

# COVER SHEET

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SEC Registration Number

A R T H A L A N D C O R P O R A T I O N

(Company's Full Name)

7 F A R T H A L A N D C E N T U R Y P A C I F I C T O W E R  
5 T H A V E N U E C O R N E R 3 0 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

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

FERDINAND A. CONSTANTINO

(Contact Person)

(+632) 403-6910

(Company Telephone Number)

1 2 3 1  
Month Day  
(Fiscal Year)

1 7 - Q  
(Form Type)

0 6 Last Fri  
Month Day  
(Annual Meeting)

N.A.

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles  
Number/Section

1,958

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

**ARTHALAND CORPORATION**  
(Company's Full Name)

**7/F ArthaLand Century Pacific Tower, 5th Avenue corner 30th Street**  
**Bonifacio Global City, Taguig City**  
(Company's Address)

**403-6910**  
(Telephone Number)

**December 31**  
(Fiscal year ending)  
(month & day)

**June 30**  
(Annual Meeting)

**SEC FORM 17 – Q QUARTERLY REPORT**  
(Form Type)

Amendment Designation (If applicable)

**September 30, 2019**  
(Period Ended Date)

**(Secondary License Type & File Number)**

**(Cashier)**

**LCU**

**DTU**

**ASO-94-007160**  
(SEC Number)

**Central Receiving Unit**

**File Number**

**Document I.D.**



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## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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### Company Information

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**SEC Registration No.** AS94007160  
**Company Name** ARTHALAND CORPORATION  
**Industry Classification**  
**Company Type** Stock Corporation

### Document Information

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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q  
QUARTERLY REPORT PURSUANT TO SECTION 11 OF THE  
REVISED SECURITIES ACT AND RSA RULE 11(a)-1 (b)(2) THEREUNDER**

1. For the quarterly period ended September 30, 2019

2. Commission Identification No. ASO-94-007160

3. BIR TIN 004-450-721-0000

4. Exact name of registrant as specified in its character

***ARTHALAND CORPORATION***

5. Incorporated in Metro Manila, Philippines on August 10, 1994.

6. Industry Classification Code \_\_\_\_\_ (SEC Use Only).

7. Address of registrant's principal office Postal Code

***7/F ArthaLand Century Pacific Tower, 5th Avenue corner 30th Street,  
Bonifacio Global City, Taguig City***

***1634***

8. Registrant's Telephone Number : 8403-6910

9. Former name, former address and former fiscal year, if changed since last report: Not Applicable

10. Securities registered pursuant to Sections 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 (₱0.18 par value)</b>	<b>None</b>
<b>Preferred Shares – Series A</b>	<b>12,500,000 (₱1.00 par value)</b>	<b>None</b>
<b>Preferred Shares – Series B</b>	<b>20,000,000 (₱1.00 par value)</b>	<b>None</b>
<b>Preferred Shares – Series C</b>	<b>10,000,000 (₱1.00 par value)</b>	<b>None</b>

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

YES [  ]

NO [  ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

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

12. Indicate by check mark whether the registrant :

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

YES [  ]

NO [  ]

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

YES [  ]

NO [  ]

**PART I - FINANCIAL INFORMATION**

Item 1. Financial Statements

*See attached.*

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*See attached.*

**PART II - OTHER INFORMATION**

There are no other information for the period not previously reported in SEC Form 17-C.

**SIGNATURES**

Pursuant to the requirements of the Revised Securities Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer : **ARTHALAND CORPORATION**

Signature and Title :   
**JAIME C. GONZALEZ**  
President

Signature and Title :   
**FERDINAND A. CONSTANTINO**  
Chief Finance Officer

Date : October 23, 2019

**ITEM 1. Financial Statements Required under SRC RULE 68.1**

1. Basic and Diluted Earnings per Share (See attached Income Statement).
2. The accompanying consolidated interim financial statements of **Arthaland Corporation (ALCO)** were prepared in accordance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS).
3. Notes to Financial Statements:
  - a. The accompanying consolidated interim financial statements of **ALCO** were prepared in accordance with PFRS. The financial statements have been prepared using the historical cost basis and are presented in Philippine Pesos.
  - b. There is no significant seasonality or cycle of interim operations.
  - c. There are no material events subsequent to the end of the interim period not previously reported in SEC form 17-C.
  - d. There are no changes in the composition of the issuer during the interim period including business combinations, acquisition of subsidiaries and long-term investments, restructurings and discontinuing operations.
  - e. There are no material changes in the contingent liabilities or contingent assets since the last annual balance sheet date.
  - f. There are no material contingencies and any other events or transactions that are material to an understanding of the current interim period.
  - g. 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 since the last annual balance sheet date.
  - h. 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 revenues or income from continuing operations. There is no foreseen event that will cause a material change in the relationship between costs and revenues.
  - i. 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.

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2019 AND DECEMBER 31, 2018**

	Notes	SEPTEMBER 30 2019 (Unaudited)	DECEMBER 31 2018 (Audited)
<b>ASSETS</b>			
Cash and cash equivalents	4	P 382,678,857	P 326,679,590
Financial assets at fair value through profit or loss (FVPL)	5	186,149,270	154,828,061
Trade and other receivables	6	776,643,695	742,932,730
Contract Assets	7	1,252,604,544	785,197,944
Real estate for sale	8	5,359,584,772	3,412,713,425
Investment properties	9	6,950,321,017	5,901,514,575
Property and equipment	10	271,868,245	237,452,955
Net deferred tax assets		46,461,777	16,197,731
Creditable withholding taxes		314,342,190	259,819,891
Other assets	11	720,918,928	499,128,861
		<b>P 16,261,573,295</b>	<b>P 12,336,465,763</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Loans payable	12	P 5,105,792,573	P 4,169,976,102
Accounts payable and other liabilities	13	2,066,762,408	1,655,848,013
Contract liabilities	7	48,785,389	20,385,280
Due to a related party	14	1,007,586,278	386,666,691
Retirement liability	21	58,095,964	66,088,998
Net deferred tax liabilities		1,114,184,671	779,222,593
Total Liabilities		<b>9,401,207,283</b>	<b>7,078,187,677</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock	15	999,757,136	989,757,136
Additional paid-in capital	15	3,008,959,878	2,031,441,541
Retained earnings		2,674,683,056	2,214,144,875
Cumulative remeasurement gains on retirement liability - net of tax		18,169,495	18,169,495
Parent Company's shares held by a subsidiary		(12,500,000)	(12,500,000)
		<b>6,689,069,565</b>	<b>5,241,013,047</b>
Non-controlling interests		171,296,447	17,265,039
Total Equity		<b>6,860,366,012</b>	<b>5,258,278,086</b>
		<b>P 16,261,573,295</b>	<b>P 12,336,465,763</b>

*See accompanying Notes to Consolidated Financial Statements*

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2019 AND 2018**

	Notes	SEPTEMBER 30 2019 (Unaudited)	SEPTEMBER 30 2018 (Unaudited)
<b>ASSETS</b>			
Cash and cash equivalents	4	P 382,678,857	P 446,020,248
Financial assets at fair value through profit or loss (FVPL)	5	186,149,270	581,077,572
Trade and other receivables	6	776,643,695	964,762,263
Contract Assets	7	1,252,604,544	-
Real estate for sale	8	5,359,584,772	2,958,192,058
Investment properties	9	6,950,321,017	7,185,167,757
Property and equipment	10	271,868,245	95,611,223
Net deferred tax assets		46,461,777	85,410,477
Creditable withholding taxes		314,342,190	296,890,413
Other assets	11	720,918,928	615,523,805
		<b>P 16,261,573,295</b>	<b>P 13,228,655,816</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Loans payable	12	P 5,105,792,573	P 5,736,163,729
Accounts payable and other liabilities	13	2,066,762,408	1,240,070,107
Contract liabilities	7	48,785,389	-
Due to a related party	14	1,007,586,278	386,666,690
Retirement liability	21	58,095,964	50,668,546
Net deferred tax liabilities		1,114,184,671	833,886,432
Total Liabilities		<b>9,401,207,283</b>	<b>8,247,455,504</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock	15	999,757,136	989,757,136
Additional paid-in capital	15	3,008,959,878	2,031,441,541
Retained earnings		2,674,683,056	1,991,534,231
Cumulative remeasurement gains on retirement liability - net of tax		18,169,495	7,448,391
Parent Company's shares held by a subsidiary		(12,500,000)	(12,500,000)
		<b>6,689,069,565</b>	<b>5,007,681,299</b>
Non-controlling interests		171,296,447	(26,480,987)
Total Equity		<b>6,860,366,012</b>	<b>4,981,200,312</b>
		<b>P 16,261,573,295</b>	<b>P 13,228,655,816</b>

*See accompanying Notes to Consolidated Financial Statements*



**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2019**  
**AND FOR THE YEAR ENDED DECEMBER 31, 2018**

		SEPTEMBER 30 2019	DECEMBER 31 2018
	Notes	(Unaudited)	(Audited)
<b>REVENUES</b>	16	<b>P 1,490,392,620</b>	P 1,132,470,086
<b>COST OF SALES AND SERVICES</b>	17	<b>740,453,509</b>	618,799,239
<b>GROSS INCOME</b>		<b>749,939,111</b>	513,670,847
<b>OPERATING EXPENSES</b>	18	<b>442,730,445</b>	397,610,494
<b>INCOME FROM OPERATIONS</b>		<b>307,208,666</b>	116,060,353
<b>GAIN ON CHANGE IN FAIR VALUE OF INVESTMENT PROPERTIES</b>		<b>901,017,579</b>	172,819,094
<b>FINANCE COSTS</b>	19	<b>(78,758,594)</b>	(73,647,288)
<b>OTHER INCOME - net</b>	20	<b>18,436,775</b>	339,120,693
<b>INCOME BEFORE INCOME TAX</b>		<b>1,147,904,426</b>	554,352,852
<b>INCOME TAX EXPENSE</b>		<b>346,707,642</b>	165,735,606
<b>NET INCOME</b>		<b>801,196,784</b>	388,617,246
<b>COMPREHENSIVE INCOME</b>		<b>-</b>	10,721,104
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 801,196,784</b>	<b>P 399,338,350</b>
<b>NET INCOME ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company		647,361,323	333,479,516
Non-controlling interest		153,835,461	55,137,730
		<b>801,196,784</b>	<b>388,617,246</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company		647,361,323	344,200,620
Non-controlling interest		153,835,461	55,137,730
		<b>801,196,784</b>	<b>399,338,350</b>
<b>EARNINGS PER SHARE - Basic and Diluted</b>	24	<b>P 0.0986</b>	P 0.0362

