

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

USE FOR FILING WITH SEC

AFTER THE END OF THE  
CORPORATION'S TERM

SEC Registration Number

A 2 0 0 0 - 0 0 6 5 2

## COMPANY NAME

C Y B E R Z O N E P R O P E R T I E S , I N C . ( A  
W h o l l y O w n e d S u b s i d i a r y o f F i l  
i n v e s t L a n d , I n c . )

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

5 t h - 7 t h F l o o r s , V e c t o r O n e  
B u i l d i n g , N o r t h g a t e C y b e r z o n e ,  
F i l i n v e s t C i t y , A l a b a n g ,  
M u n t i n l u p a C i t y

Form Type

A A F S

Department requiring the report

S E C

Secondary License Type, if Applicable

N / A

## COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

846-0278

Mobile Number

N/A

No. of Stockholders

8

Annual Meeting (Month / Day)

May 30

Fiscal Year (Month / Day)

12/31

## CONTACT PERSON INFORMATION

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

Name of Contact Person

Ms. Ana Venus A. Mejia

Email Address

venus.mejia@filinvestCompany.com

Telephone Number/s

846-0278

Mobile Number

N/A

## CONTACT PERSON'S ADDRESS

5th-7th Flrs. Vector One Bldg. Northgate Cyberzone, Filinvest City, Alabang, Muntinlupa City

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

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

## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Cyberzone Properties, Inc.  
5th - 7th Floors, Vector One Building,  
Northgate Cyberzone, Filinvest City,  
Alabang, Muntinlupa City

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of Cyberzone Properties, Inc. (the Company) which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis for Opinion

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

#### Key Audit Matters

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



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

#### *Adoption of PFRS 9, Financial Instruments*

On January 1, 2018, the Company adopted the final version of PFRS 9, *Financial Instruments*. The Company has adopted the 2010 version of the standard in 2011. The final version of PFRS 9, which replaced PAS 39, *Financial Instruments: Recognition and Measurement*, introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts. The Company adopted the modified retrospective approach in adopting PFRS 9.

The Company's adoption of the expected credit loss (ECL) model on its trade receivables are significant to our audit as it involves the exercise of significant management judgment and estimation. Key areas of judgment include: determining the method to estimate lifetime ECL; defining default; determining assumptions to be used in the ECL model such as the timing and amount of expected net recoveries from defaulted accounts; and incorporating forward-looking information in calculating ECL.

Refer to Notes 2 and 25 to the financial statements for the related disclosure on the application of the ECL model.

#### *Audit Response*

We obtained an understanding of the approved methodologies and models used for the Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, the time value of money and, the best available forward-looking information.

We (a) checked the methodology used in applying the simplified approach by evaluating the key inputs, assumptions, and formulas used; (b) compared the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (c) tested loss given default by inspecting historical recoveries including the timing, related direct costs, and write-offs; (d) tested the expected cash flows from lessee deposits; (e) evaluated the forward-looking information used for overlay through statistical test and corroboration using publicly available information.

Further, we checked the data used in the ECL models, such as the historical analysis of defaults, and recovery data, by reconciling data from source system reports to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.



## Other Information

Management is responsible for Other Information. Other Information comprises the information included in SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditor's report thereon. SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

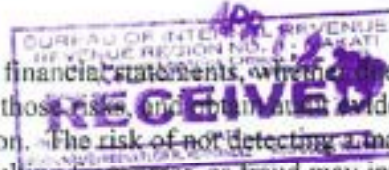
Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

#### **Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in a separate schedule to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cyberzone Properties, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.





**SGV**

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The engagement partner on the audit resulting in this independent auditor's report is Michael C. Sabado.

SYCIP GORRES VELAYO & CO.



Michael C. Sabado

Partner

CPA Certificate No. 89336

SEC Accreditation No. 0664-AR-3 (Group A),

March 16, 2017, valid until March 15, 2020

Tax Identification No. 160-302-865

BIR Accreditation No. 08-001998-73-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 7332607, January 3, 2019, Makati City

February 27, 2019



**CYBERZONE PROPERTIES, INC.**  
**(A Wholly Owned Subsidiary of Filinvest Land, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**



	December 31	
	2018	2017 (As restated, see Note 2)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 4, 16, 24 and 25)	P717,533,656	P1,325,089,537
Receivables (Notes 5, 24 and 25)	527,039,505	1,062,096,314
Other current assets (Note 6)	814,773,211	665,082,514
<b>Total Current Assets</b>	<b>2,059,346,372</b>	<b>3,052,268,365</b>
<b>Noncurrent Assets</b>		
Advances to contractors (Note 7)	280,020,176	201,754,828
Investment properties (Notes 8 and 24)	13,908,323,251	12,261,776,202
Property and equipment (Note 9)	39,635,268	36,998,990
Intangible and other noncurrent assets (Note 10)	2,995,688,655	2,719,452,084
<b>Total Noncurrent Assets</b>	<b>17,223,667,350</b>	<b>15,219,982,104</b>
<b>Total Assets</b>	<b>P19,283,013,722</b>	<b>P18,272,250,469</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Notes 11, 24 and 25)	P2,029,447,816	P1,641,972,516
Loans payable, current portion (Notes 12, 24 and 25)	839,242,424	594,734,848
Income tax payable	8,503,433	8,154,345
Other current liabilities (Notes 14, 24 and 25)	164,695,239	156,035,081
<b>Total Current Liabilities</b>	<b>3,041,888,912</b>	<b>2,400,896,790</b>
<b>Noncurrent Liabilities</b>		
Loans payable, net of current portion (Notes 12, 24 and 25)	2,618,371,212	3,457,613,636
Bonds payable (Notes 13, 24 and 25)	5,948,937,691	5,936,172,114
Retirement liability (Note 17)	1,419,104	902,313
Deferred tax liability - net (Note 18)	264,842,643	173,262,729
Other noncurrent liabilities (Notes 14, 24 and 25)	688,049,551	681,857,288
<b>Total Noncurrent Liabilities</b>	<b>9,521,620,201</b>	<b>10,249,808,080</b>
<b>Total Liabilities</b>	<b>12,563,509,113</b>	<b>12,650,704,870</b>
<b>Equity</b>		
Capital stock (Note 15)	1,163,426,668	1,163,426,668
Additional paid-in capital (Note 15)	102,900,666	102,900,666
Appropriated retained earnings (Note 15)	5,000,000,000	5,000,000,000
Unappropriated retained earnings (Note 15)	854,580,418	854,580,418
Remeasurement gain on retirement plan (Note 17)	1,083,935	910,847
<b>Total Equity</b>	<b>6,719,504,609</b>	<b>5,621,545,599</b>
<b>Total Liabilities and Equity</b>	<b>P19,283,013,722</b>	<b>P18,272,250,469</b>

See accompanying Notes to Financial Statements.

**CYBERZONE PROPERTIES, INC.**  
(A Wholly Owned Subsidiary of Filinvest Land, Inc.)

**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2018	2017	2016
<b>REVENUES AND INCOME</b>			
Rental revenue (Notes 8, 10 and 16)	P2,340,797,218	P1,843,651,479	P1,490,431,182
Others (Note 20)	14,561,670	86,367,490	519,306,254
	<u>2,355,358,888</u>	<u>1,930,018,969</u>	<u>2,009,737,436</u>
<b>COSTS AND EXPENSES</b>			
Rental expense (Note 16)	281,012,798	226,931,603	202,268,657
Depreciation and amortization (Notes 8, 9, 10 and 20)	274,347,869	223,794,458	156,732,329
Taxes and licenses	34,130,871	18,647,871	10,791,691
Advertising and marketing	14,645,372	4,847,249	51,816,704
Service and management fees	11,888,473	7,520,369	7,300,000
Manpower cost	8,569,219	12,389,686	7,483,564
Pension expense (Note 17)	764,060	208,867	205,794
Provision for expected credit losses (Note 5)	-	-	122,671
Others	4,402,546	7,164,074	3,770,851
	<u>629,761,208</u>	<u>501,504,177</u>	<u>440,492,261</u>
<b>FINANCE INCOME (CHARGES)</b>			
Interest income (Notes 4, 16 and 21)	45,896,805	26,378,979	2,656,889
Interest and other financing charges (Notes 12 and 13)	(155,115,797)	(102,479,056)	(101,153,700)
Other financing charges	(493,058)	(23,969)	(57,682)
	<u>(109,712,050)</u>	<u>(76,124,046)</u>	<u>(98,554,493)</u>
<b>INCOME BEFORE INCOME TAX</b>	<u>1,615,885,630</u>	<u>1,352,390,746</u>	<u>1,470,690,682</u>
<b>PROVISION FOR INCOME TAX (Note 18)</b>			
Current	114,097,572	71,989,479	59,174,883
Deferred	91,505,733	96,920,644	63,839,044
	<u>205,603,305</u>	<u>168,910,123</u>	<u>123,013,927</u>
<b>NET INCOME</b>	<u>1,410,282,325</u>	<u>1,183,480,623</u>	<u>1,347,676,755</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that will not be reclassified to profit or loss:			
Remeasurement gain on retirement plan, net of deferred income tax (Note 17)	173,088	-	1,076,233
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>P1,410,455,413</u>	<u>P1,183,480,623</u>	<u>P1,348,752,988</u>
<b>Basic/Diluted Earnings Per Share (Note 22)</b>	<u>P1.21</u>	<u>P1.02</u>	<u>P1.16</u>

See accompanying Notes to Financial Statements.





**CYBERZONE PROPERTIES, INC.**  
(A Wholly Owned Subsidiary of Filinvest Land, Inc.)

**STATEMENTS OF CHANGES IN EQUITY**

	Capital Stock (Note 15)	Additional Paid-in Capital (Note 15)	Appropriated Retained Earnings (Note 15)	Unappropriated Retained Earnings (Note 15)	Remeasurement Gain (Loss) on Retirement Plan (Note 17)	Total
<b>For the Year Ended December 31, 2018</b>						
Balances at January 1, 2018	P1,163,426,668	P103,900,666	P3,506,000,000	P854,307,418	P910,847	P5,621,545,599
Comprehensive income						
Net income	-	-	-	1,410,282,325	-	1,410,282,325
Other comprehensive income	-	-	-	-	173,088	173,088
Total comprehensive income	-	-	-	1,410,282,325	173,088	1,410,455,413
Dividends declared (Note 15)	-	-	-	(312,496,485)	-	(312,496,485)
Appropriation (Note 15)	-	-	1,500,000,000	(1,500,000,000)	-	-
Balances at December 31, 2018	P1,163,426,668	P103,900,666	P5,006,000,000	P452,093,240	P1,083,935	P 6,719,504,609
<b>For the Year Ended December 31, 2017</b>						
Balances at January 1, 2017	P1,163,426,668	P102,900,666	P2,500,000,000	P1,054,737,596	P910,847	P4,821,995,776
Comprehensive income						
Net income	-	-	-	1,183,480,623	-	1,183,480,623
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	1,183,480,623	-	1,183,480,623
Dividends declared (Note 15)	-	-	-	(383,910,800)	-	(383,910,800)
Appropriation (Note 15)	-	-	1,000,000,000	(1,000,000,000)	-	-
Balances at December 31, 2017	P1,163,426,668	P102,900,666	P3,500,000,000	P854,307,418	P910,847	P5,621,545,599
<b>For the Year Ended December 31, 2016</b>						
Balances at January 1, 2016	P1,163,426,668	P102,900,666	P-	P2,800,428,441	(P165,386)	P4,066,590,389
Comprehensive income						
Net income	-	-	-	1,347,676,755	-	1,347,676,755
Other comprehensive income	-	-	-	-	1,076,233	1,076,233
Total comprehensive income	-	-	-	1,347,676,755	1,076,233	1,348,752,988
Dividends declared (Note 15)	-	-	-	(593,347,601)	-	(593,347,601)
Appropriation (Note 15)	-	-	2,500,000,000	(2,500,000,000)	-	-
Balances at December 31, 2016	P1,163,426,668	P102,900,666	P2,500,000,000	P1,054,737,596	P910,847	P4,821,995,776

