,428</b>	<b>₱3,450,605</b>	<b>₱4,560,156,471</b>

## 25. Earnings Per Share

Basic and diluted earnings per share are computed as follows:

	2017	2016	2015
Net income attributable to equity holders of the Parent Company	<b>₱191,850,580</b>	₱840,225,824	₱247,031,468
Less share of Series B Preferred Shares	<b>(140,916,000)</b>	(35,229,000)	—
	<b>50,934,580</b>	804,996,824	247,031,468
Divided by weighted average number of outstanding common shares	<b>5,318,095,199</b>	5,318,095,199	5,318,095,199
Earnings per share	<b>₱0.0096</b>	₱0.1514	₱0.0465

Diluted earnings per share equals the basic earnings per share as the Parent Company does not have any dilutive potential common shares at the end of each of the three years presented.

## 26. Financial Risk Management Objectives and Policies

The Group's financial instruments comprise cash and cash equivalents, financial assets at FVPL, trade and other receivables (excluding advances for project development and accrued rent receivable under straight-line basis of accounting), deposits, amounts held in escrow, investment in time deposits, loans payable, accounts payable and other liabilities (except payable to buyers, advance rent and statutory liabilities) and due to a related party.

It is the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest risk. The BOD reviews and approves policies for managing these risks as summarized below.

The Group's exposure to foreign currency risk is minimal, as it does not enter into significant transactions in currencies other than its functional currency.

### **Credit Risk**

Credit risk is the risk that the Group will incur a loss when its counterparties fail to discharge their contractual obligations. The Company's credit risk is primarily attributable to its rent and other receivables. The Group trades only with recognized creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. As customary in the real estate business, title to the property is transferred only upon full payment of the purchase price. There are also provisions in the sales contract which allow forfeiture of installments or deposits made by the customer in favor of the Group. Also, customers are required to deposit postdated checks to the Group covering all installment payments. These measures minimize the credit risk exposure or any margin loss from possible default in the payment of installments. Accrued rent receivables are closely monitored on aging of the account. As at December 31, 2017 and 2016, there were no significant credit concentrations.

With respect to credit risk arising from the Group's other financial assets, which are composed of cash and cash equivalents, financial assets at FVPL, investment in time deposits, deposits and amounts held in escrow, the Group's exposure to credit risk arises from a counterparty's default, with maximum exposure equal to the carrying amounts of the instruments. The Company limits its exposure to credit risk by depositing its cash with highly reputable and pre-approved financial institutions and by transacting only with recognized and creditworthy third parties.

The table below shows the gross maximum exposure to credit risk for the components of the Group's consolidated statements of financial position, before taking into consideration any collateral and credit enhancements:

	2017	2016
Cash and cash equivalents*	<b>₱721,760,236</b>	₱990,712,203
Financial asset at FVPL	<b>387,879,631</b>	2,050,075,279
Trade and other receivables**	<b>74,760,572</b>	71,669,073
Deposits	<b>66,444,390</b>	35,982,536
Amounts held in escrow	<b>20,096,757</b>	11,143,822
Investment in time deposits	<b>19,972,000</b>	17,402,000
	<b>₱1,290,913,586</b>	₱3,176,984,913

\*Excludes cash on hand amounting to ₱35,000 and ₱30,000 as at December 31, 2017 and 2016, respectively.

\*\*Excludes advances for project development and accrued rent receivable under straight-line basis of accounting aggregating ₱111.5 million and ₱229.4 million as at December 31, 2017 and 2016, respectively.

The Group's credit risk is primarily attributable to its trade receivables from sale of real estate and other financial assets. The credit quality of the Group's financial assets is managed using internal credit ratings.

The tables below show the credit quality by class of financial assets based on the Group's credit rating system and aging of past due but not impaired financial assets.