*See accompanying Notes to Consolidated Financial Statements*

**ARTHALAND CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2019 AND 2018**

	Notes	SEPTEMBER 30 2019 (Unaudited)	SEPTEMBER 30 2018 (Unaudited)
<b>REVENUES</b>	16	<b>P 1,490,392,620</b>	P 593,154,442
<b>COST OF SALES AND SERVICES</b>	17	<b>740,453,509</b>	393,066,415
<b>GROSS INCOME</b>		<b>749,939,111</b>	200,088,027
<b>OPERATING EXPENSES</b>	18	<b>442,730,445</b>	236,771,558
<b>INCOME (LOSS) FROM OPERATIONS</b>		<b>307,208,666</b>	(36,683,531)
<b>GAIN ON CHANGE IN FAIR VALUE OF INVESTMENT PROPERTIES</b>		<b>901,017,579</b>	223,952,494
<b>FINANCE COSTS</b>	19	<b>(78,758,594)</b>	(61,190,988)
<b>OTHER INCOME - net</b>	20	<b>18,436,775</b>	28,143,107
<b>INCOME BEFORE INCOME TAX</b>		<b>1,147,904,426</b>	154,221,082
<b>INCOME TAX EXPENSE</b>		<b>346,707,642</b>	67,135,453
<b>NET INCOME</b>		<b>801,196,784</b>	87,085,629
<b>COMPREHENSIVE INCOME</b>		<b>-</b>	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 801,196,784</b>	P 87,085,629
<b>NET INCOME ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company		647,361,323	75,639,872
Non-controlling interest		153,835,461	11,445,757
		<b>801,196,784</b>	87,085,629
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company		647,361,323	75,639,872
Non-controlling interest		153,835,461	11,445,757
		<b>801,196,784</b>	87,085,629
<b>EARNINGS (LOSS) PER SHARE - Basic and Diluted</b>	24	<b>P 0.0986</b>	P ( 0.0056 )

*See accompanying Notes to Consolidated Financial Statements*

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

	JULY 1 to SEPTEMBER 30 2019 (Unaudited)	JULY 1 to SEPTEMBER 30 2018 (Unaudited)
<b>REVENUES</b>	<b>P 409,474,980</b>	<b>P 382,371,642</b>
<b>COST OF SALES AND SERVICES</b>	<b>162,794,041</b>	<b>258,877,959</b>
<b>GROSS INCOME</b>	<b>246,680,939</b>	<b>123,493,683</b>
<b>OPERATING EXPENSES</b>	<b>208,829,874</b>	<b>82,612,930</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>37,851,065</b>	<b>40,880,753</b>
<b>GAIN ON CHANGE IN FAIR VALUE OF INVESTMENT PROPERTIES</b>	<b>281,247,517</b>	<b>58,978,767</b>
<b>FINANCE COSTS</b>	<b>(37,052,673)</b>	<b>(15,803,553)</b>
<b>OTHER INCOME - net</b>	<b>4,791,909</b>	<b>21,302,538</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>286,837,818</b>	<b>105,358,505</b>
<b>INCOME TAX EXPENSE</b>	<b>42,429,678</b>	<b>25,379,400</b>
<b>NET INCOME</b>	<b>244,408,140</b>	<b>79,979,105</b>
<b>COMPREHENSIVE INCOME</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P 244,408,140</b>	<b>P 79,979,105</b>
<b>NET INCOME ATTRIBUTABLE TO:</b>		
Equity holders of the Parent Company	201,070,277	41,089,043
Non-controlling interest	43,337,863	38,890,062
	<b>244,408,140</b>	<b>79,979,105</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>		
Equity holders of the Parent Company	201,070,277	41,089,043
Non-controlling interest	43,337,863	38,890,062
	<b>244,408,140</b>	<b>79,979,105</b>
<b>EARNINGS PER SHARE - Basic and Diluted</b>	<b>P 0.1419</b>	<b>P 0.0011</b>

**ARTHALAND CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2019 AND 2018**

Note	SEPTEMBER 30 2019 (Unaudited)	SEPTEMBER 30 2018 (Unaudited)
<b>CAPITAL STOCK</b>		
Common - ₱0.18 par value		
Issued and outstanding	15 P 957,257,136	P 957,257,136
Preferred - ₱1.00 par value		
Balance at beginning of period	32,500,000	32,500,000
Issued and subscribed	15 10,000,000	-
	<b>42,500,000</b>	32,500,000
Balance at end of period	<b>999,757,136</b>	989,757,136
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at beginning of period	2,031,441,541	2,031,441,541
Issuance of preferred shares	15 990,000,000	-
Stock issuance costs	15 (12,481,663)	-
Balance at end of period	<b>3,008,959,878</b>	2,031,441,541
<b>RETAINED EARNINGS</b>		
Balance at beginning of period	2,214,144,875	2,085,398,501
Net income for the period	647,361,323	75,639,872
Dividends declared during the period	15 (186,823,142)	(169,504,142)
Balance at end of period	<b>2,674,683,056</b>	1,991,534,231
<b>ACCUMULATED UNREALIZED ACTUARIAL GAINS</b>		
Balance at beginning and end of period	18,169,495	7,448,391
<b>PARENT COMPANY'S PREFERRED SHARES</b>		
<b>HELD BY A SUBSIDIARY - at cost</b>	<b>(12,500,000)</b>	(12,500,000)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		
	<b>6,689,069,565</b>	5,007,681,299
<b>NON-CONTROLLING INTERESTS</b>		
Balance at beginning of period	17,265,039	(37,926,744)
Effect of Merger of SLDC and Arcosouth Development Inc. (Arcosouth)	195,947	-
Net income for the period	153,835,461	11,445,757
Balance at end of period	<b>171,296,447</b>	(26,480,987)
<b>TOTAL EQUITY</b>	<b>P 6,860,366,012</b>	P 4,981,200,312

*See accompanying Notes to Consolidated Financial Statements.*

**ARTHALAND CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2019 AND 2018**

	Notes	SEPTEMBER 30 2019 (Unaudited)	SEPTEMBER 30 2018 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P 1,147,904,426	P 154,221,082
Adjustments for:			
Finance Costs	19	78,430,360	60,572,458
Depreciation and amortization	18	18,970,701	10,516,910
Gain on change in FV of investment properties		(901,017,579)	(223,952,494)
Retirement expense	21	(7,993,034)	-
Realized holding gains	20	(9,377,262)	(8,783,322)
Unrealized holding (gains) loss	20	856,589	(1,763,982)
Unrealized forex (gains) loss	20	587,992	(1,732,146)
Interest income	20	(9,382,714)	(5,852,837)
Operating income (loss) before working capital changes		318,979,479	(16,774,331)
Increase in:			
Trade and other receivables		(33,710,965)	(777,247,394)
Contract assets		(467,406,600)	-
Real estate for sale		(1,946,871,347)	(311,460,440)
Other assets		(221,790,067)	(122,851,484)
Contract liabilities		28,400,109	-
Accounts payable and other liabilities		410,914,395	415,613,187
Net cash used in operations		(1,911,484,996)	(812,720,462)
Interest paid		(75,842,406)	(14,977,099)
Interest received		9,382,714	4,612,198
Income tax paid		(96,531,909)	(53,657,968)
Net cash used in operating activities		(2,074,476,597)	(876,743,331)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of Financial assets at FVPL - net		(22,800,536)	(182,650,637)
Additions to Property and equipment - net		(53,385,991)	(66,384,967)
Increase in Investment properties		(147,788,863)	(503,900,010)
Net cash used in investing activities		(223,975,390)	(752,935,614)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from:			
Loans payable		1,238,752,442	1,558,675,954
Due to a related party		620,919,587	99,999,999
Issuance of preferred shares		987,518,337	-
Payment of loans payable		(305,523,925)	(137,000,000)
Payment of dividends		(186,823,142)	(169,504,142)
Net cash generated from financing activities		2,354,843,299	1,352,171,811
<b>EFFECT OF MERGER OF SLDC AND ARCOSOUTH</b>		<b>195,947</b>	<b>-</b>
<b>NET EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS</b>		<b>(587,992)</b>	<b>1,732,146</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		<b>55,999,267</b>	<b>(275,774,988)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>326,679,590</b>	<b>721,795,236</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>P 382,678,857</b>	<b>P 446,020,248</b>

*See accompanying Notes to Consolidated Financial Statements.*

**ARTHALAND CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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, Series B preferred shares and Series C 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.

In June 2019, the Parent Company made an offering of the second tranche of the preferred shares in the amount of ₱1 billion consisting of 10.0 million Series C preferred shares at an offer price of ₱100 per share (see Note 15).

The new registered office and principal place of business of the Parent Company is 7/F Arthaland Century Pacific Tower, 5th Avenue corner 30th Street, Bonifacio Global City (BGC), Taguig City, Philippines, upon SEC's approval of the amendment of its Articles of Incorporation on September 4, 2018.

**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		
		2019	2018	2017
Cazneau, Inc. (Cazneau)	Philippines	100%	100%	100%
Manchesterland Properties, Inc. (MPI)	Philippines	100%	100%	100%
Emera Property Management, Inc. (EPMI)	Philippines	100%	100%	100%
Urban Property Holdings, Inc. (UPHI)	Philippines	100%	100%	100%
Zileya Land Development Corporation (ZLDC)	Philippines	100%	100%	100%
Savya Land Development Corporation (SLDC)	Philippines	98.5%	100%	100%
Cebu Lavana Land Corp. (CLLC)	Philippines	60%	60%	60%
Bhavana Properties, Inc. (Bhavana)	Philippines	100%	-	-
Bhavaya Properties, Inc. (Bhavaya)	Philippines	100%	-	-
Pradhana Land, Inc. (Pradhana)	Philippines	100%	-	-

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 Cazneau and MPI which are engaged in leasing of properties.

In 2019, SEC approved the Merger of SLDC and Arcosouth Development Inc (Arcosouth) with SLDC as the surviving entity.

Bhavana, Bhavaya, and Pradhana were incorporated on July 15, July 19, and September 9, 2019, respectively, to engage primarily in real estate development.

## **Major Projects**

The Parent Company's first major development project is the Arya Residences Towers 1 and 2 (Arya Residences) located in BGC, Taguig City. 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 and a 4-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 Parent Company 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. ACPT became the first office building in the Philippines to secure the dual certification of the highest rating from USGBC LEED as Platinum and Phil Green Building Council's BERDE as 5-star rated. ACPT is registered with the Philippine Economic Zone Authority (PEZA) as an Ecozone Facilities Enterprise and was completed in the first quarter of 2019.