See accompanying Notes to Financial Statements



**CYBERZONE PROPERTIES, INC.**  
(A Wholly Owned Subsidiary of Filinvest Land, Inc.)

**STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2018	2017 (As restated, see Note 2)	2016 (As restated, see Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	P1,615,885,631	P1,352,390,746	P1,470,690,682
Adjustments for:			
Depreciation and amortization (Notes 8, 9 and 10)	311,245,402	253,264,616	176,741,032
Interest expense and other financing changes (Notes 12 and 13)	155,115,797	102,479,056	101,153,700
Provision expected credit loss (Note 5)	-	-	122,671
Pension expense (Note 17)	764,060	208,867	205,794
Interest income (Note 21)	(45,896,805)	(26,378,979)	(2,656,889)
Operating income before changes in operating assets and liabilities	2,037,114,085	1,681,964,306	1,746,256,990
Changes in operating assets and liabilities			
Decrease (increase) in:			
Receivables	522,591,209	(783,402,577)	(131,615,563)
Other current assets	(149,690,697)	(169,973,115)	(223,984,544)
Increase (decrease) in:			
Accounts payable and accrued expenses	531,711,476	302,014,712	(28,352,302)
Other current liabilities	8,660,158	(197,769,471)	209,376,579
Other noncurrent liabilities	6,192,263	246,222,085	(102,455,497)
Net cash generated from operations	2,956,578,494	1,079,055,940	1,469,225,663
Interest received (Note 16)	58,362,405	13,913,379	2,636,889
Income tax paid	(113,748,484)	(74,920,860)	(84,589,578)
Net cash provided by operating activities	2,901,192,415	1,018,048,459	1,387,292,974
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Investment properties (Note 8)	(1,755,516,332)	(1,547,578,003)	(2,311,564,612)
Property and equipment (Note 9)	(6,773,403)	(1,237,589)	(5,177,979)
Intangible and other noncurrent assets (Note 10)	(268,916,028)	(797,405,895)	(381,795,301)
Financial asset at FVTOCI (Note 10)	-	(9,010,000)	-
Decrease (increase) in advances to contractors	(78,265,348)	220,889,516	151,268,434
Net cash used in investing activities	(2,109,471,111)	(2,134,341,971)	(2,547,269,458)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of:			
Loans payable (Notes 12 and 25)	-	300,000,000	1,750,000,000
Bonds payable (Notes 13 and 25)	-	6,000,000,000	-
Payments of:			
Cash dividends (Note 15)	(312,496,403)	(383,930,800)	(593,347,601)
Loans payable (Notes 12 and 25)	(594,734,848)	(3,233,318,940)	(335,848,485)
Interest and transaction costs (Note 25)	(492,045,934)	(329,637,132)	(247,550,250)
Net cash provided by (used) in financing activities	(1,399,277,185)	2,353,113,128	573,253,664
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(607,555,881)</b>	<b>1,236,819,616</b>	<b>(586,722,820)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,325,089,537</b>	<b>88,269,921</b>	<b>674,992,741</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>P717,533,656</b>	<b>P1,325,089,537</b>	<b>P88,269,921</b>

See accompanying Notes to Financial Statements.



**CYBERZONE PROPERTIES, INC.**  
(A Wholly Owned Subsidiary of Filinvest Land, Inc.)

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Corporate Information**

Cyberzone Properties, Inc. (the Company) was registered with the Securities and Exchange Commission (SEC) on January 14, 2000. Its primary purpose is to acquire by purchase, lease, donate and/or to own, use, improve, develop, subdivide, sell, mortgage, exchange, hold for investment and deal with real estate of all kinds.

The Company's registered office address is at 5th - 7th Floors, Vector One Building, Northgate Cyberzone, Filinvest City, Alabang, Muntinlupa City.

The Company is a wholly owned subsidiary of Filinvest Land, Inc. (FLI or Parent Company), a subsidiary of Filinvest Development Corporation (FDC). A.L. Gotianun Inc. (ALG) is the Company's ultimate Parent Company. FLI, FDC and ALG were all incorporated in the Philippines.

The financial statements were approved and endorsed by the Audit Committee on February 27, 2019 and were authorized for issue by the Board of Directors (BOD) on February 27, 2019.

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The financial statements are prepared using the historical cost basis, except for financial asset at fair value through other comprehensive income (FVTOCI) that is measured at fair value (see Note 10). The financial statements are presented in Philippine Peso (P), which is also the Company's presentation and functional currency.

Statement of Compliance

The financial statements of the Company are prepared in compliance with Philippine Financial Reporting Standards (PFRS), which include the availment of relief granted by the Securities and Exchange Commission (SEC) under Memorandum Circular No. 3-2019 as discussed in the section below on Changes in Accounting Policies and Disclosures. PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards (PAS) and Interpretations issued by the Philippine Interpretations Committee (PIC).

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the Company's financial statements are consistent with those of the previous financial years, except for the adoption of the following amendments in PFRS and PAS which became effective beginning January 1, 2018. The nature and impact of each new standard and amendment are described below:

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment



transaction changes its classification from cash-settled to equity-settled. The Company has no share-based payment transaction, therefore these amendments do not have any impact on the Company's financial statements.

- *PFRS 9, Financial Instruments*

PFRS 9, replaces PAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company early adopted the first phase of PFRS 9 (2010 version) effective January 1, 2011. The adoption of the final version of PFRS 9 did not have significant impact on the classification and measurement of the Company's financial assets and financial liabilities.

The adoption of the provisions on impairment has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to record an allowance for impairment losses for all debt financial assets not held at fair value through profit or loss (FVTPL). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from lessee's deposits or other credit enhancements that are integral to the contractual terms.

For trade receivables, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash and cash equivalents, the Company applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. To estimate the ECL, the Company uses the ratings published by a reputable rating agency.

There is no transition adjustment in relation to the impairment allowance as of January 1, 2018.

- *Amendments to PFRS 4, Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting



the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable since the Company has no activities that are predominantly connected with insurance or issue insurance contracts.

- **PFRS 15, Revenue from Contracts with Customers**  
PFRS 15 supersedes PAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under the modified retrospective method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standards to all contracts as at January 1, 2018.

The adoption of PFRS 15 did not have significant impact on the statement of financial position, financial performance and cash flows of the Company since bulk of its revenue comes from leasing operations which is covered by different accounting standard.

Set out below is the disaggregation of the Company's revenue from non-lease component:

	2018	2017	2016
Tenant Dues (Note 20):			
Aircon dues	₱503,806,412	₱383,849,920	₱286,518,477
Utilities dues	336,428,961	268,880,387	219,389,047
Common area charges	333,862,769	274,719,878	219,316,157
	<b>₱1,174,098,142</b>	<b>₱927,450,185</b>	<b>₱725,223,681</b>

#### *Disaggregated revenue information*

The non-lease component of the Company's revenue arises from aircon dues, utilities dues, common area charges and vetting fees. The Company's performance obligations are to ensure that common areas are available for general use of its tenants and to provide for uninterrupted utility services such as water and electricity.

#### *Allocation of transaction price to performance obligation*

Each of the non-lease component is considered a single performance obligation, therefore it is not necessary to allocate the transaction price. These services are capable of being distinct from the other services and the transaction price for each service is separately identified in the contract.

The Company assessed itself as agent on its arrangement with tenants for common area charges and utilities dues (see Note 3).



*Timing of revenue recognition*

Revenue from common area charges are recognized over time since the tenants simultaneously receives and consumes the services provided by the Company. While revenue from utilities dues are recognized at a point in time. The Company determined that output method best represent the recognition pattern for revenue from utilities dues since this is recognized based on the actual consumption of the tenants.

The Company availed of the deferral of adoption of CUSA charges of PIC 2018-12-H. The Company is acting as a principal for the provision of air-conditioning services, common usage service areas services and administration and handling services. Had the provisions been adopted, this would have resulted to the gross presentation of the related revenue and the related expenses and cost. Currently, the related revenue is presented net of costs and expenses. These would not result to any adjustment in the retained earnings as of January 1, 2018 and net income in 2018.

- **PIC Q&A on Advances to Contractors**

The Company adopted PIC Q&A 2018-15, PAS 1- *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current* starting January 1, 2018. The impact of adoption is applied retrospectively which resulted to the following reclassifications in the statement of financial position as at January 1, 2018:

	Reference	Current Asset	Noncurrent Asset
Advances to contractors and suppliers	(a)	(P201,754,828)	₱201,754,828

(a) Advances to contractors and suppliers previously presented under current assets, representing prepayments for the construction of investment property was reclassified to noncurrent asset. Before the adoption of PIC Q&A 2018-15, the classification of the Company is based the timing of application of these advances against billings and timing of delivery of goods and services. This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage/realization of the asset to which it is intended for (e.g., real estate inventory, investment property, property plant and equipment; see Notes 11 and 15).

The adoption of PIC Q&A also resulted to increase in cash flows provided by operating activities with a matching decrease in cash flows used in investing activities amounting ₱220.9 million and ₱151.3 million for the years ended December 31, 2017 and 2016, respectively.

- **Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)**

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.



The amendments do not have a material impact on the Company's financial statements.

- *Amendments to PAS 40, Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

Since the Company's current practice is in line with the amendment issued, the Company does not expect this amendment to have a material impact in the financial statements.

- *Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration*  
The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

Since the Company's current practice is in line with this interpretation, the Company does not expect this interpretation to have an impact in the financial statements.

#### Future Changes in Accounting Policy

The Company will adopt the following standards and interpretations when these become effective. Except as otherwise stated, the Company does not expect the adoption of these standards to have a significant impact on the financial statements.

*Effective beginning on or after January 1, 2019*

- *Amendments to PFRS 9, Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.



- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and,
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early





application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

*Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures*

- The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

- *Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Company because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

*Annual Improvements 2015-2017 Cycle*

- *Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.



A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

- *Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*  
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

- *Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization*  
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

The Company is currently assessing the impact of adopting this amendment.

*Effective beginning on or after January 1, 2020*

- *Amendments to PFRS 3, Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Company.



- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

*Deferred Effective Date*

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*.

Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

### Significant Accounting Policies

#### Current versus Noncurrent Classification

The Company presents assets and liabilities in statement of financial position based on current/noncurrent classification. An asset is current when:

- a. expected to be realized or intended to be sold or consumed in normal operating cycle;
- b. held primarily for the purpose of trading;
- c. expected to be realized within twelve (12) months after the reporting period; or
- d. cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the reporting period.

All other assets are classified as noncurrent.



A liability is current when:

- a. it is expected to be settled in normal operating cycle;
- b. it is held primarily for the purpose of trading;
- c. it is due to be settled within twelve (12) months after the reporting period, or
- d. there is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

#### Fair Value Measurement

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### Financial Instruments

Financial assets and liabilities are recognized in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery or assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.



### Recognition and Measurement of Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### *Financial Assets*

##### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as either subsequently measured at amortized cost, at FVTOCI, or at FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or at FVTOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding. This assessment is referred to as the 'solely payments of principal and interest test' and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

As of December 31, 2018 and 2017, the Company's financial assets comprise of financial assets at amortized cost and financial assets at FVTOCI.

##### *Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

##### *Financial assets at amortized cost*

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized costs are subsequently measured at amortized cost using the effective interest method less any impairment in value, with the interest calculated recognized as interest income in the statement of comprehensive income.



The Company classified cash and cash equivalents, receivables and deposits (included under other noncurrent assets) as financial assets at amortized cost (see Note 25).

*Financial assets at FVTOCI (equity instruments)*

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVTOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading.

Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in "Revaluation reserve on financial assets at FVTOCI" in the statement of financial position. Where the asset is disposed of, the cumulative gain or loss previously recognized in "Revaluation reserve on financial assets at FVTOCI" is not reclassified to profit or loss, but is reclassified to Retained earnings.

Included under this category are the Company's investments in unquoted shares of stocks (see Note 10).

Dividends earned on holding these equity instruments are recognized in the statement of income when the Company's right to receive the dividends is established in accordance with PFRS 15, unless the dividends clearly represent recovery of a part of the cost of the investment.

*Reclassification of financial assets*

The Company can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Company is required to reclassify the following financial assets:

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and,
- from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows meet the amortized cost criteria.

Reclassification of financial assets designated as at FVTPL at initial recognition is not permitted.

A change in the objective of the Company's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

*Financial liabilities*

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

As of December 31, 2018 and 2017, loans and borrowings consist primarily of accounts payable and accrued expenses, loans payable, bonds payable and due to related parties (see Notes 11, 12, 13 and 16).



*Subsequent measurement*

Loans and borrowings (financial liabilities at amortized cost) is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

Impairment of Financial Assets (Effective January 1, 2018)

The Company recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the lessee's deposit held or other credit enhancements that are integral to the contractual terms.

The Company applies a simplified approach in calculating ECLs for financial assets at amortized costs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix for trade receivables that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Impairment of Financial Assets (Prior to January 1, 2018)

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

*Assets Carried at Amortized Cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e. the EIR computed at initial recognition). 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 the statement of comprehensive income.

The Company 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 Company financial assets with similar credit risk characteristics. 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 impairment loss decreases and the decrease can be



related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial Assets*

A financial asset is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company has transferred its rights 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 risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of an asset nor transferred control of the asset, the asset is recognized to the extent of the Company'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 Company could be required to repay.

##### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability expires, is discharged or cancelled.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, where the related assets and liabilities are presented at gross in the statement of financial position.

#### Advances to contractors

Advances to contractors pertain to down-payments made by the Company which are applied against future billings for development and construction contracts. Advances to be applied as payment for construction of assets to be classified inventories is classified as current and advances to be applied as property and equipment or investment properties are presented as noncurrent assets.

#### Prepaid commission

Prepaid commission are incremental costs that are directly attributable to negotiating and arranging a lease. These are initially recognized at cost and are amortized over the related lease term.





#### Value-added Tax (VAT)

Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statements of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

The net amount of VAT recoverable and payable from the taxation authority is included as part of "Other current assets" and "Accounts payable and accrued expenses", respectively in the statement of financial position.

#### Investment Properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property.

Investment properties include buildings that are held to earn rentals and are not occupied by the Company. Investment properties, except for land, are carried at cost less accumulated depreciation and accumulated impairment losses, if any. Land is carried at cost less accumulated impairment losses, if any.

Investment properties built on land rented from the Parent Company or a third party are depreciated over their estimated useful lives or lease term, whichever is shorter. Depreciation of investment properties are computed using the straight-line method over the estimated useful life of 40-50 years for the building and 15 years for equipment.

Buildings in-progress are carried at cost (including borrowing costs) and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete.

Investment properties are derecognized when either they 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 gains or losses on the retirement or disposal of an investment property are recognized in the statement of comprehensive income in the year of retirement or disposal.

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

Transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and do not change the cost of that property for measurement or disclosure purposes.

#### Property and Equipment

Property and equipment consists of land improvements and furniture and fixtures. The Company's property and equipment are stated at cost less accumulated depreciation and impairment in value, if any.



The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which 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 an additional cost of property and equipment.

Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives (EUL) of these assets as follows:

	Years
Land improvements	6
Furniture and fixtures	3 - 5

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

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of comprehensive income.

#### Intangible Asset

Intangible asset includes build, transfer and operate (BTO) rights. Intangible assets acquired separately are measured on initial recognition at costs. The cost of intangible assets acquired in a business combination or contracted arrangements is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost, less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

BTO rights are amortized over the economic useful life (i.e., 25 years) and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income.

Gains or losses arising from derecognition of intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

#### *Prepaid District Cooling System (DCS) connection charges*

Prepaid DCS connection charges are initially recognized at cost and are subsequently amortized over the term of the supply period (i.e., 20 years) commencing on the date when the related building is connected to the DCS facility. Portion related to the connection of succeeding buildings are amortized over the remaining years of the supply period.



#### Other Assets

Other assets are recognized in the statement of financial position when it is probable that the future economic benefits will flow to the Company and the assets have cost or value that can be measured reliably. These assets are regularly evaluated for any impairment in value. Amounts expected to be realized within 12 months from end of reporting period is classified as current; otherwise, they are presented as noncurrent assets.

#### Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of the Company. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value 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 are recognized in the statement of comprehensive income.

Intangible assets with finite lives (i.e., BTO rights) are amortized over the economic useful life (i.e., 25 years) and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

#### Equity

##### *Capital stock and additional paid-in capital*

The Company records common stock at par value and additional paid-in capital for the amount in excess of the total contributions received over the aggregate par value of the equity shares.

Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

##### *Retained earnings*

Retained earnings represent accumulated earnings of the Company, less dividends declared and any adjustment arising from application of new accounting standards or changes in accounting policies applied retroactively. Retained earnings are restricted for any appropriation as approved by the Company's BOD.

Dividends on common shares are deducted from unappropriated retained earnings when declared and approved by the BOD of the Company. Dividends payable are recorded as liability until paid.



Dividends for the year that are declared and approved after reporting date, if any, are dealt with as an event after reporting date and disclosed accordingly.

Earnings per Share (EPS)

Basic EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period.

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive options.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

Revenue Recognition

The Company is in the business of leasing its investment property portfolio. The Company's non-lease performance obligations include common area management and administration of utility services.

*Significant accounting policy before adoption of PFRS 15*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably.

*Significant accounting policy on adoption of PFRS 15*

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company assesses its revenue arrangement against specific criteria in order to determine if it is acting as a principal or an agent.

*Rental Income*

Rental income arising from investment properties are recognized in the statement of comprehensive income either on a straight-line basis over the lease term or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract. Leases under contingent rents are recognized as income in the period in which they are earned.

*Tenant Dues*

Tenant dues are recognized when the related services are rendered. The Company has generally concluded that it is the principal in its revenue arrangements, except for the provisioning of water, and electricity in its office leasing activities, wherein it is acting as agent. Income from common area and air conditioning dues is computed based on a fixed rate per square meter of the leasable area occupied by the tenant.

*Interest income*

Interest is recognized as it accrues taking into account the effective yield on the underlying asset.

*Other income*

Other income is recognized when the related services have been rendered and the right to receive payment is established.

Other Comprehensive Income (OCI)

OCI are items of income and expense that are not recognized in the profit or loss for the year in



accordance with PFRS.

#### Costs and Expense Recognition

These include the Company's costs incurred in leasing properties and expenses related to administering its business. These are generally recognized as incurred and measured at the amount paid or payable.

#### Retirement Costs

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on nonroutine settlements are recognized as expense in the statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in other comprehensive income account "Remeasurement gain on retirement plan", net of tax and are not reclassified to another equity account in subsequent periods.

#### *Termination benefit*

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.



*Employee leave entitlement*

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly within twelve months after the end of the annual reporting date is recognized for services rendered by employees up to the end of the reporting date.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of construction costs. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended sale or use are completed. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

All other borrowing costs are expensed when incurred.

Income Taxes

*Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the report date.

*Deferred tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except; (a) where deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluation. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused MCIT and NOLCO can be used. The carrying amount of deferred tax assets is reviewed at each report date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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



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 report date.

Deferred tax relating to items recognized in other comprehensive income or directly in equity is also recognized in other comprehensive income and not in the statement of comprehensive income.

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

#### Operating Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after 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 fulfillment is dependent on a specified asset;  
or,
- (d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date 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).

#### *Company as Lessor*

Leases where the Company does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Rental income on operating leases is recognized on a straight line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

#### *Company as Lessee*

Operating lease payments are recognized as an expense on a straight line basis over the lease term, except for contingent rental payments which are expensed when they arise.

#### Foreign Currency-denominated Transactions and Translation

Foreign currency-denominated transactions are recorded using the prevailing exchange rates at the time of the transaction. Foreign currency-denominated monetary assets and liabilities are translated using the prevailing exchange rates at the report date. Exchange gains or losses resulting from foreign currency transactions and translation are included in the statement of comprehensive income for the year.

#### Segment Reporting

The Company's operating businesses are organized and managed according to the nature of the products and services provided. The Company has determined that it is operating as one operating segment as of December 31, 2018 and 2017 (see Note 23).



#### Provisions

A provision is recognized only when the following conditions are present: (a) the Company has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made on 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 assessment of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provisions due to the passage of time is recognized as interest expense. Provisions are reviewed at each report date and adjusted to reflect the current best estimate.

#### Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

#### Events after the Report Date

Post year-end events up to the date of the auditor's report that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Any year-end events that are not adjusting event is disclosed in the notes to the financial statements when material.

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

The preparation of the financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which can cause the assumptions used in arriving at those estimates to change. The effects of any changes in estimates will be reflected in the financial statements as they become reasonably determinable. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgments

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

#### *Principal versus agent considerations*

The contract for the office spaces and retails spaces leased out by the Company to its tenants includes the right to charge for the electricity usage, water usage, air conditioning charges and Common Usage Service Areas (CUSA) like maintenance, janitorial and security services.

For the electricity and water usage, the Company determined that it is acting as an agent because the promise of the Company to the tenants is to arrange for the electricity and water supply to be provided by a utility company. The utility company, and not the real estate developer, is primary responsible for the provisioning of the utilities while the Company, administers the leased spaces and coordinates with the utility companies to ensure that tenants have access to these utilities. The Company does not have the discretion on the pricing of the services provided since the price is based on the actual rate charged by the utility providers.





For the provision of air conditioning and services in the CUSA, the Company acts as a principal. This is because it is the Company who retains the right to direct the service provider of CUSA as it chooses and the party responsible to provide proper ventilation and air conditioning to the leased premises. The right to the services mentioned never transfers to the tenant and the Company has the discretion on how to price the CUSA and air conditioning charges.

*Operating lease commitments - Company as lessor*

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on the evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for these contracts as operating lease (see Note 19).

*Operating lease classification - Company as lessee*

The Company has entered into land lease agreements for the locations of its investment property portfolio. The Company has determined that it does not acquire all the significant risks and rewards of ownership of these properties. Accordingly, these were accounted for as operating leases (see Note 19).

*Build Transfer Operate (BTO) Agreement with Cebu Province - Company as operator*

On March 26, 2012, the Parent Company entered into a BTO agreement with The Province of Cebu (Cebu Province). The BTO project relates to the development, construction, and operation of Business Process Outsourcing (BPO) Complex by the Company at the land properties owned by Cebu Province located at Salinas, Lahug Cebu City. In August 2012, FLI assigned this agreement to the Company.

Based on the agreement, the Company has assessed that the Cebu Province (Grantor) cannot control or regulate the services that the operator must provide using the infrastructure, to whom it must provide them and at what price. Due to this, the BTO agreement is assessed to be outside the scope of IFRIC 12, *Service Concession Arrangements*.

The Company, on the other hand, has the right to operate and earn rentals from the project upon completion but does not have ownership over the properties. The Company also has no substantial risks and rewards on the properties for major part of its economic life. Thus, the Agreement is classified as an operating lease. Accordingly, the related development cost was recorded under "BTO rights" (see Notes 10 and 19).

*Determining whether an Arrangement contains a Lease - Build Operate Transfer (BOT) Agreement*

On September 16, 2015, the Company entered into a BOT agreement with Philippine DCS Development Corporation (PDDC), also a subsidiary of FLI. The BOT agreement relates to the construction and operation by PDDC of the DCS facilities for 20 years, during which PDDC will supply chilled water for the provision of cooling energy to the properties of the Company within Northgate Cyberzone, Muntinlupa City.

While the fulfillment of the terms and conditions of the agreement is dependent on the use of an asset (i.e., DCS facilities), management assessed that the right to control the operations of such asset is not conveyed to the Company considering that: (a) the Company has no ability to operate the asset nor the right to direct PDDC to operate the asset in a manner it determines; and, (b) the supply of chilled water will not be exclusive to the properties of the Company during the term of the BOT agreement. Thus, the BOT agreement does not contain a lease within the scope of PAS 17 (see Note 10).



*Impairment assessment of nonfinancial assets*

The Company assesses at each reporting date whether there is any indication that the nonfinancial assets (advances to contractors, other current assets, investment properties, property and equipment, BTO rights and prepaid DCS connection charges) may be impaired. The Company considers indications of impairment such as significant changes in asset usage, significant decline in market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. If such indication exists, the Company estimates the recoverable amount of the asset, which is the higher of the asset's fair value less cost to sell and value in use.

As of December 31, 2018 and 2017, no impairment indicators were identified for the Company's nonfinancial assets.

*Recognition of deferred tax asset*

The Company reviews the carrying amounts of deferred income tax assets at each report date and reduces it to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Company believes that it will generate sufficient taxable profit to allow all or part of the deferred income tax assets to be utilized. Deferred tax assets amounted to ₱107.5 million and ₱70.7 million as of December 31, 2018 and 2017, respectively (see Note 18).

*Contingencies*

The Company, in the normal course of business, is involved in legal claims and disputes. The Company, together with its counsel, is contesting these assessments. Based on the assessment of the Company and its counsel, the outflow of resources that may arise from settlement of the said assessment is not probable and that the amount is currently cannot be reasonably determined. Management believes that final settlement, if any, will have no material impact on the financial statements (see Note 26).

Use of Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the report date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Provision for expected credit losses of trade receivables*

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The information about the ECLs on the Company's trade receivables is disclosed in Notes 5 and 25.



*Estimating useful lives of investment properties, property and equipment, and intangible asset*

The Company estimates the useful lives of its investment properties, property and equipment, and intangible asset based on the period over which these assets are expected to be available for use. The estimated useful lives of investment properties, property and equipment, and intangible asset are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear, and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. There were no changes on the estimated useful life of the investment properties, property and equipment, and intangible asset. The carrying value of investment properties amounted to P13.9 billion and P12.3 billion as of December 31, 2018 and 2017, respectively (see Note 8). The carrying value of property and equipment amounted to P39.6 million and P36.7 million as of December 31, 2018 and 2017, respectively (see Note 9). The carrying value of intangible asset amounted to P2.6 billion and P2.4 billion as of December 31, 2018 and 2017, respectively (see Note 10).