	2017						
	Neither Past Due nor Impaired			Past Due but not Impaired			
	High Grade	Standard Grade	Less than 1 year	1-2 years	2-3 years	over 3 years	Total
Cash and cash equivalents*	<b>P721,760,236</b>	P—	P—	P—	P—	P—	<b>P721,760,236</b>
Financial assets at FVPL	<b>387,879,631</b>	—	—	—	—	—	<b>387,879,631</b>
Trade and other receivables**	<b>74,760,572</b>	—	—	—	—	368,292	<b>75,128,864</b>
Deposits	<b>66,444,390</b>	—	—	—	—	—	<b>66,444,390</b>
Amounts held in escrow	<b>20,096,757</b>	—	—	—	—	—	<b>20,096,757</b>
Investment in time deposits	<b>19,972,000</b>	—	—	—	—	—	<b>19,972,000</b>
	<b>P1,290,913,586</b>	<b>P—</b>	<b>P—</b>	<b>P—</b>	<b>P—</b>	<b>P368,292</b>	<b>P1,291,281,878</b>

\*Excludes cash on hand amounting to P35,000.

\*\*Excludes advances for project development and accrued rent receivable under straight-line basis of accounting aggregating to P111.5 million.

	2016						
	Neither Past Due nor Impaired			Past Due but not Impaired			
	High Grade	Standard Grade	Less than 1 year	1-2 years	2-3 years	over 3 years	Total
Cash and cash equivalents*	<b>P990,712,203</b>	P—	P—	P—	P—	P—	<b>P990,712,203</b>
Financial assets at FVPL	<b>2,050,075,279</b>	—	—	—	—	—	<b>2,050,075,279</b>
Trade and other receivables**	<b>71,669,073</b>	—	—	—	—	368,292	<b>72,037,365</b>
Deposits	<b>35,982,536</b>	—	—	—	—	—	<b>35,982,536</b>
Amounts held in escrow	<b>11,143,822</b>	—	—	—	—	—	<b>11,143,822</b>
Investment in time deposits	<b>17,402,000</b>	—	—	—	—	—	<b>17,402,000</b>
	<b>P3,176,984,913</b>	<b>P—</b>	<b>P—</b>	<b>P—</b>	<b>P—</b>	<b>P368,292</b>	<b>P3,177,353,205</b>

\*Excludes cash on hand amounting to P30,000.

\*\*Excludes advances for project development amounting to P229.4 million.

The credit quality of the financial assets was determined as follows:

- High grade - cash transacted with reputable local banks and receivables with no history of default on the agreed contract terms.
- Standard grade - receivables from customers who need to be reminded of their dues.
- Past due but not impaired - items with history of frequent default, nevertheless, the amounts are still collectible.
- Impaired - financial assets with history of default and most likely uncollectible.

### **Liquidity Risk**

Liquidity risk is the risk that the Group may not be able to settle its obligations as they fall due.

The table below summarizes the maturity profile of the financial liabilities of the Group based on remaining contractual undiscounted cash flows as at December 31, 2017 and 2016:

	2017					
	Due and Payable on Demand	Less than 1 year	1-2 years	2-3 years	Over 3 years	Total
Loans payable	<b>P—</b>	<b>P2,061,304,423</b>	<b>P375,676,029</b>	<b>P88,508,029</b>	<b>P2,015,885,135</b>	<b>P4,541,373,616</b>
Accounts payable and other liabilities*	<b>329,929,213</b>	<b>316,253,975</b>	—	—	—	<b>646,183,188</b>
Due to a related party	<b>286,666,691</b>	—	—	—	—	<b>286,666,691</b>
	<b>P616,595,904</b>	<b>P2,377,558,398</b>	<b>P375,676,029</b>	<b>P88,508,029</b>	<b>P2,015,885,135</b>	<b>P5,474,223,495</b>

\*Excludes payable to buyers, advance rent and statutory liabilities aggregating to P178.3 million as at December 31, 2017.

	2016					
	Due and Payable on Demand	Less than 1 year	1-2 years	2-3 years	Over 3 years	Total
Loans payable	P=	P795,714,899	P1,713,425,997	P33,681,240	P1,067,765,130	P3,610,587,266
Accounts payable and other liabilities*	182,488,571	453,446,058	110,069,003	—	—	746,003,632
Due to a related party	249,789,836	—	—	—	—	249,789,836
	<b>P432,278,407</b>	<b>P1,249,160,957</b>	<b>P1,823,495,000</b>	<b>P33,681,240</b>	<b>P1,067,765,130</b>	<b>P4,606,380,734</b>

\*Excludes payable to buyers, advance rent and statutory liabilities aggregating to P153.2 million as at December 31, 2016.