In 2016, CLLC commenced the development of Cebu Exchange Project (Cebu Exchange), a 38-storey office building that will be developed in Barangay Lahug, Cebu City. Cebu Exchange has been pre-certified for LEED and is aiming to get the Gold certification. Similarly, the project is also targeting to secure a multiple star certification from the BERDE rating system of the PHILGBC. 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 (sqm), Cebu Exchange boasts of being the largest green building in the country. The construction of Cebu Exchange commenced in the second quarter of 2018 and is expected to be completed in 2021.

In September 2016, Cazneau acquired eight hectares of land which will be developed into Sevina Park, a masterplanned mixed-use community that will feature a mix of residential low- and mid-rise buildings, student and faculty housing, commercial office buildings as well as retail and supplemental amenities. In June 2019, Courtyard Hall, phase one of the project covering the first 4,000 sqm, was completed. Also in June 2019, Cazneau launched the Garden Villas, a 108 townhouse development which is expected to be completed in 2023. Succeeding phases of the project will be launched within 2021 to 2024.

In January 2019, SLDC launched the development of Savya Financial Center. This project is composed of two towers with a gross floor area of 59,900 sqm which will be developed in Arca South, Taguig City. The project is expected to be completed in 2021.

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

The interim consolidated financial statements of the Group as at and for the nine (9) months ended September 30, 2019 were approved and authorized for issue by the Board of Directors (BOD) on October 23, 2019.

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

### **Basis of Preparation**

The interim consolidated financial statements as of September 30, 2019 and December 31, 2018 and for the nine months ended September 30, 2019 and 2018 have been prepared in compliance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. They do not include all of the information and disclosures required in the annual audited consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended December 31, 2018.

### **Measurement Bases**

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

The interim 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 and fair value consideration received in exchange for incurring liability.

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 of 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 5 - Financial Assets at FVPL
- Note 9 - Investment Properties

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 the following new and amended PFRS which the Group adopted effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement*, (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.

The Group has applied the requirements of PFRS 9 retrospectively.

The Group has performed an assessment and determined the following impact of PFRS 9 on its financial instruments:

*Classification and Measurement.* Based on the Group’s analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as of January 1, 2018, the Group has concluded that all of its financial assets and financial liabilities shall continue to be measured on the same basis as under PAS 39 but shall be classified under PFRS 9.

The application of the classification and measurement requirements under PFRS 9 did not materially affect the carrying amounts of the Group’s financial instruments.

*Impairment.* The new impairment requirements do not result to additional provision for impairment with respect to trade receivables from sale of real estate because the credit exposure arising from these financial assets was mitigated by the Group’s policy that title should transfer only upon full payment by the buyer and the Group can take possession of the subject property in case the buyer fails to pay the outstanding balance.

For trade receivables and contract assets, the Group applies the simplified approach in measuring ECL. This approach does not track changes in credit risk, but instead recognize an allowance for impairment losses based on lifetime ECL.

While cash in banks and cash equivalents, deposits, amounts held in escrow and investment in time deposits are subject to the impairment requirements of PFRS 9, the resulting impairment loss is not significant primarily because the placements are with reputable counterparty banks that possess good credit ratings.

For other financial assets at amortized cost which mainly comprise related party transactions, the PFRS 9 impairment requirements do not result in significant ECL. In performing the assessment, the Group considered the available liquid assets of the related parties.

*Hedging.* The Group does not have transactions that will require the use of hedge accounting.

There is no material impact on the basic and diluted earnings per share as a result of the Group's adoption of PFRS 9.

- PFRS 15, *Revenue from Contract with Customers* – The new standard replaced 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.

The following are the related literature issued subsequent to the adoption of PFRS 15:

○ *Philippine Interpretations Committee (PIC) Q&A No. 2018-12, PFRS 15 Implementation Issues Affecting the Real Estate Industry* – The interpretation addresses some implementation issues affecting real estate industry due to changes brought about by the adoption of PFRS 15.

○ *SEC Memorandum Circular No. 14, Series of 2018, PIC Q&A 2018-12 Implementation Issues Affecting the Real Estate Industry* – The circular provides relief to the real estate industry by deferring the application of the provisions of the PIC Q&A 2018-12 with respect to the accounting for significant financing component, uninstalled materials and the exclusion of land in the calculation of percentage of completion (POC), for a period of three (3) years. This deferral will only be applicable for real estate transactions. Effective January 1, 2021, real estate companies will adopt PIC Q&A 2018-12 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

○ *Amendments to PFRS 15, Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on: (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.

The Group adopted PFRS 15 using the retrospective approach but deferred the application of the provisions of PIC Q&A No. 2018-12.

PFRS 15 did not have a significant impact on the Group's other revenue streams.

- 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.

For the Group's non-cancellable operating lease commitments as at September 30, 2019, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. However, the Group's non-cancellable operating lease, in which the Group acted as a lessee, has ceased in 2018. Thus, the Group does not have to recognize right-of-use asset (ROU) and a corresponding liability in respect of this lease. Moreover, the Group will opt not to apply the requirements to recognize ROU and finance liability for leases with terms of one year or less and leases for which the underlying asset is of low value. The Group acts as a lessor in other non-cancellable operating leases as at September 30, 2019. Accordingly, PFRS 16 will not have a significant impact on the Group's consolidated financial statements.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments allow entities to measure particular financial assets with negative compensation at amortized cost or at fair value through other comprehensive income (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9, *Financial Instruments* for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS does not have any material effect on the consolidated financial statements of the Group. Additional disclosures will be included in the notes to consolidated financial statements, as applicable.

### **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.

Acquired subsidiaries are subject to the application of the purchase method for acquisitions. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiaries, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiaries prior to acquisition. On initial recognition, the assets and liabilities of the subsidiaries are included in the balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

Goodwill (positive) represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiaries at the date of acquisition. Negative goodwill represents the excess of Parent Company's share in the fair value of identifiable net assets of the subsidiaries at date of acquisition over acquisition cost.

### **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.

*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 advances to employees), investment in time deposits, 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 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 assets' 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.

### **Cost to Obtain a Contract with a Customer**

The Group recognizes an asset for the incremental cost of obtaining a contract with a customer if the Group expects to recover those costs. Otherwise, those costs are recognized as expense when incurred. The incremental costs of obtaining a contract are those costs that the Group incurs to

obtain a contract such as, but not limited to, sales commissions paid to sales agents and nonrefundable direct taxes incurred in obtaining a contract.

### **Contract Balances**

*Contract Assets.* A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than a passage of time. If the Group transferred goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for that earned consideration that is conditional. Contract assets are reclassified to receivables from sale of real estate upon completion of the performance obligation. Contract assets pertain to unbilled receivables from sale of office units which is computed based on POC.

*Receivable from Sale of Real Estate.* A receivable from real estate represents the Group's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

*Contract Liabilities.* A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration from the customer. If a customer pays consideration before the Group transfers goods to the customer, a contract liability is recognized when the payment is made or the payment is due, whichever is earlier. Contract liabilities are recognized as revenue when the Group performs under the contract.

### **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. 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.

The Group uses fair value model for the 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. 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 fair value of investment properties is determined using market data approach and income approach by Asian Appraisal Company, Inc., a SEC-accredited 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 consolidated 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
Building and building improvements	5 to 50

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.

#### **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.

#### **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 construction materials and supplies from the completed construction of its projects.

#### **Creditable Withholding Taxes**

Creditable withholding taxes (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.

#### **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.

#### **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.

#### **Subscription Receivable**

Subscription receivable is the amount to be collected before the subscribed shares are issued and is presented as a deduction from equity.

#### **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 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 from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group perform its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

Revenue from contracts with customers is recognized when control of the goods and services is transferred to the customer in an amount that reflects the consideration to which the Group expected to be entitled in exchange for those goods and services.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in all of its revenue sources.

The following specific recognition criteria must also be met before revenue is recognized.

*Revenue from Real Estate Sales.* Revenue from the sale of completed real estate project is accounted for using the full accrual method in which revenue is recognized at a point in time when control is transferred to a customer. The Group transfers control of real estate for sale under pre-completion contracts over time and, therefore, satisfies the performance obligations under the contract and recognizes revenue over time.

The Group considers a contract to sell as a valid revenue contract. The Group also assess the probability that it will collect the consideration under the contract prior to recognizing revenue. This assessment is based on the customer's ability and intention to pay the amount of consideration when it is due. If any of the above criteria is not met, the deposit method is applied until all the conditions for recognizing revenue are met.

The Group recognizes revenue from real estate sales under pre-completion contracts based on POC using the input method in which revenue is recognized on the basis of costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

The Group opted to defer the application guidelines of the provisions of the PIC Q&A No. 2018-12 with respect to the accounting for significant financing component, uninstalled materials and the exclusion of land in the computation of POC for a period of three years.

Accordingly, the consideration is not adjusted for the effects of the time value of money and the total cost incurred and total estimated cost to complete including the cost of land.

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.

*Leasing Revenue.* Leasing revenue consists of rent income and Common Use Service Area (CUSA) fees. 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. 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.

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.

*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.

*Cost of Services.* Cost of services, which constitute direct cost incurred in relation to the operation of ACPT and personnel cost in relation to project management and development services, MPI's commercial units, and EPMI's provision of property management 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.

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 Lessor.* Leases where the Group retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as revenue in profit or loss on a straight-line basis over the lease term. 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.

*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.

### **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 a funded, 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, return on plan assets and any changes in the effect of the asset ceiling (excluding net interest on retirement liability on asset) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held in trust and managed by a trustee bank. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of the plan assets is based on the market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the retirement liability, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The net retirement asset (liability) is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets against which the obligations are to be settled directly, adjusted for any effect of asset ceiling. The present value of the retirement obligation 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. The asset ceiling is the present value of future economic benefits available in the form of refunds from the plan or reductions in future contribution to the plan.

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.

#### **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 consolidated notes to financial statements when material.

### **3. 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 carrying 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.

*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, 2018, it has the ability to exercise control over these investees.

*Recognizing Property of Arcosouth Development Inc. (Arcosouth) under Real Estate for Sale.* In March 2018, the Parent Company and the Principal Stockholder of Arcosouth (collectively referred to as the Parties) entered into an agreement (the Agreement) to jointly develop the adjacent lots (the Property) of SLDC and Arcosouth aggregating 5,991 square meters located in Arca South, Taguig City. The Parties agreed, among others, (a) to have a 50:50 sharing between the Parties in the equity of SLDC; (b) to merge SLDC and Arcosouth into a single corporation, with SLDC as the surviving entity; (c) the Parent Company shall be responsible for day-to-day management of SLDC; (d) the Parent Company shall be entitled to appoint three out of five BOD members; (e) the Parent Company shall nominate the Chairman of SLDC's BOD and the Stockholder of Arcosouth agreed to vote for the person nominated by the Parent Company; and (f) the Parent Company shall be entitled to appoint the President, Chief Finance Officer and Corporate Secretary of SLDC.