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#### 4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand and in banks	P315,845,016	P572,484,127
Cash equivalents	401,688,640	752,605,410
	<u>P717,533,656</u>	<u>P1,325,089,537</u>

Cash in banks earn interest at their respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of three (3) months or less from dates of placement and are subject to an insignificant risks and change in value.

Interest earned from cash and cash equivalents amounted to P12.2 million, P12.9 million and P1.8 million in 2018, 2017 and 2016 respectively (see Note 21).

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#### 5. Receivables

This account consists of:

	2018	2017
Trade (Note 16)	P509,021,477	P339,854,548
Due from related parties (Note 16)	-	687,825,600
Advances to officers and employees	8,475,893	1,698,702
Others	9,827,393	33,002,722
	<u>527,324,763</u>	<u>1,062,381,572</u>
Less expected credit loss	285,258	285,258
	<u>P527,039,505</u>	<u>P1,062,096,314</u>

Trade receivables represent charges to tenants for rentals and utilities which are normally collectible within 20 days from billing date. These are covered by security deposits by tenant's equivalent to 3 months of rental paid by the lessees. All overdue and unpaid rent, dues and charges are subject to 18% per annum and penalty of 24% per annum. Interest and penalties from late payments amounted



to P3.9 million, P1.1 million and P0.8 million in 2018, 2017 and 2016, respectively (see Note 21). Provision for expected credit losses recorded amounted to nil in 2018 and 2017 and P0.1 million in 2016.

Advances to officers and employees pertain to salary and loans granted by the Company which are collectible through salary deduction and are non-interest bearing to be used for operations.

Others include receivable from contractor and advances of real property tax related to the land leased by the Company.

The reconciliation of allowance for expected credit losses as at December 31, 2018, 2017 and 2016 follows:

	2018	2017	2016
Balance at beginning of year	P285,258	P285,258	P162,587
Provisions	-	-	122,671
Balance at end of year	P285,258	P285,258	P285,258

## 6. Other Current Assets

This account consists of:

	2018	2017
Input VAT - net	P790,020,962	P644,787,289
Prepayments	27,198,594	17,512,384
Others	9,744,182	14,973,368
	826,963,738	677,273,041
Less allowance for probable losses	12,190,527	12,190,527
	P814,773,211	P665,082,514

Input Value Added Tax (VAT) represents the taxes passed on from purchases of goods and services subjected to VAT that the Company can claim against any output VAT on sale of goods and services.

Prepayments consist of prepaid expenses for commission, rent, taxes and licenses, insurance and association dues. Amounts of prepaid commission expected to be amortized beyond 12 months from end of reporting period amount to P77.1 million and P23.0 million as of December 31, 2018 and 2017, respectively, and presented as noncurrent (see Note 10).

Others include office and maintenance supplies.

The allowance for probable losses pertains to the portion of outstanding input vat that is not expected to be utilized in the future.

## 7. Advances to Contractors

Advances to contractors represent advances for project costs and other disbursements related to buildings under construction. The advances shall be settled through recoupment against contractors' billings. Advances to contractors amounted to P280.0 million and P201.8 million as of December 31, 2018 and 2017, respectively.



## 8. Investment Properties

The rollforward analyses of this account follows:

	2018			
	Land	Buildings and Equipment	Construction in-progress	Total
<b>Cost</b>				
Balance at beginning of year	P1,008,455,595	P7,766,957,553	P4,925,817,984	P13,701,231,132
Additions	-	453,203,440	1,446,807,776	1,900,011,216
Balance at end of year	1,008,455,595	8,220,160,993	6,372,625,760	15,601,242,348
<b>Accumulated Depreciation</b>				
Balance at beginning of year	-	1,439,454,930	-	1,439,454,930
Depreciation (Note 20)	-	253,464,167	-	253,464,167
Balance at end of year	-	1,692,919,097	-	1,692,919,097
<b>Net Book Value</b>	<b>P1,008,455,595</b>	<b>P6,527,241,896</b>	<b>P6,372,625,760</b>	<b>P13,908,323,251</b>

	2017			
	Land	Buildings and Equipment	Construction in-progress	Total
<b>Cost</b>				
Balance at beginning of year	P965,321,877	P7,743,117,175	P2,922,394,269	P11,630,833,321
Additions	43,133,718	23,840,378	2,003,423,715	2,070,397,811
Balance at end of year	1,008,455,595	7,766,957,553	4,925,817,984	13,701,231,132
<b>Accumulated Depreciation</b>				
Balance at beginning of year	-	1,238,708,012	-	1,238,708,012
Depreciation (Note 20)	-	200,746,918	-	200,746,918
Balance at end of year	-	1,439,454,930	-	1,439,454,930
<b>Net Book Value</b>	<b>P1,008,455,595</b>	<b>P6,327,502,623</b>	<b>P4,925,817,984</b>	<b>P12,261,776,202</b>

As of December 31, 2018 and 2017, the cost of land still unpaid presented as "Payable to land owner" amounted to P281.6 million (see Note 11). This pertains to the 19.2 hectares of South Road Properties acquired from Cebu City Government in 2015 (see Note 26). Other outstanding liabilities pertaining to investment properties purchased on account are recorded in the statements of financial position under "Accounts payable and accrued expenses" account, amounting P171.8 million and P307.1 million as of December 31, 2018 and 2017, respectively (see Note 11).

Investment properties pertain to the Company's land and buildings that are currently leased to third parties. Borrowing costs capitalized to investment properties amounted to P279.8 million, P252.8 million and P146.4 million in 2018, 2017 and 2016, respectively (see Notes 12 and 13). The capitalization rates used range from 4.0% to 5.2% in 2018, 2017 and 2016.

The estimated aggregate fair value of the Company's investment properties amounted to P15.2 billion and P14.8 billion as of December 31, 2018 and 2017, respectively, based on the income approach using discounted cash flow analysis for land and buildings (see Note 24).

Using income approach, all expected cash flows from the use of the assets were projected and discounted using the appropriate discount rate reflective of the market expectations.

Rental income from investment properties amounted to P2,198.1 million, P1,726.5 million and P1,405.2 million in 2018, 2017 and 2016, respectively. Tenants' dues from investment properties, which are inclusive of CUSA, aircon and other charges amounted to P1,085.2 million, P862.3 million and P681.5 million as of December 31, 2018, 2017 and 2016, respectively (see Note 20). Operating



expenses incurred for maintaining and operating these investment properties amounted to ₱1,099.5 million, ₱814.0 million and ₱615.6 million in 2018, 2017 and 2016, respectively (see Note 20).

## 9. Property and Equipment

The rollforward analysis of this account follows:

	2018		
	Land Improvements	Furniture and Fixtures	Total
<b>Cost</b>			
Balance at beginning of year	₱36,950,793	₱35,946,919	₱72,897,712
Additions	1,752,367	5,021,036	6,773,403
Balance at end of year	38,703,160	40,967,955	79,671,115
<b>Accumulated Depreciation</b>			
Balance at beginning of year	17,229,156	18,669,566	35,898,722
Depreciation (Note 20)	843,805	3,293,320	4,137,125
Balance at end of year	18,072,961	21,962,886	40,035,847
<b>Net Book Value</b>	<b>₱20,630,199</b>	<b>₱19,005,069</b>	<b>₱39,635,268</b>
	2017		
	Land Improvements	Furniture and Fixtures	Total
<b>Cost</b>			
Balance at beginning of year	₱36,950,793	₱34,709,330	₱71,660,123
Additions	-	1,237,589	1,237,589
Balance at end of year	36,950,793	35,946,919	72,897,712
<b>Accumulated Depreciation</b>			
Balance at beginning of year	16,664,267	16,316,272	32,980,539
Depreciation (Note 20)	564,889	2,353,294	2,918,183
Balance at end of year	17,229,156	18,669,566	35,898,722
<b>Net Book Value</b>	<b>₱19,721,637</b>	<b>₱17,277,353</b>	<b>₱36,998,990</b>

Cost of fully depreciated property and equipment still used in operations amounted to ₱20.6 million and ₱19.8 million as of December 31, 2018 and 2017, respectively.

## 10. Intangible and Other Noncurrent Assets

This account consists of:

	2018	2017
BTO rights (Notes 3, 12 and 13)	₱2,557,823,732	₱2,437,133,674
Prepaid DCS connection charges (Note 16)	300,545,956	245,770,285
Prepaid commission (Note 6)	77,121,536	23,037,964
Financial asset at FVTOCI (Note 24)	9,010,000	9,010,000
Deposits (Note 25)	41,187,431	4,500,161
Other advances	10,000,000	-
	<b>₱2,995,688,655</b>	<b>₱2,719,452,084</b>



“BTO rights” pertain to the cost related to the Build, Transfer and Operate agreement (BTO) with The Province of Cebu (Cebu Province) entered into on March 26, 2012. The BTO project relates to the development, construction and operation of Business Process Outsourcing (BPO) Complex by the Group at the land properties owned by Cebu Province located at Salinas, Lahug Cebu City. As of December 31, 2018 and 2017, cost of completed portion of the BTO project amounted to P1.3 billion and P1.2 billion, respectively.

The rollforward analysis of BTO rights follows:

	2018	2017
<b>Cost</b>		
Balance at beginning of year	P2,508,773,554	P1,841,231,739
Additions	174,334,169	667,541,815
Balance at end of year	2,683,107,723	2,508,773,554
<b>Accumulated Depreciation</b>		
Balance at beginning of year	71,639,880	22,040,365
Depreciation (Note 20)	53,644,111	49,599,515
Balance at end of year	125,283,991	71,639,880
<b>Net Book Value</b>	<b>P2,557,823,732</b>	<b>P2,437,133,674</b>

Rental income recognized arising from the BTO agreement amounted to P142.7 million, P117.1 million and P85.2 million in 2018, 2017 and 2016, respectively. Tenants' dues from BTO rights amounted to P88.9 million, P65.2 million and P43.7 million as of December 31, 2018, 2017 and 2016, respectively (see Note 20). Operating expenses incurred for maintaining and operating these assets amounted to P80.4 million, P56.3 million and P52.7 million in 2018, 2017 and 2016, respectively (see Note 20).

Borrowing costs capitalized on the BTO project amounted to P61.0 million, P66.4 million and P28.8 million in 2018, 2017, and 2016, respectively (see Notes 12 and 13). The capitalization rates used in 2018, 2017 and 2016 range from 4.0% to 5.2%.

Prepaid District Cooling System (DCS) connection charge pertains to connection fees paid by the Company to connect to DCS service. This is amortized using straight line method based on the contract period of connection. Unamortized connection fees amounted to P300.5 million and P245.8 million as of December 31, 2018 and 2017. Connection fee amortized in 2018 and 2017 amounted to P12.6 million and P3.1 million, respectively.

The rollforward analysis of Prepaid DCS connection charge follows:

	2018	2017
<b>Cost</b>		
Balance at beginning of year	P248,878,142	P-
Additions	67,371,928	248,878,142
Balance at end of year	316,250,070	248,878,142
<b>Accumulated Depreciation</b>		
Balance at beginning of year	3,107,857	-
Amortization (Note 20)	12,596,257	3,107,857
Balance at end of year	15,704,114	3,107,857
<b>Net Book Value</b>	<b>P300,545,956</b>	<b>P245,770,285</b>

Financial asset at FVTOCI pertains to 9,010,000 common shares or 16.97% equity interest in



Pro-excel Property Managers, Inc. (PPMI), acquired in 2017 and designated as financial assets at FVTOCI.

Deposits include electric meter deposits and security deposits.

Other advances pertain to payment intended for shares subscription.

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#### 11. Accounts Payable and Accrued Expenses

This account consists of:

	2018	2017
Advances from tenants	P515,817,828	P415,126,690
Retention payable - current portion (Note 14)	484,167,100	218,195,440
Accrued expenses (Note 16)	203,075,503	91,936,046
Payable to land owner - current (Note 8)	281,587,512	281,587,512
Payable to contractors (Note 8)	171,753,983	307,085,047
Accrued rent payable	124,773,429	107,249,757
Accrued interest payable	111,450,986	102,545,874
Payable to suppliers	101,709,612	94,362,196
Withholding taxes payable	35,111,863	23,883,954
	<b>P2,029,447,816</b>	<b>P1,641,972,516</b>

Advances from tenants are advance payments received for rentals, utilities and other fees. These are applied against rental obligations of the tenants when they become due.