The Group monitors its risk to a shortage of funds through analyzing the maturity of its financial investments and financial assets and cash flows from operations. The Group monitors its cash position by a system of cash forecasting. All expected collections, check disbursements and other payments are determined on a daily basis to arrive at the projected cash position to cover its obligations.

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group addresses liquidity concerns primarily through cash flows from operations.

#### **Interest Rate Risk**

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

The Group's loans payable to local banks subject to fixed interest rates and are exposed to fair value interest rate risk. The re-pricing of these instruments is done on annual intervals.

The Group regularly monitors interest rate movements and on the basis of current and projected economic and monetary data, decides on the best alternative to take. No sensitivity analysis is needed as future interest rate changes are not expected to significantly affect the Group's net income.

#### **Capital Management**

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

The Group monitors capital on the basis of the carrying amount of equity as presented in the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	2017	2016
Total liabilities	<b>P6,183,192,941</b>	P4,952,055,797
Total equity	<b>5,063,618,825</b>	5,109,587,034
Debt-to-equity ratio	<b>1.22:1</b>	0.97:1

The Group manages the capital structure and makes adjustments when there are changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

## 27. Fair Value Measurement

The following table presents the carrying amounts and fair values of the Group's assets and liabilities measured at fair value and for which fair values are disclosed, and the corresponding fair value hierarchy:

		2017			
		Fair Value			
	Note	Carrying Amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets measured at fair value:</b>					
Financial assets at FVPL	6	₱387,879,631	₱387,879,631	₱–	₱–
Investment properties	9	6,457,315,253	–	560,559,000	5,896,756,253
<b>Asset for which fair value is disclosed –</b>					
Loans and receivables –					
Deposits		66,444,390	–	–	58,564,457
		<b>₱6,911,639,274</b>	<b>₱387,879,631</b>	<b>₱560,559,000</b>	<b>₱5,896,756,253</b>
<b>Liability for which fair value is disclosed –</b>					
Loans payable		<b>₱4,268,892,416</b>	<b>₱–</b>	<b>₱–</b>	<b>₱4,318,118,823</b>
		2016			
		Fair Value			
	Note	Carrying Amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets measured at fair value:</b>					
Financial assets at FVPL	6	₱2,050,075,279	₱2,050,075,279	₱–	₱–
Investment properties	9	4,534,143,705	–	482,099,300	4,052,044,405
<b>Asset for which fair value is disclosed –</b>					
Loans and receivables –					
Deposits		35,982,536	–	–	31,715,209
		<b>₱6,620,201,520</b>	<b>₱2,050,075,279</b>	<b>₱482,099,300</b>	<b>₱4,083,759,614</b>
<b>Liability for which fair value is disclosed –</b>					
Loans payable		<b>₱3,111,038,703</b>	<b>₱–</b>	<b>₱–</b>	<b>₱3,167,701,702</b>

The following methods and assumptions were used in estimating the fair value of the Group's financial assets and liabilities:

*Financial Assets and FVPL.* The fair value of financial assets at FVPL is classified under Level 1 of the fair value hierarchy using quoted market prices.

*Investment Properties.* The fair value of of ACPT, Arya Residences and raw land were determined using land development approach, discounted cash flow approach and market data approach, respectively.

*Deposits and Loans Payable.* The fair value of the Group's deposits and loans payable was determined by discounting the sum of all future cash flows using the prevailing market rates of interest for instruments with similar maturities. Interest-bearing loans payable includes accrued interest in the estimation of its fair value.

The table below presents the financial assets and liabilities of the Group whose carrying amounts approximate fair values as at December 31, 2017 and 2016:

	2017	2016
<b>Financial Assets:</b>		
Cash and cash equivalents	<b>₱721,795,236</b>	₱990,742,203
Trade and other receivables*	<b>74,760,572</b>	71,669,073
Amounts held in escrow	<b>20,096,757</b>	11,143,822
Investment on time deposits	<b>19,972,000</b>	17,402,000
	<b>₱836,624,565</b>	₱1,090,957,098
<b>Financial Liabilities:</b>		
Accounts payable and other liabilities**	<b>₱646,183,188</b>	₱746,003,632
Due to a related party	<b>286,666,691</b>	249,789,836
	<b>₱932,849,879</b>	₱995,793,468

\*Excludes advances for project development accrued rent receivable under straight-line basis of accounting aggregating to ₱111.5 million and ₱229.4 million as at December 31, 2017 and 2016, respectively.