The merger of SLDC and Arcosouth were approved on September 19, 2018 by the BOD and the stockholders of SLDC. SLDC started to develop Savya Financial Center on the Property in January 2019 (see Note 1).

On August 22, 2019, SEC approved the Merger whereby the entire assets and liabilities of Arcosouth were transferred to and absorbed by SLDC.

*Determining Revenue and Cost Recognition.* Selecting an appropriate revenue recognition method for a particular real estate 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 Group recognizes revenue over time if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group performance as the entity performs.
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group concluded that real estate for sale of office units of Cebu Exchange is recognized over time. The Group also determined that the input method is the appropriate method in measuring the POC of Cebu Exchange. Under POC, the Group satisfies its performance obligation to deliver a portion of the property to the customer over time. The input method is based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred. Changes in estimates may affect the reported amounts of revenue, cost of real estate sales, contract assets and contract liabilities. On the other hand, revenue from sale of condominium units of Arya Residences is recognized at a point in time when control is transferred.

*Classifying Real Estate for Sale, Investment Properties and Property and Equipment.* The Group determines whether a property qualifies as a real estate for sale, an investment property or an item of property and equipment. In making its judgment, the Group considers whether the property is held for sale in the ordinary course of business, held primarily to earn rentals or capital appreciation or both or used for operations and administrative purposes by 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.

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

*Determining Lease Commitments - Group as Lessee.* The Group entered into a property lease as a lessee for its office premises and sales pavilion. 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.

### **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:

*Recognizing Revenue and Cost of Real Estate Sales.* The Group's revenue and cost recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and cost. Revenue and cost of sale of real estate of Cebu Exchange recognized based on POC are measured principally based on the costs incurred up until the end of the reporting period at a proportion of total costs expected to be incurred.

*Estimating Fair Value of Investment Properties.* Investment properties are measured at fair values. The Group works closely with external qualified valuers who performed the valuation using appropriate valuation techniques. The Group estimates expected future cash flows yields, occupancy rates 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.

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.

*Assessing ECL on Trade Receivables and Contract Assets.* The Group initially uses a provision matrix based on historical default rates for trade receivables. The provision matrix specifies provision rates depending on the number of days that a receivable is past due. The Group then calibrates the provision matrix to adjust historical credit loss experience with forward-looking information on the basis of current observable data to reflect the effects of current and forecasted economic conditions.

The Group adjusts historical default rates if forecasted economic conditions such as gross domestic product are expected to deteriorate which can lead to increased number of defaults in the real estate industry. The Group regularly reviews the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience.

The determination of the correlation between historical default rates and forecasted economic conditions is a significant estimate. Accordingly, the provision for ECL of receivable from real estate sales is sensitive to changes in assumptions about forecasted economic conditions.

*Assessing ECL on Other Financial Assets at Amortized Cost.* The Group determines the allowance for ECL based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL are provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition in which case ECL are provided based on lifetime ECL.

The Group also considers financial assets that are more than 30 days past due to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

*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.

*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.

Value in use is 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.

Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

No provision for impairment loss on nonfinancial assets was recognized in 2019 and 2018.

*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 21 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 net retirement liability.

*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.

*Assessing Provisions and Contingencies.* The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of strategies relating to these proceedings.

#### 4. CASH AND CASH EQUIVALENTS

This account consists of:

	September 2019	December 2018	September 2018
Cash on hand	<b>80,000</b>	80,000	65,000
Cash in bank	<b>318,390,618</b>	46,526,688	102,922,135
Short-term placements	<b>64,208,239</b>	280,072,902	343,033,113
	<b>382,678,857</b>	326,679,590	446,020,248

Cash in banks earn interest at the prevailing bank deposit rates and are immediately available for use in the current operations. Short-term placements are made for varying periods up to six (6) months or less and earn interest at the prevailing short-term deposit rates.

#### 5. FINANCIAL ASSETS AT FVPL

Financial assets at FVPL amounting to **₱186.1 million** and **₱154.8 million** as at September 30, 2019 and December 31, 2018, respectively, represent units of participation in a money market fund held by the Group for short-term use and working capital purposes.

Financial assets at FVPL include unrealized gains (loss) amounting to **-₱0.86 million** and **₱1.76 million** for the nine months ended September 30, 2019 and 2018, respectively, and included as part of "Other income" account in the interim consolidated statements of comprehensive income. Realized gain on sale of financial assets at FVPL amounted to **₱9.38 million** and **₱8.78 million** for the nine months ended September 30, 2019 and 2018, respectively (see Note 20).

The fair value of financial assets at FVPL is measured using Level 1 of the fair value hierarchy with significant directly observable inputs.

#### 6. TRADE AND OTHER RECEIVABLES

This account consists of:

	September 2019	December 2018	September 2018
Trade receivables from:			
Sale of real estate	<b>108,683,566</b>	81,631,132	446,739,424
Leasing	<b>36,604,683</b>	30,385,699	72,104,510
Advances for project development	<b>427,749,660</b>	506,468,951	334,167,452
Accrued rent receivables	<b>92,660,291</b>	51,961,813	39,314,009
Advances to employees	<b>9,591,408</b>	5,067,899	6,499,173
Other receivables	<b>101,722,379</b>	67,785,528	66,305,987
	<b>777,011,987</b>	743,301,022	965,130,555

	<b>September 2019</b>	December 2018	September 2018
Allowance for impairment losses	<b>(368,292)</b>	(368,292)	(368,292)
	<b>776,643,695</b>	742,932,730	964,762,263

The aging analysis of trade and other receivables are shown below:

	<b>September 2019</b>	December 2018	September 2018
Current	<b>776,275,403</b>	742,564,438	964,393,971
Past due			
Within 6 months	-	-	-
7 months to 1 year	-	-	-
More than 1 year	<b>368,292</b>	368,292	368,292
	<b>776,643,695</b>	742,932,730	964,762,263

Trade receivables from leasing operations are noninterest-bearing, unsecured and collectible within seven (7) days while trade receivables from sale of real estate pertain to receivables from sale of condominium units and office units of Cebu Exchange that were already billed. 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 the difference between rental income recognized using straight-line method of accounting and rental payments based on the terms of the lease contracts.

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

Other receivables mainly include accrued project management fees which will be billed and collected within 30 days.

The carrying amount of the receivables is considered a reasonable approximation of fair value. All of the Group's receivables have been reviewed for indicators of impairment. As of September 30, 2019, and December 31, 2018, no receivables were found to be impaired. Thus, management believes that the entire carrying amount of the receivable portfolio is fully recoverable.

## 7. CONTRACT ASSETS AND CONTRACT LIABILITIES

The Group's contract assets and contract liabilities are as follows:

	<b>September 2019</b>	December 2018	September 2018
Contract assets	<b>1,252,604,544</b>	785,197,944	-
Contract liabilities	<b>48,785,389</b>	20,385,280	-
Net contract assets (liabilities)	<b>1,203,819,155</b>	764,812,664	-

Contract assets pertain to receivables from the sale of office units of Cebu Exchange representing the excess of cumulative revenues from real estate sales over total collections received from buyers as at September 30, 2019 and December 31, 2018. These amounts will be billed and collected in accordance with the agreed payment terms with the buyers which is normally over five (5) to 10 years.

Contract liabilities pertain to downpayments received from buyers of Cebu Exchange at the inception of the contracts in which the related revenue is not yet recognized as at September 30, 2019. The

decrease in contract liabilities pertains to downpayments received that were subsequently recognized as revenues from real estate sales.

## 8. REAL ESTATE FOR SALE

This account consists of:

	September 2019	December 2018	September 2018
Raw land	2,353,969,300	1,656,023,008	1,494,556,687
Assets under construction	2,230,674,193	1,420,142,094	1,463,635,371
Condominium units for development	774,941,279	336,548,323	-
	<b>5,359,584,772</b>	<b>3,412,713,425</b>	<b>2,958,192,058</b>

### Raw Land

Raw land pertains to parcels of land acquired by the Group for future development projects that are intended for sale. Raw land also includes the property from the recent merger with Arcosouth located in Arca South, Taguig City, on which SLDC launched the development of Savya Financial Center (see Notes 1 and 3). This property has a carrying amount of ₱491.0 million as at September 30, 2019.

In 2018, the Group transferred Cazneau's raw land and Courtyard Hall from "Real estate for sale" account to "Investment properties" account aggregating ₱216.9 million because the Group has yet to determine the strategic use of the raw land while the Courtyard Hall is already used for leasing operations (see Note 1). Accordingly, raw land and Courtyard Hall were recognized as investment properties at their fair values amounting to ₱235.8 million and ₱165.3 million, respectively, as at September 30, 2019 (see Note 9).

In August 2019, Bhavana purchased a parcel of land in Cebu with a total area of two thousand two hundred forty-five (2,245) square meters and a carrying amount of ₱697.9 million as at September 30, 2019.

### Assets under Construction

Assets under construction consist of land and development costs of ongoing real estate projects of the Group. As at September 30, 2019, this account includes the land and development costs of Cebu Exchange and Sevina Park (see Note 1).

### Condominium Units for Development

Condominium units for development pertain to condominium units acquired in Legaspi Village, Makati City. These units are intended for future development and sale.

## 9. INVESTMENT PROPERTIES

This account consists of:

	September 2019	December 2018	September 2018
ACPT	4,426,263,726	3,438,420,267	5,024,004,327
Arya Residences:			
Commercial units	1,194,590,704	1,194,379,000	1,110,864,000
Parking slots	184,984,000	184,984,000	177,857,851
Raw Land:			
UPHI's property	597,183,629	577,277,508	564,007,279
Batangas and Tagaytay property	146,295,713	141,898,400	124,165,200
Cazneau's property	235,750,762	211,713,162	184,269,100
Courtyard Hall	165,252,483	152,842,238	-
	<b>6,950,321,017</b>	<b>5,901,514,575</b>	<b>7,185,167,757</b>

### ACPT

ACPT is an office building that is used for leasing operations (see Note 1).

In 2018, the Parent Company transferred its office to ACPT (see Note 1). Accordingly, investment properties with a carrying amount of ₱176.9 million, ₱131.9 million original cost, was reclassified to “Property and equipment” (see Note 10).

### 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 used for leasing operations.

In 2018, the Parent Company and MPI sold parking slots with carrying amount of P28.8 million (P17.8 million cost) for a total consideration of P20.5 million. This resulted to loss on sale of investment properties amounting to P8.3 million (see Note 20).