Retention payable account pertains to the amounts withheld by the Company from contractors' progress billings which are returned upon completion of their services or expiry of the contractors' warranty period.

Accrued expenses include accruals for utilities, maintenance, service and energy charges, outside services and other expenses. These are normally settled within the year.

Payable to land owner pertains to the unpaid balance on the land acquired in South Road Properties, Cebu City in 2015 (see Notes 8 and 26).

Payable to contractors arises from progress billings received from contractors for the constructions costs incurred by the Company.

Accrued rent payable represents the difference between rent expense and rent payments due to straight line recognition.

Payable to suppliers arise from various acquisitions of materials and supplies used for construction and are normally payable within one year.

Withholding taxes payable consists of withholding taxes on compensation and expanded withholding taxes. These are normally settled within one month.





## 12. Loans Payable

Loans payable consists of:

	2018	2017
Developmental loans from local banks (Note 15)	P3,457,613,636	P4,052,348,484
Less current portion of loans payable	839,242,424	594,734,848
Long-term portion of loans payable	P2,618,371,212	P3,457,613,636

### *Developmental Bank Loans*

These loans are obtained to finance the construction of buildings for rental. Developmental loans from local banks will mature on various dates up to 2023. These peso-denominated loans bear floating interest rates equal to 91-day PDST-F rate plus a spread of 1% per annum, prevailing market rate, or fixed interest rates of 4.00% to 5.21% per annum. Loans availed by the Company in 2018 and 2017 amounted to nil and P300.0 million, respectively. Principal payments made in 2018 and 2017 amounted to P594.7 million and P3.2 billion, respectively (see Note 25). Principal payments in 2017 include payment for pre-terminated loans payable amounting P2.6 billion.

Interest expense which was capitalized relating to loans payable amounted to P89.6 million, P165.6 million and P175.2 million in 2018, 2017 and 2016, respectively (see Notes 8 and 10). The capitalization rates used in 2018, 2017 and 2016 ranges from 4.0% to 5.2%.

Total interest expense charged to the statements of comprehensive income amounted to P95.5 million, P96.1 million and P101.2 million in 2018, 2017 and 2016, respectively.

The Company's loans payable is unsecured and no assets are held as collateral for these debts. The agreements covering the abovementioned loans require maintaining certain financial ratios including debt-to-equity ratio and interest coverage ratio.

The agreements also provide for restrictions and requirements with respect to, among others, making substantial change in present management and ownership structure; acquisition of any shares of stock; sale, lease or transfer and disposal of all or a substantial part of its assets, except in the ordinary course of business; and entering into any merger, consolidation or reorganization.

As of December 31, 2018 and 2017, the Company is not in breach of any of these debt covenants.

## 13. Bonds Payable

On July 7, 2017, the Company issued fixed rate bonds with aggregate principal amount of P6.0 billion and term of five and a half (5.5) years from the issue date. The fixed rate is 5.05% per annum, payable quarterly in arrears starting October 7, 2017. As of December 31, 2018 and 2017, the outstanding balance of bonds payable amounted to P5,948.9 million and P5,936.1 million, respectively.

The bonds are redeemable at 100% of face value on maturity date, which is January 7, 2023, unless the Company exercises its early redemption option. Interest expense which was capitalized relating to bonds payable amounted to P251.2 million and P153.6 million in 2018 and 2017, respectively (see Notes 8 and 10).

Total interest expense charged to the statements of comprehensive income amounted to



P46.9 million in 2018 and nil in 2017 and 2016.

Unamortized debt issuance cost on bonds payable amounted P51.1 million and P63.8 million as of December 31, 2018 and December 31, 2017, respectively. Amortization of transaction costs in 2018 and 2017 included under "Interest and other financing charges" in the statements of comprehensive income amounted to P12.7 million and P6.4 million, respectively.

The bonds require the Company to maintain a maximum debt-to-equity ratio of 2.33x; and minimum debt service coverage ratio of 1.1x. As of December 31, 2018 and 2017, the Company is not in breach of any of these debt covenants.

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#### 14. Other Noncurrent Liabilities

This account consists of:

	2018	2017
Security and other deposits (Notes 24 and 25)	P642,405,071	P480,461,756
Retention payable - net of current portion	45,644,480	201,395,532
	<b>P688,049,551</b>	<b>P681,857,288</b>

Security and other deposits are those paid by tenants that will be applied to any outstanding obligations of the tenants at the end of the lease term or upon pre-termination. As of December 31, 2018 and 2017, current portion of the security and other deposits presented as "Other current liabilities" in the statements of financial position amounted to P164.7 million and P156.0 million, respectively.

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#### 15. Equity

##### Capital Stock and Additional Paid-in Capital

Details of the Parent Company's capital stocks as of December 31, 2018 and 2017 follow:

Common stock - P1 par value	
Authorized - 2,000,000,000 shares	P2,000,000,000
Issued and outstanding - 1,163,426,668 shares	1,163,426,668
Additional paid-in capital	102,900,666

##### Retained Earnings

###### *Appropriation*

On December 19, 2018, the BOD approved the additional appropriation of retained earnings amounting to P1.5 billion for capital expenditure requirement for the development of the following projects: Filinvest Axis Tower 3, and Filinvest Axis Tower 4 to be completed by 2020.

On December 20, 2017, the BOD approved the additional appropriation of retained earnings amounting to P1.0 billion for capital expenditure requirements for the development of a project targeted to be completed by 2020.

On December 21, 2016, the BOD approved the appropriation of retained earnings amounting to P2.5 billion for capital expenditure requirements for the development of a project targeted to be completed by 2020.



*Declaration of Dividend*

With the approval of the BOD, the Company declared and paid out cash dividends amounting to P312.5 million, P383.9 million, and P593.3 million out of its unappropriated retained earnings in 2018, 2017 and 2016, respectively.

After reconciling items, the Company's retained earnings available for dividend declaration as of December 31, 2018 and 2017 amounted to P404.6 million and P872.9 million, respectively.

Capital Management

The Company's primary objective is to maintain its current sound financial condition and strong debt service capabilities, as well as to continuously implement a prudent financial management program.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. It closely monitors its capital and cash positions and carefully manages its capital expenditures. Furthermore, the Company may also, from time to time, seek other sources of funding, which may include debt or equity issues, depending on its financing needs and market conditions. The Company continues to fund its project developments using medium to long-term financing, which can help mitigate any negative effects of a sudden downturn in the Philippine economy or a sudden rise in interest rates.

The Company monitors capital using a debt-to-equity ratio, which is total long-term debt divided by total stockholders' equity. The Company includes within debt, interest-bearing loans and external borrowings whether in the form of long-term notes and bonds. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2018, 2017 and 2016.

The following table shows how the Company computes for its debt-to-equity ratio as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Loans payable (Note 12)	P3,457,613	P4,052,348
Bonds payable (Note 13)	5,948,938	5,936,172
	<u>9,406,551</u>	<u>9,988,520</u>
Equity	6,719,668	5,621,546
Debt-to-equity ratio	1.40:1	1.78:1

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**16. Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence (referred herein as affiliates). Related parties may be individuals or corporate entities.

Outstanding balances at year-end are unsecured, interest free and require settlement in cash, unless otherwise stated. As of December 31, 2018 and 2017, the Company has not made any provision for impairment loss relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.



A summary of the Company's related party transactions in 2018 and 2017 are shown in the following table:

	2018				
	Amount/ Volume	Outstanding balance	Terms	Conditions	Note
<i>Bank under common control</i>					
Cash and cash equivalents	P584,545,991	P584,545,991	0.50% to 4.50%	No impairment	16 (a)
Interest income	4,621,085	-			
	P589,167,076	P584,545,990			
<i>Trade receivables</i>					
<i>Parent Company</i>					
Rental revenue	P21,773,232	P17,620,536	Noninterest-bearing; due and demandable	Unsecured	16 (b)
<i>Affiliate</i>					
Rental revenue	P66,754,145	P12,882,076	Noninterest-bearing; collectible every 20th day of the month	Unsecured	16 (b)
Service fee income (Note 20)	7,673,436	-	Noninterest-bearing	Unsecured	16 (d)
Commission income (Note 20)	9,386,963	-	Noninterest-bearing	Unsecured	16 (d)
	P83,814,544	P12,882,076			
<i>Due from Related Parties</i>					
<i>Affiliates</i>					
Advances	P675,360,000	P-	Interest-bearing at 6.0%, payable on demand	Unsecured	16 (e)
Interest income	29,783,425	-			
	P705,143,425	P-			
<i>Other Noncurrent Asset</i>					
<i>Parent</i>					
Security deposit	-	P1,428,600			16 (c)
<i>Affiliate</i>					
DCS connection charge (Note 10)	P54,775,671	P300,545,956		No impairment	16 (f)
Connection fees (Note 20)	(12,596,257)	-			
	P42,179,414	P300,545,956			
<i>Accounts payable and accrued expenses (Note 11)</i>					
<i>Parent Company</i>					
Rental expense	(P241,114,469)	(P21,999,961)	Noninterest-bearing; payable on demand	Unsecured	16 (c)
<i>Affiliate</i>					
Service and energy fees (Note 20)	(432,729,055)	(1,569,166)	Noninterest-bearing; payable on demand	Unsecured	16 (f)
Rental expense	(2,466,821)	(206,019)	Noninterest-bearing	Unsecured	16 (c)
<i>Affiliate</i>					
Service fee	(7,600,003)	-	Noninterest-bearing; payable on demand	Unsecured	16 (d)
Management fee and manpower cost	(4,288,470)	635,360	Noninterest-bearing; payable on demand	Unsecured	
	(P688,198,818)	(P23,139,786)			
<i>Other Noncurrent Liability</i>					
<i>Parent Company</i>					
Security deposit	P-	P6,608,326	Noninterest-bearing; payable	Unsecured	16 (b)
<i>Affiliate</i>					
Security deposits	-	6,246,912	Noninterest-bearing; payable	Unsecured	16 (b)
	P-	P12,855,238			



	2018				
	Amount/ Volume	Outstanding balance	Terms	Conditions	Note
2017					
	Amount/ Volume	Outstanding balance	Terms	Conditions	Note
<i>Bank under common control</i>					
Cash and cash equivalents	P966,900,285	P966,900,285	0.50% to 4.50%	No impairment	16 (a)
Interest income	5,112,806	-			
	P972,013,091	P966,900,285			
<i>Trade receivables</i>					
<i>Parent Company</i>					
Rental revenue	P25,163,519	P17,620,536	Noninterest-bearing; due and demandable	Unsecured	16 (b)
<i>Affiliate</i>					
Rental revenue	P42,546,371	P5,561,294	Noninterest-bearing; collectible every 20th day of the month	Unsecured	16 (b)
Service fee income (Note 20)	10,349,077	-	Noninterest-bearing	Unsecured	16 (d)
Commission income (Note 20)	11,110,503	-			
	P64,005,951	P5,561,294			
<i>Due from Related Parties</i>					
<i>Affiliates</i>					
Advances (Note 5)	P675,360,000	P675,360,000	Interest-bearing at 6.0% payable on demand	Unsecured	16 (e)
Interest income	12,465,600	12,465,600			
	P687,825,600	P687,825,600			
<i>Other Noncurrent Asset</i>					
<i>Parent Company</i>					
Security deposit	-	P1,428,600			
<i>Affiliate</i>					
DCS connection charge (Note 10)	P248,878,142	P245,770,285		No impairment	16 (f)
Connection fees (Note 20)	(3,107,857)	-			
	P245,770,285	P245,770,285			
<i>Accounts payable and accrued expenses (Note 11)</i>					
<i>Parent Company</i>					
Rental expense	(P202,446,287)	(P14,721,131)	Noninterest-bearing; payable on demand	Unsecured	16 (a)
<i>Affiliate</i>					
Service and energy fees (Note 20)	(91,268,352)	(26,504,131)	Noninterest-bearing; payable on demand	Unsecured	16 (f)
Rental expense	(2,124,219)	-	Noninterest-bearing	Unsecured	16 (e)
<i>Affiliate</i>					
Service fee	(7,520,369)	-	Noninterest-bearing; payable on demand	Unsecured	16 (d)
Management fee and manpower cost	(4,050,340)	(600,080)	Noninterest-bearing; payable on demand	Unsecured	
	(11,570,709)	(600,080)			
	(P307,409,567)	(P41,825,342)			

(Forward)



	2018				
	Amount/ Volume	Outstanding balance	Terms	Conditions	Note
<b>Other Noncurrent Liability</b>					
<i>Parent Company</i>					
Security deposit	P-	P6,608,326	Noninterest-bearing; due and demandable	Unsecured	16 (b)
<i>Affiliate</i>					
Security deposits	P1,688,936	P6,246,912	Noninterest-bearing; payable	Unsecured	16 (b)
	P1,688,936	P12,855,238			

Significant related party transactions are as follows. Outstanding balances at yearend are unsecured, interest-free and settlement occurs generally in cash.