\*\*Excludes payable to buyers, advance rent and statutory liabilities aggregating to ₱178.3 million and ₱153.2 million as at December 31, 2017 and 2016, respectively.

*Cash and Cash Equivalents, Trade and Other Receivables, Amounts Held in Escrow, Accounts Payable and Other Liabilities and Due to Related Parties.* The carrying amounts of these financial assets and liabilities approximate their fair values due to the short-term nature of these financial instruments.

*Investment on Time Deposits.* The estimated fair value of investment on time deposits represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted using current market rates to discount cash flows.

## 28. Classification of Consolidated Statements of Financial Position Accounts

The Group's current portions of its assets and liabilities as at December 31, 2017 and 2016 are as follows:

	Note	2017	2016
<b>Current Assets</b>			
Cash and cash equivalents	5	<b>₱721,795,236</b>	₱990,742,203
Financial asset at FVPL	6	<b>387,879,631</b>	2,050,075,279
Trade and other receivables	7	<b>186,274,230</b>	301,089,586
Real estate for sale	8	<b>2,646,731,618</b>	1,722,192,699
Creditable withholding tax		<b>253,188,078</b>	243,216,792
Other assets*	11	<b>389,391,492</b>	129,727,245
		<b>₱4,585,260,285</b>	₱5,437,043,804

\*Excludes investments in time deposits, deposits and non-current portion of deferred input VAT amounting to ₱103.3 million and ₱55.1 million as at December 31, 2017 and 2016, respectively.

	Note	2017	2016
<b>Current Liabilities</b>			
Current portion of loans payable**	12	<b>₱1,841,124,980</b>	₱726,243,970
Accounts payable and other liabilities***	13	<b>824,456,920</b>	789,138,287
Due to a related party	23	<b>286,666,691</b>	249,789,836
		<b>₱2,952,248,591</b>	₱1,765,172,093

*\*\*Excludes long term portion of loans payable aggregating to ₱2,427.8 million and ₱2,384.8 million as at December 31, 2017 and 2016, respectively.*

*\*\*\*Excludes non-current portion of retention payable amounting to nil and ₱110.1 million as at December 31, 2017 and 2016, respectively.*

## 29. Segment Information

The Group is organized into one reportable segment which is the development and sale of real estate. The Group also has one geographical segment and derives all its revenues from domestic operations. All of the Group's activities are interrelated and each activity is dependent on the other. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial information about the sole business segment is equivalent to the consolidated financial statements of the Group.

## 30. Events After Reporting Period

The Parent Company's BOD approved and declared the following cash dividends:

Class of shares	Declaration Date	Stockholders of Record Date	Payment Date	Amount	Dividend per Share
Series B preferred shares	January 10, 2018	February 9, 2018	March 6, 2018	₱35,229,000	₱1.76
Common shares	March 21, 2018	April 6, 2018	May 2, 2018	63,817,142	₱0.012

The dividends shall be taken out of the unrestricted earnings of the Parent Company as at December 31, 2017.



**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS FOR FILING WITH THE  
SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and the Board of Directors  
Arthaland Corporation and Subsidiaries  
8/F Picadilly Star Building  
4th Avenue corner 27th Street  
Bonifacio Global City, Taguig City

We have audited the accompanying consolidated financial statements of Arthaland Corporation (the Company) and Subsidiaries as at and for the year ended December 31, 2017, on which we have rendered our report dated March 21, 2018.

In compliance with Securities Regulation Code Rule 68, as amended, we are stating that the Company has 1,957 stockholders owning one hundred (100) or more shares each.