### Raw Land and Courtyard Hall

UPHI’s raw land, with fair value amounting to ₱597.2 million as at September 30, 2019 and ₱577.3 million as at December 31, 2018, 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 September 30, 2019 and December 31, 2018, management assessed that the potential effect of these cases on the Group’s consolidated financial statements is not significant.

In 2018, the Group transferred Cazneau’s raw land and Courtyard Hall from “Real estate for sale” account to “Investment properties” account aggregating ₱216.9 million because the Group has yet to determine the strategic use of the raw land while the Courtyard Hall is already used for leasing operations. Accordingly, raw land and Courtyard Hall were recognized as investment properties at fair value amounting to ₱235.8 million and ₱165.3 million, respectively, as at September 30, 2019 (see Note 8).

Raw land of the Parent Company has a total area of 10.3 hectares located in Batangas and Tagaytay with fair value aggregating ₱146.3 million as at September 30, 2019 and ₱141.9 million as at December 31, 2018.

### 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	2019	2018
ACPT:				
Office units	Discounted cash flow approach (DCF)	Rental rate per square meter (sq.m.)	<b>₱1,375</b>	-
		Rent escalation rate per annum (p.a.)	<b>5%</b>	-
		Discount rate	<b>8.33%</b>	-
		Vacancy rate	<b>5%</b>	-
Parking slots	Discounted cash flow approach	Rental rate per slot	<b>₱6,500</b>	-
		Rent escalation rate p.a.	<b>5%</b>	-
		Discount rate	<b>8.33%</b>	-
		Vacancy rate	<b>5%</b>	-
ACPT	Land development approach	Discount rate	-	8.74%
		Proposed rental rates (per sq.m.)	-	₱1,350

Class of Property	Valuation Technique	Significant Inputs	2019	2018
				20,923
		Calculated no. of net leasable area	-	sq.m
		Rental rates for parking per sq. m.	-	₱6,000
		Vacancy rate	-	5% - 10%
Arya Residences:				
Commercial units	Discounted cash flow approach			
		Rental rate per square meter (sq.m.)	<b>₱3,000</b>	₱3,000
		Rent escalation rate per annum (p.a.)	<b>7%</b>	7%
		Discount rate	<b>8.74%</b>	8.74%
		Vacancy rate	<b>2%</b>	2%
Parking slots	Discounted cash flow approach			
		Rental rate per slot	<b>₱6,500</b>	₱6,500
		Rent escalation rate p.a.	<b>7%</b>	7%
		Discount rate	<b>8.74%</b>	8.74%
		Vacancy rate	<b>2%</b>	2%
Raw Land:				
UPHI's Laguna and Tagaytay properties	Market data approach	Price per sq. m.	<b>₱1,800</b>	₱1,740
Cazneau's Laguna Properties	Market data approach	Price per sq. m.	<b>₱11,200</b>	₱10,200
ALCO's Batangas and Tagaytay properties	Market data approach	Price per sq. m.	<b>₱1,339</b>	₱1,300

Details of the valuation techniques used in measuring fair values of investment properties 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.

#### 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.

#### Market Data Approach

Market data approach involves the comparison of the land to those that are more or less located within the vicinity of the appraised property 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.

## 10. PROPERTY AND EQUIPMENT

The balances and movements of this account as of September 30, 2019, December 31, 2018, and September 30, 2018 consist of:

	Cost	Accumulated Depreciation	Net Carrying Amount
<b>September 2019</b>			
Office equipment	60,507,594	(42,549,888)	17,957,706
Furniture and fixture	13,752,493	(8,487,970)	5,264,524
Building and building improvements	225,059,669	(10,344,210)	214,715,459
Transportation equipment	67,686,769	(33,756,213)	33,930,556
	<b>367,006,525</b>	<b>(95,138,281)</b>	<b>271,868,245</b>

<b>December 2018</b>			
Office equipment	49,932,812	(39,820,930)	10,111,882
Furniture and fixture	8,790,764	(7,882,114)	908,650
Leasehold improvements	78,500	(2,181)	76,319
Building and building improvements	26,917,349	(4,256,821)	22,660,528
Construction in progress	177,062,444	-	177,062,444
Transportation equipment	54,833,018	(28,199,886)	26,633,132
	<b>317,614,887</b>	<b>(80,161,932)</b>	<b>237,452,955</b>

<b>September 2018</b>			
Office equipment	49,070,687	(39,365,806)	9,704,881
Furniture and fixture	8,825,484	(7,678,215)	1,147,269
Leasehold improvements	113,008,523	(51,285,395)	61,723,128
Transportation equipment	44,583,613	(21,547,668)	23,035,945
	<b>215,488,307</b>	<b>(119,877,084)</b>	<b>95,611,223</b>

Depreciation and amortization on property and equipment were included as part of "Operating expenses" account in the interim consolidated statements of comprehensive income.

## 11. OTHER ASSETS

This account consists of:

	September 2019	December 2018	September 2018
Input VAT	333,111,531	242,016,373	409,407,840
Prepayments	183,908,043	95,143,649	51,877,150
Deposits	98,826,342	59,239,173	80,753,456
Amounts held in escrow	78,255,992	56,514,398	24,042,432
Investment in time deposits	20,324,000	21,032,000	21,608,000
Deferred input VAT	4,973,213	23,663,461	26,248,157
Others	1,519,807	1,519,807	1,586,770
	<b>720,918,928</b>	<b>499,128,861</b>	<b>615,523,805</b>

Input VAT represents VAT paid on land acquisition and to supplier that can be claimed as credit against the company's future VAT liabilities.



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

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

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 ₱1,759.8 million and ₱1,779.8 million as at September 30, 2019 and December 31, 2018, respectively. The outstanding loan balance of MTL amounted to ₱685.0 million as at September 30, 2019 and ₱684.9 million as at December 31, 2018 (see Note 12).

Investment in time deposits pertains to US Dollar-denominated time deposits with a term of two (2) years and a fixed interest rates ranging from 1.75% to 2.5% per annum (p.a). These time deposits are subject to holding period of six (6) months from the date of issuance. In cases of pre-termination, the investment will earn interest based on regular deposit rates.

Deferred input VAT pertains to unamortized input VAT on property and equipment acquired whose amount exceeds ₱1.0 million, excluding VAT.

## 12. LOANS PAYABLE

This account consists of:

	September 2019	December 2018	September 2018
Local creditor banks	<b>5,021,068,603</b>	4,082,252,132	3,949,443,390
Private funders	<b>84,723,970</b>	87,723,970	1,786,720,339
	<b>5,105,792,573</b>	4,169,976,102	5,736,163,729

### Local creditor banks

Loans from local banks consist of interest-bearing secured and unsecured loans obtained to finance project development and carries interest rates ranging from 3.50% to 7.50% per annum (p.a.) in 2019 and 3.50% to 7.15% p.a. in 2018.

In 2015, the Parent Company entered into an OLSA with credit line of ₱2,000.0 million, to partially finance the cost of the construction and development of the ACPT. The loan is supported by 21 promissory notes. 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.
- 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 ₱1,759.8 million and ₱1,779.8 million as at

September 30, 2019 and December 31, 2018, respectively.

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

	<b>September 2019</b>	December 2018	September 2018
Total interest-bearing liabilities	<b>2,494,546,040</b>	2,197,482,011	2,211,619,360
Total equity	<b>5,846,921,220</b>	4,404,224,615	4,349,732,756
	<b>0.43:1.00</b>	0.50:1.00	0.51:1.00

The Parent Company is compliant with the required debt to equity ratio as at September 30, 2019, December 31, 2018, and September 30, 2018.

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 three (3) years after initial drawdown.

The outstanding balance of this loan amounted to ₱1,926.3 million and ₱1,287.6 million as at September 30, 2019 and December 31, 2018, respectively.

In 2018, SLDC entered into MTL for a credit line of ₱1,440.0 million with a local bank, to partially finance the acquisition and development of its land in Taguig City to repay advances from shareholders.

The outstanding balance of this loan amounted to to ₱685.0 and ₱684.9 million as at September 30, 2019 and December 31, 2018, respectively.

#### Private funders

Loans from private funders represent unsecured borrowings with maturities of 180 days to 3 years from the reporting date and bear interest rate of 3.5% in 2019 and 2018.

The Parent Company entered into non-interest bearing loan agreements for ₱1,650.6 million with Centrobless Corporation (Centrobless) in 2015 and for ₱207.1 million with Signature Office Property, Inc. (SOPI) in 2017. Both are related parties under common management with the Parent Company.

In 2018, loans payable to Centrobless and SOPI with carrying amounts aggregating ₱1,847.5 million were settled in exchange for ACPT office units and parking slots with cost aggregating ₱1,330.0 million.

### **13. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

This account consists of:

	<b>September 2019</b>	December 2018	September 2018
Accounts payable	<b>267,708,414</b>	178,485,778	250,696,625
Payable to buyers	<b>424,467,778</b>	13,459,550	55,022,068
Deferred output VAT	<b>404,975,024</b>	361,197,971	349,894,292
Retention payable	<b>367,046,603</b>	333,284,476	310,244,963
Accrued expenses	<b>237,155,271</b>	93,875,743	88,807,537
Due to Arcosouth's stockholders	<b>137,000,000</b>	495,919,597	-
Security deposits	<b>108,749,213</b>	95,633,593	111,249,842
Advance rent	<b>65,472,149</b>	53,279,878	57,754,874
Withholding taxes payable	<b>29,304,077</b>	13,645,930	6,794,490

	<b>September 2019</b>	December 2018	September 2018
Dividends payable	<b>5,746,558</b>	5,056,961	5,061,498
Others	<b>19,137,321</b>	12,008,536	4,543,918
	<b>2,066,762,408</b>	1,655,848,013	1,240,070,107

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

Payable to buyers include customers' deposit from buyers of Savya offices, reservation fees, and collections received from prospective lessees, which are and to be applied as security deposits upon execution of lease contracts.

Deferred output VAT pertains to VAT from sales of property on the installment plan. 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.

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.

Accrued expenses are expected to be settled within the next 12 months. Other accrued expenses pertain to management and professional fees, utilities, commissions, advertising and other expenses.

Due to Arcosouth's stockholders represents the deposit for future stock subscription intended for purchasing of preferred shares pending SEC's approval of SLDC's capital restructuring.

Security deposits pertain to the deposits made by the lessees of the ACPT, Arya commercial units, and dormitory units which are refundable upon termination of the lease less any unsettled balances.

Advance rent pertains 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.

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

#### **14. RELATED PARTY TRANSACTIONS**

The company engages, in the normal course of business, in various transactions with its related parties which include entities under common control, key management and others.

##### Advances to and from Subsidiaries

The Company grants advances to its subsidiaries for working capital requirements and capital expenditures.