- a) The Company maintains savings accounts and short term deposits with East West Banking Corporation (EW), an affiliated bank. Cash and cash equivalents earn interest at the prevailing short-term investment rates.
- b) *Lease agreements with related parties - Company as lessor*
  - The Company, as a lessor, entered into a space rental agreement with FLI, for the office space in one of the Company's buildings. Lease period is from October 16, 2016 to October 15, 2021.
  - The Company, as a lessor, entered into a space rental agreement with Filinvest Alabang Inc. (FAI), an entity under common control, for the office space in one of the Company's buildings. Lease period is from April 1, 2016 to March 31, 2021.
  - The Company, as a lessor, entered into a space rental agreement with Pro-Excel Property Managers, Inc. (PPMI) for the office space in one of the Company's buildings. Lease period is from July 15, 2017 to July 14, 2020.
  - The Company, as a lessor, entered into a space rental agreement with Dreambuilders Pro, Inc. (DPI), a fellow subsidiary under FLI, for the office space in one of the Company's buildings. Lease period is from August 10, 2017 to October 9, 2022.
- c) *Lease agreements with related parties - Company as lessee*
  - The Company, as a lessee, entered into a land lease agreement with FLI on the location of the buildings currently leased to third parties and on those still under construction. Rental expense is based on certain percentages of the Company's gross rental income.
  - In addition, the Company, as a lessee, entered into a land lease agreement with FAI on the location of the parking currently leased out to third parties. Rental is based on a certain percentage of income earned from the parking space.
  - The Company, as a lessee, also entered into an agreement with Parking Pro, Inc., for its non-pay parking facilities. Rental expense is based on a fixed rate per slot.
- d) *Service agreements with related parties*
  - The Company entered into a service agreement with FAI whereby the Company shall pay service fees for general management services rendered by the latter for the operations of the Company.



- The Company entered into a service agreement with Filinvest Cyberparks, Inc. (FCI), Filinvest Asia Corp. (FAC), and Pro-Excel Property Manager, Inc. (PPMI) whereby the Company shall lease out a portion of its office space and perform accounting and administrative services to the latter for a fee.
- e) On August 23, 2017, the Company made advances for capital expenditures to Filinvest Cyberparks, Inc. (FCI), a fellow subsidiary under FLI, amounting to P600.0 million, and subject to fixed interest of 6% per annum. On October 12, 2018, FCI paid the advances for capital expenditures amounting to P631.2 million, net of P7.8 million withholding tax. Related interest earned in 2018 and 2017 amounted to P27.2 and P11.8 million, respectively. On October 27, 2017, the Company also extended advances for capital expenditures to Filinvest Cyberzone Mimosa, Inc. (FCMI), a fellow subsidiary under FLI, amounting to P72.0 million, subject to interest of 6% per annum. On August 30, 2018, FCMI paid the advances amounting to P75.24 million. Related interest earned in 2018 and 2017 amounted to P2.5 million and P0.7 million, respectively.

f) *BOT Agreement*

In accordance with the terms of Build Operate and Transfer (BOT) agreement between the Company and Philippine DCS Development Corporation (PDDC), the Company paid prepaid DCS connection charges to PDDC amounting to P248.9 million, to be consumed by existing and future buildings within Northgate Cyberzone in Muntinlupa City over the service period of 20 years.

On December 14, 2018, the Company paid additional prepaid connection charge for connecting the equipment to Filinvest Axis Tower 2 amounting P65.79 million.

In September 2017, the construction of DCS facilities was completed and certain buildings of the Company were supplied with chilled water.

Amortized portion of DCS connection charge pertaining to existing buildings amounted to P12.6 million and P3.1 million in 2018 and 2017, respectively. These amounts were recognized as part of reimbursable expense to tenants (see Note 20). Connection and service charges incurred for these buildings in 2018 and 2017 aggregated to P289.0 million and P81.6 million, respectively (see Note 20).

Key management personnel of the Company are employees of FAI. The compensation of the said employees is paid by FAI and as such, the necessary disclosure required under PAS 24, *Related Party Disclosures*, are included in FAI's financial statements.

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## 17. Retirement Cost

The Company has a noncontributory, unfunded defined benefit pension plan covering substantially all of its officers and regular employees. Under the Plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The retirement plan provides retirement benefits (equivalent to 70% to 125% of the final monthly salary for every year of service) after satisfying certain age and service requirements.



The Company accrues retirement costs (included in "Retirement liability" in the Company's statements of financial position) based on an actuarially determined amount using the projected unit credit method.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Company updates the actuarial valuation by hiring the services of a third party professionally qualified actuary.

The following tables summarize the components of "Pension expense" recognized in the statements of comprehensive income and "Retirement liability" recognized in the statements of financial position for the existing retirement plan.

Component of pension expense in profit or loss follow:

	2018	2017	2016
Net pension expense in profit or loss:			
Service cost	P689,205	P168,647	P171,032
Net interest expense	74,855	40,220	34,762
<b>Total pension expense</b>	<b>P764,060</b>	<b>P208,867</b>	<b>P205,794</b>

Changes in the present value of the defined benefit obligation are as follows:

	2018	2017
Balance at beginning of year	P902,313	P693,446
Pension expense	764,060	208,867
Amount to be recognized in OCI	(247,269)	-
<b>Balance at end of year</b>	<b>P1,419,104</b>	<b>P902,313</b>

Remeasurement gains recognized in OCI:

	2018	2017	2016
Remeasurements in other comprehensive income			
Actuarial changes arising from:			
Experience adjustments	(P142,497)	P-	P1,048,247
Financial assumptions	369,059	-	489,228
Demographic changes assumptions	20,707	-	-
	<b>P247,269</b>	<b>P-</b>	<b>P1,537,475</b>

The principal assumptions used in determining pension benefits are as follow:

	2018	2017	2016
Discount rates	7.9%	5.8%	5.8%
Salary increase rates	8.0%	7.0%	7.0%





The sensitivity analysis for significant assumptions as at December 31, 2018 and 2017 is shown below:

	Increase (decrease) in basis points	Impact on defined benefit obligation
Discount rates	+100	P1,146,344
	-100	1,765,333
Salary rates	+100	1,761,404
	-100	1,144,311

The sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring as of the end of the reporting date, assuming if all other assumptions were held constant. Management believes that pension obligation will not be sensitive to the salary rate increases because it is expected to be at the same level of the remaining life of the obligation.

#### 18. Income Tax

On June 6, 2000, the Company was registered with the Philippine Economic Zone Authority (PEZA) pursuant to the provisions of Republic Act 7916 as an Economic Zone (ECOZONE) Facilities Enterprise. As a registered enterprise, the Company is entitled to certain tax benefits and nontax incentives such as exemption from payment of national and local taxes and in lieu thereof a special tax rate of five percent (5%) of gross income. The Company is also entitled to zero percent (0%) value added tax for sales made to ECOZONE enterprises.

The breakdown of provision for income tax shown in the statements of income follows:

	2018	2017	2016
At 5% statutory income tax rate	P58,574,566	P53,803,193	P63,664,051
Net result from non-PEZA activities:			
Current	55,523,007	18,186,286	(4,489,168)
Deferred	91,505,733	96,920,644	63,839,044
	P205,603,306	P168,910,123	P123,013,927

The components of the Company's net deferred tax assets (liability) follows:

	2018	2017
<i>Presented in profit or loss</i>		
Deferred tax assets		
Advance rentals	P73,881,522	P40,927,788
Deferred rent payable	30,875,427	27,676,126
Provision for future major repairs	1,812,946	1,812,946
Accrual of pension obligation	389,917	160,698
Provision for doubtful accounts	85,577	85,577
Unrealized foreign currency exchange loss	13,351	19,472
	107,058,740	70,682,607
Deferred tax liability		
Capitalized borrowing costs	(283,632,468)	(185,544,220)
PAS 17 adjustment	(88,194,734)	(58,401,116)
	(371,827,202)	(243,945,336)
	(264,768,462)	(173,262,729)

(Forward)



*Presented in OCI*

Deferred tax liability on net actuarial gains on pension liability	(P74,181)	P-
	<b>(P264,842,643)</b>	<b>(P173,262,729)</b>

The reconciliation of provision for income tax at the statutory tax rate to provision for income tax shown in the statements of comprehensive income follows:

	2018	2017	2016
Tax at statutory rate	P484,765,689	P405,717,224	P441,207,205
Adjustments for:			
Income tax at 5% preferential rate	(270,483,070)	(231,460,137)	(317,650,650)
Interest income subjected to final tax	(8,679,313)	(5,346,964)	(542,628)
	<b>P205,603,306</b>	<b>P168,910,123</b>	<b>P123,013,927</b>

**19. Leases**

As lessor, future minimum rentals under operating leases are as follows:

	2018	2017
Within one year	P2,337,139,861	P1,887,296,320
After one year but not more than five years	5,688,831,684	4,200,565,403
More than five years	1,882,644,391	132,866,593
	<b>P9,908,615,936</b>	<b>P6,220,728,316</b>

The Company is engaged in office leasing operations and entered into lease agreements with third parties and related parties (see Note 16). These leases generally provide for either (a) fixed monthly rent (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

As lessee, future minimum rentals under operating lease as of December 31 are as follows:

	2018	2017
Within one year	P21,826,400	P23,137,355
After one year but not more than five years	99,249,706	100,892,522
More than five years	741,992,836	751,731,465
	<b>P863,068,942</b>	<b>P875,761,342</b>

The Company entered into a land lease arrangement with third parties and related parties (see Note 16). Rental is based on a monthly rate with rate escalation on a yearly basis and certain percentages of the Company's gross rental income.



## 20. Other Income

Other income is composed of tenant reimbursements and other miscellaneous income from rental facilities. The account also includes commission income and service fee income recognized from service agreement from its affiliates.

	2018	2017	2016
Tenant dues	<b>₱1,174,098,142</b>	<b>₱927,450,185</b>	<b>₱725,223,681</b>
Expenses incurred (Notes 8 and 10):			
Utilities (Notes 10 and 16)	(802,769,849)	(595,922,695)	(448,339,129)
Services	(146,243,299)	(115,904,954)	(104,631,985)
Repairs and maintenance	(161,817,405)	(94,493,124)	(75,069,001)
Depreciation (Notes 8, 9, and 10)	(36,897,533)	(29,470,158)	(20,008,703)
Salaries and wages (Note 16)	(27,175,819)	(22,401,337)	(13,910,709)
Insurance	(3,164,994)	(12,049,051)	(6,322,050)
Others	(1,862,483)	(12,755)	(8,046)
	<b>(1,179,931,382)</b>	<b>(870,254,074)</b>	<b>(668,289,623)</b>
Net tenant dues	<b>(5,833,240)</b>	<b>57,196,111</b>	<b>56,934,058</b>
Service fee income (Note 16)	<b>7,673,436</b>	<b>10,349,077</b>	<b>5,546,651</b>
Commission income (Note 16)	<b>9,386,963</b>	<b>11,110,503</b>	<b>5,363,967</b>
Miscellaneous	<b>3,334,511</b>	<b>7,711,799</b>	<b>451,461,578</b>
	<b>₱14,561,670</b>	<b>₱86,367,490</b>	<b>₱519,306,254</b>

The miscellaneous income in 2016 includes claims for liquidating damages from a contractor relating to lost revenue amounting to ₱450.0 million. The agreement with the contractor provides that the Company has right to impose and deduct whatever liquidated damages against any sum or sums due to the contractor and the contractor hereby unconditionally authorizes the Company to deduct any liquidated damages without incurring any liability whatsoever, for such deductions and the contractor hereby releases or quitclaims the Company for such liability, if any.

## 21. Interest Income

Interest income consists of:

	2018	2017	2016
Interest income on:			
Cash and cash equivalents (Notes 4 and 16)	<b>₱12,216,842</b>	<b>₱12,858,338</b>	<b>₱1,808,761</b>
Advances to related parties (Note 16)	<b>29,783,425</b>	<b>12,465,600</b>	<b>-</b>
Others (Note 5)	<b>3,896,538</b>	<b>1,055,041</b>	<b>848,128</b>
	<b>₱45,896,805</b>	<b>₱26,378,979</b>	<b>₱2,656,889</b>

Others consist mainly of interest and penalties on late rental payment of tenants.