**REYES TACANDONG & Co.**

  
MICHELLE R. MENDOZA-CRUZ

Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 1499-A Group A

Valid until August 31, 2018

BIR Accreditation No. 08-005144-12-2017

Valid until March 8, 2020

PTR No. 6607962

Issued January 3, 2018, Makati City

March 21, 2018  
Makati City, Metro Manila





**REPORT OF INDEPENDENT AUDITORS  
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Arthaland Corporation and Subsidiaries  
8/F Picadilly Star Building  
4th Avenue corner 27th Street  
Bonifacio Global City, Taguig City

We have audited in accordance with Philippines Standards on Auditing, the consolidated financial statements of Arthaland Corporation (the Company) and Subsidiaries as at December 31, 2017, included in this Form 17-A and have issued our report thereon dated March 21, 2018. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary schedules are the responsibility of the Company's management. These supplementary schedules include the following:

- Financial Soundness Indicators
- Adoption of Effective Accounting Standards and Interpretations
- Supplementary Schedules as Required by Part II of Securities Regulation Code Rule 68, as Amended
- Reconciliation of Retained Earnings Available for Dividend Declaration
- Schedule of Use of Proceeds
- Conglomerate Map

These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as amended, and are not part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, including comparing such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

**REYES TACANDONG & Co.**

  
MICHELLE R. MENDOZA-CRUZ

Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

BOA Accreditation No. 4782; Valid until December 31, 2018

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Makati City, Metro Manila



# ARTHALAND CORPORATION AND SUBSIDIARIES

## FINANCIAL RATIOS

DECEMBER 31, 2017

Below is a schedule showing financial soundness indicators in the years 2017, 2016 and 2015.

	2017	2016	2015
<b>Current/Liquidity Ratio</b>	<b>1.55</b>	<b>3.08</b>	<b>3.27</b>
Current assets	<b>₱4,585,260,285</b>	₱5,437,043,804	₱4,995,527,495
Current liabilities	<b>2,952,248,591</b>	1,765,172,093	1,526,859,669
<b>Solvency Ratio</b>	<b>0.02</b>	<b>0.17</b>	<b>0.05</b>
Net income before depreciation	<b>147,730,940</b>	830,630,551	266,313,965
Total liabilities	<b>6,183,192,941</b>	4,952,055,797	4,862,981,842
<b>Debt-to-Equity Ratio</b>	<b>1.22</b>	<b>0.97</b>	<b>2.12</b>
Total liabilities	<b>6,183,192,941</b>	4,952,055,797	4,862,981,842
Total equity	<b>5,063,618,825</b>	5,109,587,034	2,291,302,886
<b>Debt-to-Equity Ratio</b>	<b>0.52</b>	<b>0.31</b>	<b>1.03</b>
Interest-bearing liabilities	<b>2,617,491,406</b>	1,576,898,339	2,361,852,743
Total equity	<b>5,063,618,825</b>	5,109,587,034	2,291,302,886
<b>Asset-to-Equity Ratio</b>	<b>2.22</b>	<b>1.97</b>	<b>3.12</b>
Total assets	<b>11,246,811,766</b>	10,061,642,831	7,154,284,728
Total equity	<b>5,063,618,825</b>	5,109,587,034	2,291,302,886
<b>Interest Rate Coverage Ratio</b>	<b>3.87</b>	<b>15.80</b>	<b>9.69</b>
Pretax income before interest	<b>301,559,290</b>	1,256,972,339	384,761,861
Interest expense	<b>77,918,542</b>	79,540,215	39,713,231
<b>Profitability Ratio</b>	<b>0.03</b>	<b>0.16</b>	<b>0.11</b>
Net income	<b>138,399,985</b>	822,416,375	247,031,468
Total equity	<b>5,063,618,825</b>	5,109,587,034	2,291,302,886

**ARTHALAND CORPORATION AND SUBSIDIARIES**

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**SUPPLEMENTARY SCHEDULE OF ADOPTION OF  
EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS  
DECEMBER 31, 2017**

Title	Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b>			
Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRSs Practice Statement Management Commentary			✓

**Philippine Financial Reporting Standards (PFRS)**

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	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			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to 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	✓		
	Amendment to PFRS 7: Servicing Contracts	✓		
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments	✓		
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓

<b>PFRS</b>	<b>Title</b>	<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓

#### **Philippine Accounting Standards (PAS)**

<b>PAS</b>	<b>Title</b>	<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16: Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Amendment to PAS 19: Discount Rate: Regional Market Issue			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property	✓		
PAS 41	Agriculture			✓
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

### Philippine Interpretations

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓



Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		

#### PHILIPPINE INTERPRETATIONS - SIC

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**SEC SUPPLEMENTARY SCHEDULES AS REQUIRED BY PAR. 6 PART II**  
**OF SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2017**