In August 2019, SEC approved the merger of SLDC and Arcosouth resulting to the recognition of advances from Arcosouth's stockholders.

##### Advances to Officers and Employees

The Company grants advances to its officers and employees. These are funds given to officers and employees to carry out their functions in the Company subject to liquidation.

##### Advances for Project Development

In addition to the advances from the Parent Company, CLLC obtained from Rock & Salt B.V. for its real estate projects.

All outstanding balances are unguaranteed, unsecured, bearing interest at 3.5% per annum and payable in cash at gross amounts upon demand, but not later than 12 months from reporting period.

#### 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 were settled in 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.

#### Key Management Personnel

The compensation of key management personnel are as follows:

	<b>September 2019</b> (Nine Months)	December 2018 (Twelve Months)	September 2018 (Nine Months)
Salaries and other employee benefits	<b>79,558,649</b>	77,960,692	49,166,408
Retirement benefits expense	-	24,095,262	-
	<b>79,558,649</b>	102,055,954	49,166,408

## 15. EQUITY

The account consists of:

	Shares		
	<b>September 2019</b>	December 2018	September 2018
Common shares - P0.18 par value			
Authorized	<b>16,368,095,199</b>	16,368,095,199	16,368,095,199
Issued:			
Balance at the beginning of period	<b>5,318,095,199</b>	5,318,095,199	5,318,095,199
Issued during the period	-	-	-
Balance at the end of period	<b>5,318,095,199</b>	5,318,095,199	5,318,095,199
Preferred shares - P1.00 par value			
Balance at the beginning of period	<b>32,500,000</b>	32,500,000	32,500,000
Issued during the period	<b>10,000,000</b>	-	-
Balance at the end of period	<b>42,500,000</b>	32,500,000	32,500,000

	Amount		
	<b>September 2019</b>	December 2018	September 2018
Common shares - P0.18 par value			
Balance at the beginning of period	<b>957,257,136</b>	957,257,136	957,257,136
Issued during the period	-	-	-
Balance at the end of period	<b>957,257,136</b>	957,257,136	957,257,136
Preferred shares - P1.00 par value			
Balance at the beginning of period	<b>32,500,000</b>	32,500,000	32,500,000
Issued during the period	<b>10,000,000</b>	-	-
Balance at the end of period	<b>42,500,000</b>	32,500,000	32,500,000
	<b>999,757,136</b>	989,757,136	989,757,136

In June 2019, ALCO issued 10.0 million Series C preferred shares which are cumulative, nonvoting, nonparticipating, nonconvertible, and Peso-denominated, among other conditions, to the public with issuance price of P100 per share.

The parent company recognized additional paid-in capital related to the issuance of Series C preferred shares amounting to ₱990 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 C preferred shares to the public amounted to ₱14.2 million consisting of ₱1.7 million which was charged to profit and loss and ₱12.5 million which was recognized as reduction to additional paid-in capital.

### **Dividend Declaration**

The Parent's Company's BOD and stockholders approved the following cash dividends to ALCO's stockholders:

Declaration Date	Stockholders of Record Date	Payment Date	Amount	Dividend per Share
<b>Preferred Shares</b>				
August 7, 2019	September 6, 2019	September 27, 2019	₱17,319,000	₱1.73
August 7, 2019	August 22, 2019	September 6, 2019	₱35,229,000	₱1.76
May 8, 2019	May 22, 2019	June 6, 2019	₱35,229,000	₱1.76
February 21, 2019	March 1, 2019	March 6, 2019	₱35,229,000	₱1.76
October 25, 2018	November 12, 2018	December 6, 2018	₱35,229,000	₱1.76
August 1, 2018	August 16, 2018	September 6, 2018	₱35,229,000	₱1.76
May 9, 2018	May 23, 2018	June 6, 2018	₱35,229,000	₱1.76
January 10, 2018	February 9, 2018	March 6, 2018	₱35,229,000	₱1.76
<b>Common Shares</b>				
June 21, 2019	July 8, 2019	July 31, 2019	₱63,817,142	₱0.012
March 21, 2018	April 6, 2018	May 2, 2018	₱63,817,142	₱0.012

## **16. REVENUES**

The account consists of:

	September 2019 (Nine Months)	December 2018 (Twelve Months)	September 2018 (Nine Months)
Real estate sales of:			
Cebu Exchange	1,256,542,001	844,954,726	364,671,029
Arya Residences	-	147,639,118	147,639,118
Leasing revenue	226,405,250	132,436,268	75,217,823
Project Management fees	7,445,369	7,439,974	5,626,472
	<b>1,490,392,620</b>	<b>1,132,470,086</b>	<b>593,154,442</b>

Leasing revenue pertains to rent income and CUSA earned from various lease contracts of the Parent Company in ACPT, retail units of MPI in Arya Residences, and leasing operations of Cazneau in Courtyard Hall, in which rent income is recognized on a straight-line basis under PAS 17, *Leases*.

Project management fees pertain to services rendered by EPMI to the Arya Residences Condominium Corporation. 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.

## 17. COST OF SALES AND SERVICES

The account consists of:

	<b>September 2019</b>	December 2018	September 2018
	<b>(Nine Months)</b>	(Twelve Months)	(Nine Months)
Cost of real estate sales	<b>697,367,345</b>	599,734,444	377,167,828
Cost of leasing operations	<b>32,202,784</b>	15,260,471	11,533,938
Cost of services	<b>10,883,380</b>	3,804,324	4,364,649
	<b>740,453,509</b>	618,799,239	393,066,415

## 18. OPERATING EXPENSES

Details of operating expenses by nature are as follows:

	<b>September 2019</b>	December 2018	September 2018
	<b>(Nine Months)</b>	(Twelve Months)	(Nine Months)
Personnel costs	<b>118,473,195</b>	176,647,311	94,682,134
Advertising	<b>77,571,462</b>	45,266,318	32,206,418
Taxes and licenses	<b>68,288,763</b>	17,671,357	15,245,266
Brokers' commissions	<b>46,713,267</b>	27,157,093	14,790,184
Management and professional fees	<b>44,427,015</b>	31,867,665	21,665,507
Communication and office expenses	<b>21,410,110</b>	20,057,547	11,534,178
Depreciation and amortization	<b>18,970,701</b>	15,449,610	10,516,910
Transportation and travel	<b>15,998,622</b>	18,787,861	7,682,964
Insurance	<b>12,048,499</b>	12,886,192	8,630,178
Repairs and maintenance	<b>5,040,295</b>	2,792,489	1,882,456
Utilities	<b>4,934,632</b>	8,315,942	2,932,805
Representation	<b>3,295,774</b>	672,727	224,859
Rental	<b>1,147,631</b>	14,498,091	11,394,112
Others	<b>4,410,479</b>	5,540,291	3,383,587
	<b>442,730,445</b>	397,610,494	236,771,558

## 19. FINANCE COSTS

Finance costs relate to the following:

	<b>September 2019</b>	December 2018	September 2018
	<b>(Nine Months)</b>	(Twelve Months)	(Nine Months)
Interest expense	<b>78,430,360</b>	72,872,660	60,572,458
Bank charges	<b>328,234</b>	774,628	618,530
	<b>78,758,594</b>	73,647,288	61,190,988

## 20. OTHER INCOME – NET

This account consists of:

	September 2019 (Nine Months)	December 2018 (Twelve Months)	September 2018 (Nine Months)
Realized gain on disposals of financial assets at FVPL	9,377,262	14,190,431	8,783,322
Interest income	9,382,714	6,088,906	5,852,837
Foreign exchange gains/(losses)	(587,992)	906,754	1,732,146
Unrealized holding gains (losses) on Financial assets at FVPL	(856,589)	(6,385,529)	1,763,982
Gain on settlement of loans payable	-	319,553,431	-
Loss on sale of investment properties	-	(8,334,033)	-
Others	1,121,380	13,100,733	10,010,820
	<b>18,436,775</b>	<b>339,120,693</b>	<b>28,143,107</b>

## 21. RETIREMENT LIABILITY

The Parent Company has a funded and non-contributory defined benefit retirement plan covering all of its qualified 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 new retirement plan provides a retirement benefit ranging from 100% to 150% of salary for every year of credit service. Accordingly, this plan amendment changed the benefits payable under the plan, which resulted in the recognition of past service cost for the year.

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

	September 2019	December 2018	September 2018
Balance at beginning of period	66,088,998	50,668,546	50,668,546
Retirement expense:			
Current service cost	7,006,966	7,879,934	-
Interest cost	-	2,033,107	-
Past service cost	-	25,823,274	-
Remeasurement gain	-	(15,315,863)	-
Contribution to retirement plan assets	(15,000,000)	(5,000,000)	-
Balance at end of period	<b>58,095,964</b>	<b>66,088,998</b>	<b>50,668,546</b>

## 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments comprise cash and cash equivalents, trade and other receivables, deposits, accounts and other liabilities (except statutory liabilities) and loans payable. The main purpose of these financial instruments is to finance the Group's operations.

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 transactions in currencies other than its functional currency.

#### Credit Risk

Credit risk is the risk that the Group will incur a loss because its counterparties fail to discharge their contractual obligations. 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. As of September 30, 2019, and December 31, 2018, there were no significant credit concentrations.

With respect to credit risk arising from the other financial assets of the Group, which are composed of cash, receivables and deposits, the Group's exposure to credit risk arises from default of the counterparty, with maximum exposure equal to the carrying amounts of the instruments.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position. Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount. The Group's exposure to credit risk is limited to the carrying amount of financial assets recognized as of September 30, 2019, December 31, 2018 and September 30, 2018.

None of Group's financial assets are secured by collateral or other credit enhancements.

#### *a. Cash in Bank*

The credit risk for cash in bank is considered negligible, since the counterparties are reputable universal banks with high quality external credit ratings. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million per depositor per banking institution.

#### *b. Receivables*

In respect of receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Receivables consist of a large number of customers. Based on historical information about customer default rates, management considers the credit quality of receivables that are not past due or impaired to be good.

The Group has no past due or impaired accounts as of September 30, 2019, December 31, 2018 and September 30, 2018.

#### Liquidity Risk

Liquidity risk is the risk that the Group may not be able to settle its obligations as they fall due.

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 flow from operations. All financial liabilities of the Group, which consist of payable to clearing house, brokers and customers and accounts payable and other liabilities (excluding taxes payable to government agencies), are payable on demand.

#### 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 floating interest rates are exposed to cash flow interest rate risk. The re-pricing of these instruments is done on intervals of three months. On the other hand, the Group's other loans payable to local banks and financing institutions subject to fixed interest rate are exposed to fair value interest rate risk.

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.