## 22. Earnings Per Share

	2018	2017	2016
a. Net income	<b>P 1,410,282,325</b>	<b>P1,183,480,623</b>	<b>P1,347,676,755</b>
b. Number of outstanding common shares	<b>1,163,426,668</b>	<b>1,163,426,668</b>	<b>1,163,426,668</b>
Basic/Diluted EPS (a/b)	<b>P1.21</b>	<b>P1.02</b>	<b>P1.16</b>

The Company assessed that there were no potential dilutive common shares in 2018, 2017 and 2016.

## 23. Segment Reporting

The Company has determined that it is operating as one operating segment. Based on management's assessment, no part or component of the business of the Company meets the qualifications of an operating segment as defined by PFRS 8, *Operating Segments*.

The Company's leasing operations is its only income generating activity and such is the measure used by the chief operating decision maker (CODM) in allocating resources.

The Company does not report its results based on geographical segments. The Company has no significant customer which contributes 10% of more to the revenues of the Company.

## 24. Fair Value Measurement

The following table sets forth the fair value hierarchy of the Company's assets and liabilities measured at fair value and those for which fair values are required to be disclosed:

	2018		2017	
	Carrying value	Fair Value Significant unobservable inputs (Level 3)	Carrying value	Fair Value Significant unobservable inputs (Level 3)
<b>Asset measured at fair value</b>				
Financial asset at FVTOCI	<b>P9,010,000</b>	<b>P9,010,000</b>	<b>P9,010,000</b>	<b>P9,010,000</b>
<b>Assets for which fair values are disclosed</b>				
Investment properties	<b>13,908,323,251</b>	<b>15,261,279,820</b>	<b>12,261,776,202</b>	<b>14,831,290,754</b>
	<b>P13,917,333,251</b>	<b>P15,270,289,820</b>	<b>P12,270,786,202</b>	<b>P14,840,300,754</b>
<b>Liabilities for which fair values are disclosed</b>				
<b>Financial liabilities at amortized cost</b>				
Loans payable	<b>P3,457,613,636</b>	<b>P3,431,265,273</b>	<b>P4,052,348,484</b>	<b>P4,047,807,915</b>
Bonds payable	<b>5,948,937,691</b>	<b>5,946,290,641</b>	<b>5,936,172,114</b>	<b>5,935,347,135</b>
Security and other deposits	<b>807,100,000</b>	<b>707,023,925</b>	<b>636,496,837</b>	<b>573,520,379</b>
	<b>P10,213,651,327</b>	<b>P10,084,579,839</b>	<b>P10,625,017,435</b>	<b>P10,556,675,429</b>

Due to the short-term nature of the transactions, the carrying values of cash and cash equivalents, receivables and current portion of accounts payable and accrued expenses approximate the fair market values.

Estimated fair value on debts (loans payable and bonds payable) with fixed interest and not subjected to quarterly repricing is based on the discounted value of future cash flows using the applicable interest rates for similar types of loans as of reporting date. Long term debt subjected to quarterly



repricing is not discounted since it approximates fair value. The discount rates used range from 3.81% to 5.45% as of December 31, 2018 and 2017.

The methods and assumptions used by the Company in estimating the fair value of the financial instruments are:

- *Financial assets at FVTOCI.* The fair value is determined by discounting future cash flows using the applicable rates of similar types of instruments. The difference between the carrying value and the fair value is not significant.
- *Investment properties.* The fair value is computed based on the income approach using discounted cash flow analysis. In the income approach, all expected cash flows from the use of the assets were projected and discounted using the appropriate discount rate reflective of the market expectations.
- *Security and other deposits.* The discount rates used ranges from 2.4% to 3.9% as of December 31, 2018 and 2017. Fair value is computed based on the expected future cash outflows.

During the years ended December 31, 2018, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 25. Financial Risk Management Objectives and Policies

The Company's financial instruments comprise of cash and cash equivalents, receivables, long-term debt, accounts payable and accrued expenses and security and other deposits. The main purpose of the long-term debt is to finance the Company's operations while all other financial instruments resulted from the conduct of business.

The main risks arising from the Company's financial instruments are interest rate risk, credit risk and liquidity risk. The Company's risk management policies are summarized below:

### a. Interest rate risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's long-term debt. Interest rates are dependent on floating interest rates, subject to repricing as determined by the creditor bank during the term of the loan. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax.

	Increase (decrease) in basis points	Effect on income before income tax/capitalized borrowing costs
2018	+100	(P34.6 million)
	-100	34.6 million
2017	+100	(P40.5 million)
	-100	40.5 million

There is no impact on the Company's equity other than those already affecting the statements of comprehensive income.



b. *Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities, primarily for its trade receivables, and from its financing activities, including deposits with banks and financial institutions, and other financial instruments.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Company security deposits and advance rentals which helps reduce the Company's credit risk exposure in case of defaults by the tenants. For existing tenants, the Company has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables.

With respect to credit risk arising from the other financial assets of the Company which comprise cash and cash equivalents, the Company's exposure to credit risk relates to default of the counterparty with a maximum exposure equal to the carrying amount of the instruments.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based groupings of various customer segments with similar loss patterns (i.e., by market segment and collateral type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the 2018 and 2017 credit risk exposure on the Company's lease receivables using a provision matrix:

	Total	Current	<30 days	30-60 days	61-90 days	> 91 days
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Estimated total gross carrying amount at default	P-	P-	P-	P-	P-	P-
Expected credit loss	P-	P-	P-	P-	P-	P-

The expected credit loss has been set at 0.0% rate because the historical collection pattern of receivable from tenants are collected within 20 days from the billing date. The security deposits and advance rentals are considered in the calculation of impairment as these can be used to offset unpaid receivables. In most case, recoveries are higher than the amount of receivable at default. As of December 31, 2018 and 2017, more than 100% of the Company's trade receivables are covered by security deposits and advances rentals, resulting to zero amount of ECL in 2018 and 2017.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and financial assets at FVTOCI, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.



The table below shows the credit quality, based on the Company's credit rating system as of December 31, 2018 and 2017:

	2018					Total
	Neither Past Due nor Impaired		Past Due but not Impaired	Past Due and Impaired		
	High Grade	Standard Grade				
Cash and cash equivalents*	P717,450,656	P-	P-	P-		P717,450,656
Receivables	596,976,403	-	19,777,844	285,258		527,039,505
Deposits	41,187,431	-	-	-		41,187,431
	<b>P1,265,614,490</b>	<b>P-</b>	<b>P19,777,844</b>	<b>P285,258</b>		<b>P1,285,677,592</b>

\*Excludes cash on hand amounting to P23,000.

	2017					Total
	Neither Past Due nor Impaired		Past Due but not Impaired	Past Due and Impaired		
	High Grade	Standard Grade				
Cash and cash equivalents*	P1,325,036,537	P-	P-	P-		P1,325,036,537
Receivables	1,046,065,996	-	15,745,060	285,258		1,062,096,314
Deposits	4,500,161	-	-	-		4,500,161
	<b>P2,375,602,694</b>	<b>P-</b>	<b>P15,745,060</b>	<b>P285,258</b>		<b>P2,391,633,012</b>

\*Excludes cash on hand amounting to P33,000.

The analysis of trade receivables which are past due but not impaired as of December 31, 2018 and 2017 follow:

	Past Due but not Impaired					Total
	< 30 days	30-60 days	61-90 days	91-120 days	>120 days	
2018	<b>P13,550,809</b>	<b>P5,053,630</b>	<b>P197,779</b>	<b>P260,349</b>	<b>P706,277</b>	<b>P19,777,844</b>
2017	13,743,100	494,576	476,074	400,562	630,748	15,745,060

c. *Liquidity risk*

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Company's practice is that float will be kept at a minimum.

The tables below summarize the maturity profile of the Company's financial assets held to manage liquidity as at December 31, 2018 and 2017:

	2018							Total
	On demand	< 30 days	30 - 60 days	61 - 90 days	> 90 days	Up to a year total	> 1 year but < 5 years	
Cash and cash equivalents	P315,945,016	P401,688,640	P-	P-	P-	P717,533,656	P-	P717,533,656
Receivables	507,261,643	13,559,809	5,053,630	197,779	966,626	527,039,505	-	527,039,505
Deposits	-	-	-	-	-	-	41,187,431	41,187,431
	<b>P823,106,677</b>	<b>P415,248,449</b>	<b>P5,053,630</b>	<b>P197,779</b>	<b>P966,626</b>	<b>P1,244,573,161</b>	<b>P41,187,431</b>	<b>P1,285,760,592</b>

	2017							Total
	On demand	< 30 days	30 - 60 days	61 - 90 days	> 90 days	Up to a year total	> 1 year but < 5 years	
Cash and cash equivalents	P572,484,327	P752,605,410	P-	P-	P-	P1,325,089,537	P-	P1,325,089,537
Receivables	1,046,351,354	13,743,100	494,576	476,074	1,031,310	1,062,096,314	-	1,062,096,314
Deposits	-	-	-	-	-	-	4,500,161	4,500,161
	<b>P1,618,835,381</b>	<b>P766,348,510</b>	<b>P494,576</b>	<b>P476,074</b>	<b>P1,031,310</b>	<b>P2,387,185,851</b>	<b>P4,500,161</b>	<b>P2,391,686,012</b>



Maturity profile of the Company's financial liabilities, as at December 31, 2018 and 2017 is shown below (in thousands):

	2018									
	On demand	< 30 days	30 - 60 days	61 - 90 days	> 90 days	Up to a year total	> 1 - 3 years	> 3 - 5 Years	Over 5 years	Total
Loans payable	P83,978	P25,000	P288,333	P83,977	P357,955	P839,243	P2,318,193	P309,600	P-	P3,457,636
Bonds payable	-	-	-	-	-	-	-	6,000,000	-	6,000,000
Interest on long-term debt*	138,408	-	-	-	1,792,898	1,931,306	67,241	-	-	1,998,547
Accounts payable and accrued expenses	1,747,860	-	-	-	281,588	1,029,448	-	-	-	2,029,448
Security and other deposits	-	-	-	-	807,100	807,100	-	-	-	807,100
	P1,970,246	P25,000	P2,883,333	P83,977	P3,339,541	P5,607,097	P2,385,634	P6,309,600	P-	P14,292,731

\*Includes future interest payable.

	2017									
	On demand	< 30 days	30 - 60 days	61 - 90 days	> 90 days	Up to a year total	> 1 - 3 years	> 3 - 5 Years	Over 5 years	Total
Loans payable	P-	P99,394	P25,000	P10,227	P460,114	P594,735	P3,157,614	P50,000	P250,000	P4,852,249
Bonds Payable	-	-	-	-	-	-	-	-	6,000,000	6,000,000
Interest on long-term debt*	102,546	-	-	-	-	102,546	1,173,685	302,316	-	1,578,547
Accounts payable and accrued expenses	1,158,988	-	-	-	281,588	1,440,576	-	201,396	-	1,641,972
Security and other deposits	84,590	-	71,44	-	-	156,035	277,808	202,453	-	616,496
	P1,345,124	P99,394	P96,445	P10,227	P741,702	P2,175,176	P4,609,107	P756,165	P6,250,000	P13,929,364

\*Includes future interest payable.

Changes in liabilities arising from financing activities for the year ended December 31, 2018 follows (in thousands):

	January 1, 2018	Availment/ Addition	Payments	Noncash Movement	December 31, 2018
Loans payable	P4,052,348	P-	(P594,735)	P-	P3,457,613
Bonds payable	5,936,172	3,314	-	9,452	5,948,938
Accrued interest	102,546	492,083	-	(483,178)	111,451
	P10,091,066	P495,397	(P594,735)	(P473,726)	P9,518,002
	January 1, 2017	Availment/ Addition	Payments	Noncash Movement	December 31, 2017
Loans payable	P6,889,526	P300,000	(P3,233,318)	P96,141	P4,052,348
Bonds payable	-	6,000,000	(70,166)	6,338	5,936,172
Accrued interest	42,806	-	(329,637)	389,377	102,546
	P6,932,332	P6,300,000	(P3,663,121)	P491,856	P10,091,066

"Noncash movement" column includes amortization of debt issuance costs and interest expense for loans payable and bonds payable.

## 26. Contingencies

The Company is involved in various legal actions, claims, assessments and other contingencies incidental to its ordinary course of business. Management believes that any amount the Company may have to pay in connection with any of these matters, while currently not reasonably determinable, would not have a material adverse effect on the financial position or operating results. The information normally required under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on grounds that it may prejudice the outcome of the ongoing proceedings.