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D	Intangible Assets - Other Assets	<u>N/A</u>
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G	Guarantees of Securities of Other Issuers	<u>N/A</u>
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**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**SCHEDULE A - FINANCIAL ASSETS**  
**DECEMBER 31, 2017**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Value based on market quotation at end of reporting period	Income received and accrued
<b>Cash on hand</b>	₱35,000	₱35,000	₱—	₱—
<b>Cash in Banks:</b>				
Bank of the Philippines	43,076,607	43,076,607	—	
Banco De Oro	19,468,614	19,468,614	—	
Philippine National Bank	7,007,390	7,007,390	—	
Allied Bank	820,205	820,205	—	
Others	317,354	317,354	—	
	70,690,170	70,690,170	—	2,503,854
<b>Short-term Placements:</b>				
Bank of the Philippines	347,781,572	347,781,572	347,781,572	
Banco De Oro	195,601,582	195,601,582	195,601,582	
Allied Bank	57,240,582	57,240,582	57,240,582	
Bank of Makati	49,253,483	49,253,483	49,253,483	
Security Bank	1,192,847	1,192,847	1,192,847	
	651,070,066	651,070,066	651,070,066	11,459,532
<b>Deposits</b>	66,444,390	66,444,390	—	—
<b>Unit Investment Trust Fund</b>	387,879,631	387,879,631	387,879,631	—
<b>Investment in Time Deposit</b>	19,972,000	19,972,000	—	281,865
<b>Amounts Held in Escrow</b>	20,096,757	20,096,757	—	—
	₱1,216,188,014	₱1,216,188,014	₱1,038,949,697	₱14,245,251

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
**DECEMBER 31, 2017**

Name and designation of debtor	Balance at beginning of year	Additions	Amounts collected	Deductions		Ending Balance	
				Amounts written off	Current	Not current	Balance at end of year
Due from a Related Party - CPG Holdings, Inc.	₱36,052,873	₱—	₱—	₱—	₱36,052,873	₱—	₱36,052,873
Advances to Employees	₱5,404,468	₱9,260,556	(₱6,739,076)	₱—	₱7,925,948	₱—	₱7,925,948

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

				Deductions	Ending Balance		
	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Advances to subsidiaries:							
Urban Property Holdings, Inc. (net of allowance for impairment amounting to ₱3,261,249)	₱56,792,941	₱2,464,793	₱—	₱—	₱59,257,734	₱—	₱59,257,734
Cebu Lavana Land Corp.	560,500,397	5,417,003	(295,917,400)	—	270,000,000	—	270,000,000
Savya Land Development Corporation	—	1,042,812,933	—	—	1,042,812,933	—	1,042,812,933
Emera Property Management, Inc.	2,183,742	2,257,111	(3,112,040)	—	1,328,813	—	1,328,813
Cazneau, Inc.	318,305,242	36,244,548	(186,871)	—	354,362,919	—	354,362,919
Zileya Land Development, Inc.	7,573,444	98,860,562	—	—	106,434,006	—	106,434,006
Manchesterland Properties, Inc.	3,514	—	(3,200)	—	314	—	314
	₱945,359,280	₱1,188,056,950	(₱299,219,511)	₱—	₱1,834,196,719	₱—	₱1,834,196,719
Nontrade Receivables from a subsidiary -							
Cebu Lavana Land Corp.	₱—	₱133,547,340	₱—	₱—	₱133,547,340	₱—	₱133,547,340
Advances from subsidiaries:							
Manchesterland Properties, Inc.	₱289,481,804	₱—	(₱9,546,569)	₱—	₱279,935,235	₱—	₱279,935,235
Cebu Lavana Land Corp.	87,038	180,084	—	—	267,122	—	267,122
	₱289,568,842	₱180,084	(₱9,546,569)	₱—	₱280,202,357	₱—	₱280,202,357

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**SCHEDULE E - LONG-TERM DEBT**  
**DECEMBER 31, 2017**