### **23. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES**

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing 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 statements of financial position. Capital for the reporting periods under review is summarized as follows:

	<b>September 2019</b>	December 2018	September 2018
Total liabilities	<b>9,401,207,283</b>	7,078,187,677	8,247,455,504
Total equity	<b>6,860,366,012</b>	5,258,278,086	4,981,200,312
Debt-to-equity ratio	<b>1.37:1</b>	1.35:1	1.66:1

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

### **24. EARNINGS (LOSS) PER SHARE**

Basic and diluted earnings per share are computed as follows:

	<b>September 2019</b>	December 2018	September 2018
Net income attributable to equity holders of the Parent Company	<b>647,361,323</b>	333,479,516	75,639,872
Less: Dividends declared to Series B and Series C Preferred Shares	<b>(123,006,000)</b>	(140,916,000)	(105,687,000)
	<b>524,355,323</b>	192,563,516	(30,047,128)
Divided by weighted average number of outstanding common shares	<b>5,318,095,199</b>	5,318,095,199	5,318,095,199
	<b>0.0986</b>	0.0362	(0.0056)

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 periods presented.

## 25. FINANCIAL RATIOS

	SEPT 30, 2019	DEC 31, 2018	SEPT 30, 2018
Current/Liquidity Ratio (Current Assets over Current Liabilities)	<b>2.91:1</b>	2.45:1	1.41:1
Solvency Ratio (Net income before depreciation over total liabilities)	<b>0.087:1</b>	0.060:1	0.012:1
Debt-to-equity Ratio (Total liability over total equity)	<b>1.37:1</b>	1.35:1	1.66:1
Debt-to-equity (interest-bearing) Ratio (Interest-bearing liabilities over total equity)	<b>0.74:1</b>	0.79:1	0.81:1
Asset-to-equity Ratio (Total assets over total equity)	<b>2.37:1</b>	2.35:1	2.66:1
Interest Rate Coverage Ratio (Pretax income before Interest over interest expense)	<b>15.64:1</b>	8.61:1	3.55:1
Profitability Ratio (Net income over total equity)	<b>0.097:1</b>	0.074:1	0.015:1

\* December 2018 ratio is based on full year income while September 2019 and September 2018 ratios are based on nine-month income.

## Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

### FINANCIAL POSITION

September 2019 vs September 2018

	SEPT 30, 2019	SEPT 30, 2018	% Change
Cash and cash equivalents	<b>P 382,678,857</b>	P 446,020,248	-14%
Financial assets at fair value through profit or loss (FVPL)	<b>186,149,270</b>	581,077,572	-68%
Trade and other receivables	<b>776,643,695</b>	964,762,263	-19%
Contract assets	<b>1,252,604,544</b>	-	100%
Real estate for sale	<b>5,359,584,772</b>	2,958,192,058	81%
Investment properties	<b>6,950,321,017</b>	7,185,167,757	-3%
Property and equipment	<b>271,868,245</b>	95,611,223	184%

	SEPT 30, 2019	SEPT 30, 2018	% Change
Net deferred tax assets	46,461,777	85,410,477	-46%
Creditable withholding tax	314,342,190	296,890,413	6%
Other assets	720,918,928	615,523,805	17%
<b>Total Assets</b>	<b>16,261,573,295</b>	13,228,655,816	23%
Loans payable	5,105,792,573	5,736,163,729	-11%
Accounts payable and other liabilities	2,066,762,408	1,240,070,107	67%
Contract liabilities	48,785,389	-	100%
Due to a related party	1,007,586,279	386,666,690	161%
Retirement liability	58,095,964	50,668,546	15%
Net deferred tax liabilities	1,114,184,671	833,886,432	34%
<b>Total Liabilities</b>	<b>9,401,207,283</b>	8,247,455,504	14%
Equity attributable to equity holders of the Parent Company			
Capital stock	999,757,136	989,757,136	1%
Additional paid-in capital	3,008,959,878	2,031,441,541	48%
Retained earnings	2,674,683,056	1,991,534,231	34%
Cumulative remeasurement gains on retirement liability - net of tax	18,169,495	7,448,391	144%
Parent Company's shares held by a subsidiary	(12,500,000)	(12,500,000)	0%
	6,689,069,565	5,007,681,299	34%
Non-controlling interests	171,296,447	(26,480,987)	747%
<b>Total Equity</b>	<b>6,860,366,012</b>	4,981,200,312	38%
	P	P	
<b>Total Liabilities and Equity</b>	<b>16,261,573,295</b>	13,228,655,816	23%

The Company's total resources as of September 30, 2019 increased by 23% to ₱16.3 billion from September 30, 2018 level of ₱13.2 billion due to the following:

*14% Decrease in Cash and Cash Equivalents*

The decrease in cash is attributable to normal disbursement for operations, debt servicing, acquisition of properties and project related costs, net of inflows from loan availments and revenue collections.

*68% Decrease in Financial Assets at Fair Value through Profit or Loss (FVPL)*

The reduction was due to termination of money market placements which were subsequently used to fund the operating requirements of the company including its ongoing projects.

*19% Decrease in Trade and Other Receivables*

The decrease was due to the collection of receivables from ACPT tenants and reclassification of receivables from Cebu Exchange sales to Contract Assets only in December 2018.

*100% Increase in Contract Assets*

This pertains to receivables from the sale of Cebu Exchange offices representing the excess of cumulative revenues from real estate sales over total collections received from buyers which were previously recognized as liability.

*81% Increase in Real Estate for Sale*

The increase was mainly due to the acquisition of land and condominiums for future development and additional construction costs for ongoing projects.

*184% Increase in Property and Equipment*

The increase was due to the reclassification from investment property to Property and Equipment account of the ACPT floor used as ALCO's principal office.

*46% Decrease in Net Deferred Tax Assets*

The decrease was due to realization of net income in CLLC.

*6% Increase in Creditable Withholding Tax*

The increase represents the amount withheld from payments by customers in relation to pre-selling activities of Cebu Exchange and Savya offices.

*17% Increase in Other Assets*

The increase was accounted for by the increase in prepaid commissions related to the pre-selling activities of Cebu Exchange and Savya offices.

*11% Decrease in Loans Payable*

The decrease was due to payment of loans from Centrobless and SOPI through dacion en pago of ACPT floors in the last quarter of 2018 and partial payment of Parent Company's OLSA.

*67% Increase in Accounts Payable and Other Liabilities*

The increase was mainly attributable to customers' deposit from pre-selling of Savya offices.

*100% Increase in Contract liabilities*

This pertains to downpayments received from buyers of Cebu Exchange at the inception of the contracts in which the related revenue is not yet recognized as of end of the period.

*161% Increase in Due to a Related Party*

This pertains to advances made by a shareholder of CLLC and advances recognized from the merger of SLDC and Arcosouth in August 2019.

*15% Increase in Retirement Liability*

The increase was due to the amended retirement plan in December 2018 which changed the benefits payable, resulting in the recognition of past service cost.

*34% Increase in Net Deferred Tax Liabilities*

The increase was due to the deferred tax liabilities attributable to the gain on change in fair value of investment properties.

*48% Increase in Additional Paid-in Capital*

This was due to the excess of the proceeds over par value of the Preferred shares – Series C issued, net of stock issuance costs.

*34% Increase in Retained Earnings*

The increase was due to net income for the period, net of dividends declared.

*144% Increase in Cumulative Remeasurement Gains on Retirement Liability - Net of Tax*

The difference was due to the change in financial assumptions and experience adjustments based on the amended retirement plan, as mentioned above.

*747% Increase in Non-Controlling Interests*

The increase was due to CLLC's net income recognized for the period.

**FINANCIAL RATIOS**

September 2019 vs September 2018

	<b>SEPT 30, 2019</b>	SEPT 30, 2018	% Change
Current/Liquidity Ratio (Current Assets over Current Liabilities)	2.91:1	1.41:1	106%
Solvency Ratio (Net income before depreciation over total liabilities)	0.087:1	0.012:1	634%
Debt-to-equity Ratio (Total liability over total equity)	1.37:1	1.66:1	-17%
Debt-to-equity (interest-bearing) Ratio (Interest-bearing liabilities over total equity)	0.74:1	0.81:1	19%
Asset-to-equity Ratio (Total assets over total equity)	2.37:1	2.66:1	-11%
Interest Rate Coverage Ratio (Pretax income before Interest over interest expense)	15.64:1	3.55:1	341%
Profitability Ratio (Net income over total equity)	0.097:1	0.015:1	537%

**FINANCIAL POSITION**

September 2019 vs December 2018

	<b>SEPT 30, 2019</b>	DEC 31, 2018	% Change
Cash and cash equivalents	<b>P 382,678,857</b>	P 326,679,590	17%
Financial assets at fair value through profit or loss (FVPL)	<b>186,149,270</b>	154,828,061	20%
Trade and other receivables	<b>776,643,695</b>	742,932,730	5%
Contract Assets	<b>1,252,604,544</b>	785,197,944	60%
Real estate for sale	<b>5,359,584,772</b>	3,412,713,425	57%
Investment properties	<b>6,950,321,017</b>	5,901,514,575	18%
Property and equipment	<b>271,868,245</b>	237,452,955	14%
Net deferred tax assets	<b>46,461,777</b>	16,197,731	187%
Creditable withholding tax	<b>314,342,190</b>	259,819,891	21%
Other Assets	<b>720,918,928</b>	499,128,861	44%
<b>Total Assets</b>	<b>16,261,573,295</b>	12,336,465,763	32%
Liabilities			
Loans payable	<b>5,105,792,573</b>	4,169,976,102	22%
Accounts payable and other liabilities	<b>2,066,762,408</b>	1,655,848,013	25%
Contract liabilities	<b>48,785,389</b>	20,385,280	139%
Due to related party	<b>1,007,586,279</b>	386,666,691	161%
Retirement liability	<b>58,095,964</b>	66,088,998	-12%

	SEPT 30, 2019	DEC 31, 2018	% Change
Net deferred tax liabilities	1,114,184,671	779,222,593	43%
<b>Total Liabilities</b>	<b>9,401,207,283</b>	7,078,187,677	33%
Equity attributable to equity holders of the Parent Company			
Capital stock	999,757,136	989,757,136	1%
Additional paid-in capital	3,008,959,878	2,031,441,541	48%
Retained earnings	2,674,683,056	2,214,144,875	21%
Cumulative remeasurement gains on retirement liability - net of tax	18,169,495	18,169,495	0%
Parent Company's shares held by a subsidiary	(12,500,000)	(12,500,000)	0%
	6,689,069,565	5,241,013,047	28%
Non-controlling interests	171,296,447	17,265,039	892%
<b>Total Equity</b>	<b>6,860,366,012</b>	5,258,278,086	30%
<b>Total Liabilities and Equity</b>	<b>P 16,261,573,295</b>	P 12,336,465,763	32%

The Company's total resources increased by 32% from ₱12.3 billion in December 31, 2018 to ₱16.3 billion as of September 30, 2019, due to the following:

*17% Increase in Cash and Cash Equivalents*

The increase was accounted by the proceeds from various loans, advances from shareholders, and sales collections.