*Deed of Sale on Installment of the 19.2-hectare South Road Properties (SRP)*

In July 2015, CPI, together with the Parent Company and FAI (collectively referred to as Filinvest Consortium) won the bidding for a 19.20-hectare lot in Cebu's SRP (see Note 8). Thereafter, in August 7, 2015, Filinvest Consortium entered into a Deed of Sale on Installment (DSI) with the Cebu City Government. In a letter dated January 6, 2017, the Cebu City Mayor questioned the validity of the sale and gave the buyers the option to withdraw from the sale at buyer's discretion. In a letter to the Cebu City Mayor dated February 7, 2017 (the Letter), Filinvest Consortium expressed its intention to rescind the DSI. Under the DSI, Cebu City undertook to comply with several covenants, undertakings and obligations no later than February 7, 2016 (or 180 days from execution of the DSI). The Letter pointed out that as of February 7, 2017, the said covenants, undertakings and obligations have not been complied with and it does not appear that these will be complied with within a foreseeable reasonable period of time.

The rescission of the DSI shall only take effect upon return by Cebu City of the down payment and installment payments made to Cebu City by Filinvest Consortium, plus interests, within ninety (90) days from receipt of the Letter in accordance with Section 5.7 of the DSI. Pending receipt of such payments, the DSI shall remain valid and subsisting by and among the parties.

As of February 27, 2019, such payment has not been received and no formal and definitive legal proceeding has been undertaken by the parties on this matter. Consequently, as of said date, the DSI remains valid and Filinvest Consortium has the sole and rightful claim over the property.



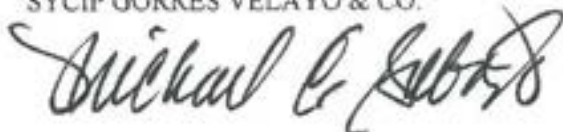
## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Cyberzone Properties, Inc.  
5th - 7th Floors, Vector One Building, Northgate Cyberzone,  
Filinvest City, Alabang, Muntinlupa City

We have audited the financial statements of Cyberzone Properties, Inc. (the Company) as at and for the year ended December 31, 2018, on which we have rendered the attached report dated February 27, 2019.

In compliance with Securities Regulation Code Rule 68, as Amended (2011), we are stating, as of December 31, 2018, that the above Company has one (1) stockholder owning one hundred (100) or more shares.

SYCIP GORRES VELAYO & CO.



Michael C. Sabado  
Partner  
CPA Certificate No. 89336  
SEC Accreditation No. 0664-AR-3 (Group A),  
March 16, 2017, valid until March 15, 2020  
Tax Identification No. 160-302-865  
BIR Accreditation No. 08-001998-73-2018,  
February 26, 2018, valid until February 25, 2021  
PTR No. 7332607, January 3, 2019, Makati City

February 27, 2019

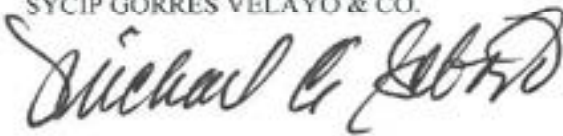


## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors  
Cyberzone Properties, Inc.  
5th - 7th Floors, Vector One Building, Northgate Cyberzone,  
Filinvest City, Alabang, Muntinlupa City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Cyberzone Properties, Inc. (the Company) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 and have issued our report thereon dated February 27, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, as Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Michael C. Sabado

Partner

CPA Certificate No. 89336

SEC Accreditation No. 0664-AR-3 (Group A),  
March 16, 2017, valid until March 15, 2020

Tax Identification No. 160-302-865

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February 26, 2018, valid until February 25, 2021

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February 27, 2019



**CYBERZONE PROPERTIES, INC.**

**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

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Independent Auditor's Report on Supplementary Schedules

Supplementary Information and Disclosures Required by SRC Rule 68, as Amended (2011)

Unappropriated Retained Earnings Available for Dividend Distribution

Schedule of all Effective Standards and Interpretations under Philippine Financial Reporting Standards

Financial Soundness Indicators

Company Structure

## CYBE RZONE PROPERTIES, INC.

### SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED BY REQUIRED ON SRC RULE 68 AND 68.1, AS AMENDED (2011) DECEMBER 31, 2018

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as "Part I" and "Part II", respectively. It also prescribes the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by SRC Rule 68 and 68.1 as amended that are relevant to the Company. This information is presented for purposes of filing with the SEC and is not required part of the basic financial statements.

#### Schedule A. Long term debt

Below is the schedule of long-term debt of the Company (amounts in thousands). Each loan balance is presented net of unamortized deferred costs.

Type of Obligation	Amount	Current	Noncurrent
<u>Developmental loans</u>			
Unsecured 7-year loan obtained on July 7, 2014 and will mature on July 7, 2021 with interest rate equal to PDS Treasury Fixing. 50% of the principal is payable in 20 quarterly payments starting October 2016; 50% payable at maturity.	P542,500	P70,000	P472,500
Unsecured 7-year loan obtained on December 16, 2013 and will mature on December 16, 2020 with interest rate equal to PDST plus spread of 1% subject to repricing at the end of the 7th year. 50% of the principal is payable in 20 quarterly payments starting March 2016; 50% payable at maturity.	472,500	70,000	402,500
Unsecured loan obtained on June 28, 2016 and will mature on June 28, 2021 with fixed interest. 50% of the principal is payable in 12 quarterly payments starting September 2018; 50% payable at maturity.	458,333	83,333	375,000
Unsecured loan obtained on November 19, 2016 and will mature on November 19, 2023 with fixed interest rate. The principal is payable in 16 quarterly payments starting February 2016; 50% payable at maturity.	400,000	-	400,000
Unsecured loan obtained on April 6, 2015 with interest rate equal to PDS Treasury Fixing (PDST-F) plus 1% per annum. 50% of the principal is payable in 11 quarterly and 50% payable at maturity on January 31, 2020.	236,364	157,576	78,788
Unsecured loan obtained on July 26, 2016 and will mature on July 26, 2021 with fixed interest rate. The principal is payable in 12 quarterly payments starting October 2018; 50% payable at maturity.	335,416	58,333	277,083
Unsecured loan obtained on August 5, 2013 and will mature on August 20, 2020 with interest rate of PDST-F plus 1% spread. 50% of the principal is payable in 20 quarterly payments starting November 2015; 50% payable at maturity.	337,500	50,000	287,500
Unsecured loan obtained on March 3, 2014 and will mature on March 3, 2019 with interest rate of PDST-F. 50% of the principal is payable in 11 quarterly payments starting June 2016; 50% payable at maturity on August 31, 2020.	250,000	250,000	-
Unsecured loan obtained on May 7, 2015 and will mature on May 7, 2020 with fixed interest rate. The principal is payable in 12 quarterly payments starting August 2017; 50% payable at maturity.	225,000	50,000	175,000
Unsecured loan obtained on January 30, 2015 and will mature on January 30, 2020 with fixed interest rate for 3 years, repricing at the end of 3rd year. The principal is payable in 12 quarterly payments starting January 2017; 50% payable at maturity.	200,000	50,000	150,000
	<u>P5,457,613</u>	<u>P839,242</u>	<u>P2,618,371</u>

**Bonds**

Fixed rate bonds with principal amount of P6.00 billion and term of 5.5 years from the issue date was issued by the Company on July 7, 2017 to mature on January 2023 with fixed interest rate is 5.05% per annum.

	P5,948,937	P-	P5,948,937
	P9,406,550	P839,242	P8,567,308

Each loan balance is presented net of unamortized deferred costs. The agreements covering the abovementioned loans require maintaining certain financial ratios of maximum debt-to-equity ratio of 2.33x and minimum interest coverage ratio of 1.1x. The agreements also provide for restrictions and requirements with respect to, among others, making distribution on its share capital; purchase, redemption or acquisition of any share of stock; sale or transfer and disposal of all or a substantial part of its capital assets; restrictions on use of funds; and entering into any partnership, merger, consolidation or reorganization.

**Schedule B. Indebtedness to Related Parties**

Below is the list of outstanding payables to related parties of the Company presented in the Company statements of financial position as of December 31, 2018 (amounts in thousands):

	Relationship	Nature	Balance at beginning of period	Balance at end of period
Filinvest Alabang, Inc.	Affiliate	A, C, D	P-	P-
Filinvest Land, Inc.	Parent	A, D, E	14,721	(136)
Philippine DCS Development Corporation	Affiliate	A	26,504	67,372
Others	Affiliate	A	600	-
			P41,825	P67,236

**Nature of Intercompany transactions**

The nature of the intercompany transactions with the related parties is described below:

- Expenses - these pertain to the share of the Company in various common selling and marketing and general and administrative expenses.
- Advances - these pertain to temporary advances from related parties for working capital requirements
- Management and marketing fee
- Reimbursable expenses
- Rentals
- Purchase of land

**Schedule C. Intangible Asset**

As of December 31, 2018, the Company's intangible assets consist of Build, Transfer and Operate (BTO) rights. BTO rights in the Company's statements of financial position pertain to the cost related to the BTO agreement with the Cebu Province entered into on March 26, 2012. Under the BTO agreement, the Company is committed to develop and construct a BPO Complex on the properties owned by Cebu Province located at Salinas, Lahug, Cebu City, and transfer the ownership of the BPO Complex to the Cebu Province upon completion, in exchange for the right to operate and manage the BPO Complex for the entire term of the agreement and its renewal (25 years, renewable for another 25 years upon mutual agreement of the parties).

Schedule D. Capital Stock

<u>Title of issue</u>	<u>Number of shares authorized</u>	<u>Number of shares issued and outstanding as shown under related balance sheet caption</u>	<u>Number of shares reserved for options, warrants, conversion and other rights</u>	<u>Number of shares held by related parties</u>	<u>Directors, Officers and Employees</u>	<u>Others</u>
Common Shares	2,000,000,000	1,163,426,668	-	1,163,426,663	5	None

**CYBERZONE PROPERTIES, INC.****UNAPPROPRIATED RETAINED EARNINGS AVAILABLE FOR DIVIDEND  
DISTRIBUTION****DECEMBER 31, 2018**

<b>Unappropriated Retained Earnings, January 1, 2018</b>	<b>P854,307,418</b>
Net income actually earned/realized during the period:	
Net income during the period closed to retained earnings	1,410,282,325
Less: Non actual/unrealized income net of tax	
Equity in net income of associate/joint venture	—
Unrealized foreign exchange gain-net (except those attributable to Cash and Cash equivalents)	—
Fair value adjustment (M2M gains)	—
Fair value adjustment of investment property resulting to gain	—
Adjustment due to deviation from PFRS/GAAP-gain	—
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	—
Deferred tax asset that reduced the amount of income tax expense	—
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	—
Adjustment due to deviation from PFRS/GAAP-loss	—
Loss on fair value adjustment of investment property (after tax)	—
<b>Net income actually earned during the period</b>	<b>1,410,282,325</b>
Add (less):	
Movement in deferred tax assets	(47,046,135)
Dividend declarations during the period	(312,946,403)
Appropriations of retained earnings during the period	(1,500,000,000)
<b>Unappropriated Retained Earnings, as adjusted December 31, 2018</b>	<b>P404,497,205</b>



**CYBERZONE PROPERTIES, INC.**  
**(A Wholly Owned Subsidiary of Filinvest Land, Inc.)**

**SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS  
 UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS**

List of all effective Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) effective as at December 31, 2018:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First Time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs	✓		
	Amendments to PFRS 1: Meaning of "Effective PFRSs"			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Asset Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adapted	Not Adapted	Not Applicable
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments: Classification and Measurement (2009 version)	✓		
	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term Receivable and Payables	✓		
	Amendments to PFRS 12: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
<b>Philippine Accounting Standards</b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures			✓
	Amendments PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Statement of Cash Flows, Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19, Discount Rate: Regional Market Issue			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27, Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barrier Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

*Financial Soundness Indicator*

Below are the financial ratios that are relevant to the Company for the year ended December 31:

Financial Ratios		2018	2017
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.65	1.36
Long-term debt to equity ratio	$\frac{\text{Long-term debt}}{\text{Equity}}$	1.40	1.78
Debt ratio	$\frac{\text{Total liabilities}}{\text{Total assets}}$	0.65	0.69
EBITDA to total interest paid	$\frac{\text{EBITDA}}{\text{Total interest paid}}$	3.51	5.09
Quick asset ratio	$\frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$	0.65	1.36
Solvency ratio	$\frac{\text{Net income} + \text{Depreciation}}{\text{Total liabilities}}$	0.13	0.11
Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest expense}}$	11.84	14.20
Net profit margin	$\frac{\text{Net income}}{\text{Revenue}}$	0.60	0.61
Return on equity	$\frac{\text{Net income}}{\text{Shareholder's Equity}}$	0.21	0.21