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" related balance sheet	Amount shown under caption "Long-Term Debt" in related statement of financial position			
			Carrying amount	Interest Rate(s)	Payment Terms	Maturity Dates
Bank Loans:						
Bank 1	₱2,000,000,000	₱—	₱1,497,767,436	5.81%	At end of term	July 31, 2025
Bank 2	100,000,000	100,000,000	—	3.0%	Monthly	June 11, 2018
Bank 3	300,000,000	—	280,000,000	5.12%	Quarterly	July 5, 2019
Bank 4	2,350,000,000	—	650,000,000	5.77%	Quarterly	August 15, 2021
Various Loan from private funders	89,723,970	89,723,970	—	3.5%	Renewable on maturity	April 2, 2018, May 7, 2018, July 23, 2018
Centrobless Corporation	1,650,643,779	1,591,325,936	—	Interest-free	At end of term payable in cash or dacion in payment	December 31, 2018
Signature Office Property, Inc.	207,051,912	60,075,074	—	Interest-free	At end of term payable in cash or dacion in payment	December 31, 2018
	₱6,697,419,661	₱1,841,124,980	₱2,427,767,436			

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES**  
**DECEMBER 31, 2017**

<b>Name of related party</b>	<b>Balance at beginning of year</b>	<b>Balance at end of year</b>
Centrobless Corporation	₱1,534,140,364	₱1,591,325,936
Signature Office Property, Inc.	—	60,075,074
	₱1,534,140,364	₱1,651,401,010

*\*Additional loan is attributable to the construction of ACPT.*

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2017**

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Common shares - ₱0.18 par value per share	16,368,095,199	5,318,095,199	—	3,526,349,910	9	1,791,745,289
Preferred shares - ₱1.00 par value per share	50,000,000	32,500,000	—	12,500,000	—	20,000,000



**ARTHALAND CORPORATION AND SUBSIDIARIES**

**SCHEDULE OF USE OF PROCEEDS  
DECEMBER 31, 2017**

The estimated gross proceeds from the offer amounted to ₱1,971.8 million. The actual net proceeds from the offer of the shares, after deducting the related expenses to the offer, amounted to ₱1,972.9 million and will accrue to the Group.

The following table shows the breakdown of the use of the proceeds:

<b>Purpose</b>	<b>Per Offer Supplement</b>	<b>Actual Net Proceeds</b>	<b>Actual Disbursement as at 12/31/2017</b>	<b>Balance for Disbursement as at December 31, 2017</b>
South of Metro Manila Project	₱822.4	₱822.4	₱822.4	₱—
Makati CBD Residential Project	371.6	371.6	102.3	269.3
Binan Laguna Project	331.9	331.9	33.8	298.1
Partial repayment of loans	330.0	330.0	330.0	—
General corporate purposes	62.3	63.4	63.4	—
Cebu Exchange project	53.6	53.6	53.6	—
<b>Total</b>	<b>₱1,971.8</b>	<b>₱1,972.9</b>	<b>₱1,405.5</b>	<b>₱567.4</b>

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**ARTHALAND CORPORATION**  
**SCHEDULE OF RECONCILIATION OF PARENT COMPANY'S RETAINED EARNINGS AVAILABLE**  
**FOR DIVIDEND DECLARATION**  
**DECEMBER 31, 2017**

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Unappropriated Retained Earnings, beginning		₱1,681,745,115
Adjustments:		
Cumulative gain on change in fair value of investment properties	(₱845,963,491)	
Unamortized "day 1" gain on loans payable	(81,552,390)	
Unrealized holding gains on financial assets at FVPL	(5,656,674)	
Accumulated depreciation and amortization of investment properties	(201,593)	(933,374,148)
Unappropriated Retained Earnings, as adjusted, beginning		748,370,967
Add: Net income actually earned/realized during the period		
Net income during the year closed to retained earnings	29,725,692	
Realized holding gains on financial assets at FVPL	5,656,674	35,382,366
Less: Non-actual/unrealized income and realized loss, net of tax		
Gain on change in fair value of investment properties	(28,827,847)	
"Day 1" gain on loan discounting	(2,035,448)	
Unrealized holding gains on financial assets at FVPL	(1,752,251)	
Depreciation and amortization of investment properties	(253,008)	(32,868,554)
Add: Non-actual losses		
Amortization of "day 1" gain on loan discounting		40,717,899
Cash dividends		(204,733,142)
Unappropriated Retained Earnings, as adjusted, ending		₱586,869,536

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## CONGLOMERATE MAP