*20% Increase in Financial assets at fair value through profit or loss*

The increase was due to investments in money market placements of the additional cash from loan proceeds and sales collections.

*5% Increase in Trade and Other Receivables*

The increase was due to receivables from ACPT tenants and sale of Cebu Exchange offices.

*60% Increase in Contract Assets*

The increase was due to the additional excess of cumulative revenues from the sale of Cebu Exchange offices over the total collections received from the buyer.

*57% Increase in Real Estate for Sale*

The increase was mainly due to the acquisition of land and condominiums for future development and additional construction costs for ongoing projects.

*18% Increase in Investment Properties*

The increase was attributable to the appraisal gain of ACPT and other investment properties.

*14% Increase in Property and Equipment*

The increase was largely due to the completion costs of the new corporate office in ACPT.

*187% Increase in Net Deferred Tax Assets*

The increase was due to the net loss in SLDC recognized for the period.

*21% Increase in Creditable Withholding Tax*

The increase represents the amount withheld from payments by customers in relation to pre-selling of Cebu Exchange and Savya offices.

*44% Increase in Other Assets*

The increase was accounted for by the increase in prepaid commissions related to the pre-selling of Cebu Exchange and Savya offices.

*22% Increase in Loans Payable*

The increase was largely due to additional drawdowns from bank loan facilities, availed to partly fund the Company's working capital and project financing requirements.

*25% Increase in Accounts Payable and Other Liabilities*

The increase was attributable to payables to contractors / suppliers for ongoing projects and customers' deposit from pre-selling of Savya offices.

*139% Increase in Contract Liabilities*

The increase pertains to additional downpayments received from buyers of Cebu Exchange offices at the inception of the contracts in which the related revenue is not yet recognized.

*161% Increase in Due to a Related Party*

This pertains to advances made by a shareholder of CLLC and SAVYA as a result of SEC-approved merger with Arcosouth in August 2019.

*12% Decrease in Retirement Liability*

The decrease was due to the payment of contribution in the retirement fund.

*43% Increase in Net Deferred Tax Liabilities*

The increase was mainly due to gain on change in fair value of investment properties.

*48% Increase in Additional Paid-in Capital*

This was due to the excess of the proceeds over par value of the Preferred shares – Series C issued, net of stock issuance costs, as previously mentioned.

*21% Increase in Retained Earnings*

The increase was due to the net income for the period, net of dividends declared.

*892% Increase in Non-Controlling Interests*

The increase was due to CLLC's net income recognized for the period.

**FINANCIAL RATIOS**

September 2019 vs December 2018

	<b>SEPT 30, 2019</b>	DEC 31, 2018	% Change
Current/Liquidity Ratio (Current Assets over Current Liabilities)	2.91:1	2.45:1	19%
Solvency Ratio (Net income before depreciation over total liabilities)	0.087:1	0.060:1	45%
Debt-to-equity Ratio (Total liability over total equity)	1.37:1	1.35:1	1%
Debt-to-equity (interest-bearing) Ratio (Interest-bearing liabilities over total equity)	0.74:1	0.79:1	-6%
Asset-to-equity Ratio (Total assets over total equity)	2.37:1	2.35:1	1%

	SEPT 30, 2019	DEC 31, 2018	% Change
Interest Rate Coverage Ratio (Pretax income before Interest over interest expense)	15.64:1	8.61:1	82%
Profitability Ratio (Net income over total equity)	0.097:1	0.074:1	31%

## RESULTS OF OPERATIONS

September 2019 vs September 2018

	SEPT 30, 2019	SEPT 30, 2018	% Change
Revenues	<b>P 1,490,392,620</b>	P 593,154,442	151%
Cost of sales and services	<b>740,453,509</b>	393,066,415	88%
GROSS INCOME	<b>749,939,111</b>	200,088,027	275%
OPERATING EXPENSES			
Administrative expenses	<b>318,445,716</b>	189,774,956	68%
Selling and marketing expenses	<b>124,284,729</b>	46,996,602	164%
	<b>442,730,445</b>	236,771,558	87%
OPERATING INCOME (LOSS)	<b>307,208,666</b>	(36,683,531)	937%
OTHER OPERATING EXPENSES (INCOME)			
Finance costs	<b>78,758,594</b>	61,190,988	29%
Gain on change in FV of investment properties	<b>(901,017,579)</b>	(223,952,494)	302%
Other income – net	<b>(18,436,775)</b>	(28,143,107)	-34%
INCOME BEFORE INCOME TAX	<b>1,147,904,426</b>	154,221,082	644%
TAX EXPENSE	<b>346,707,642</b>	67,135,453	416%
NET INCOME	<b>P 801,196,784</b>	87,085,629	820%
NET INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of ArthaLand Corporation	<b>647,361,323</b>	75,639,872	756%
Non-controlling interest	<b>153,835,461</b>	11,445,757	-1244%
	<b>P 801,196,784</b>	87,085,629	820%

The company reported a P801.2 million net income in the third quarter of 2019 as against P87.1 million net income recognized over the same period in 2018.

### *151% Increase in Revenues*

The increase was attributable to revenue recognized from the sale of Cebu Exchange offices and leasing revenue from ACPT and Courtyard Hall.

### *88% Increase in Cost of Sales and Services*

The increase in cost of sales was directly related to the increase in revenues from the sales of Cebu Exchange offices.



*68% Increase in Administrative Expenses*

The increase was due to personnel related fees, professional fees, expenses related to Preferred shares offering, and real property taxes.

*164% Increase in Selling and Marketing Expenses*

The increase was mainly due to amortized commissions from sales of Cebu Exchange offices as well as marketing related expenses for Cebu Exchange, Savya Financial Center and Sevina Park.

*29% Increase in Finance Costs*

The increase was due to interests from working capital loans and recognition of interest expense from OLSA loans due to completion of ACPT this year.

*302% Increase in Gain on Change in FV of Investment Properties*

The increase was attributable to the appraisal gain of ACPT and other investment properties.

*34% Decrease in Other Income - Net*

The decrease was due to the reduced level of interest earning placements.

*416% Increase in Tax Expense*

The increase was mainly due to the fair value gain of investment properties.

**RESULTS OF OPERATIONS**

September 2019 vs December 2018

	<b>SEPT 30, 2019</b>	DEC 31, 2018	% Change
Revenues	<b>P 1,490,392,620</b>	P 1,132,470,086	32%
Cost of sales and services	<b>740,453,509</b>	618,799,239	20%
GROSS INCOME	<b>749,939,111</b>	513,670,847	46%
OPERATING EXPENSES			
Administrative expenses	<b>318,445,716</b>	325,187,083	-2%
Selling and marketing expenses	<b>124,284,729</b>	72,423,411	72%
	<b>442,730,445</b>	397,610,494	11%
OPERATING INCOME	<b>307,208,666</b>	116,060,353	165%
OTHER OPERATING EXPENSES (INCOME)			
Finance costs	<b>78,758,594</b>	73,647,288	7%
Gain on change in FV of investment properties	<b>(901,017,579)</b>	(172,819,094)	421%
Other income – net	<b>(18,436,775)</b>	(339,120,693)	-95%
INCOME BEFORE INCOME TAX	<b>1,147,904,426</b>	554,352,852	107%
TAX EXPENSE	<b>346,707,642</b>	165,735,606	109%
<b>NET INCOME</b>	<b>P 801,196,784</b>	P 388,617,246	106%
NET INCOME ATTRIBUTABLE TO:			
Equity holders of ArthaLand Corporation	<b>647,361,323</b>	333,479,516	94%
Non-controlling interest	<b>153,835,461</b>	55,137,730	-179%
	<b>P 801,196,784</b>	P 388,617,246	106%

The Company posted a consolidated net income of ₱801.2 million in the third quarter of 2019 as compared with the 2018 full year net income of ₱388.6 million.

## RESULTS OF OPERATIONS

July - September 2019 vs July - September 2018

	<b>JULY 1 - SEPT 30, 2019</b>	JULY 1 - SEPT 30, 2018	% Change
Revenues	<b>P 409,474,980</b>	P 382,371,642	7%
Cost of sales and services	<b>162,794,041</b>	258,877,959	-37%
GROSS INCOME	<b>246,680,939</b>	123,493,683	-100%
OPERATING EXPENSES			
Administrative expenses	<b>157,303,644</b>	63,631,087	147%
Selling and marketing expenses	<b>51,526,230</b>	18,981,843	171%
	<b>208,829,874</b>	82,612,930	153%
OPERATING INCOME (LOSS)	<b>37,851,065</b>	40,880,753	-7%
OTHER OPERATING INCOME (EXPENSES)			
Finance costs	<b>(37,052,673)</b>	(15,803,553)	134%
Gain on change in FV of investment properties	<b>281,247,517</b>	58,978,767	377%
Other income – net	<b>4,791,909</b>	21,302,538	-78%
	<b>248,986,753</b>	64,477,752	286%
INCOME BEFORE INCOME TAX	<b>286,837,818</b>	105,358,505	172%
TAX EXPENSE	<b>42,429,678</b>	25,379,400	-67%
<b>NET INCOME</b>	<b>P 244,408,140</b>	P 79,979,105	206%

From a ₱80.0M reported net income over the three-month period from July to September 2018, the company recognized a ₱244.4M income for the same period in 2019.

### *7% Increase in Revenues*

The increase was attributable to revenue recognized from the sale of Cebu Exchange offices and leasing revenue from ACPT and Courtyard Hall.

### *37% Decrease in Cost of Sales and Services*

The change in Cost of Sales can be attributed to price increases over the year which inversely affected the cost ratio.

### *147% Increase in Administrative Expenses*

The increase was due to professional fees, expenses related to Preferred shares offering, travel expenses and DST on working capital loans.

### *171% Increase in Selling and Marketing Expenses*

The increase was mainly due to amortized commissions from sales of Cebu Exchange offices as well as marketing related expenses for Cebu Exchange, Savya Financial Center, and Sevina Park.

*134% Increase in Finance Costs*

The increase was due to additional working capital loans and cessation of capitalized borrowing costs related to the completion of ACPT early this year.

*377% Increase in Gain on change in FV of Investment Properties*

The increase was attributable to the appraisal gain of ACPT and other investment properties.

*78% Decrease in Other Income - Net*

The decrease was due to the reduced level of interest earning placements.