C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

ARANETA PROPERTIES, INC.

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

21ST FLOOR, CITIBANK TOWER, PA
SEO DE ROXAS, MAKATI CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
Not Applicable	(02) 848-1501	Not Applicable

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
2,155	11/16	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. Gerardo Deloso	gerardo_deloso@yahoo.com	(02) 848-1501	Not Applicable

CONTACT PERSON's ADDRESS

21st Floor, Citibank Tower, Paseo de Roxas, Makati City

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

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

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Araneta Properties, Inc.
21st Floor, Citibank Tower
Paseo de Roxas, Makati City

Report on the Audit of the Financial Statements

We have audited the financial statements of Araneta 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. For the matter below, our description of how our audit addressed the matter is 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 matter below, provide the basis for our audit opinion on the accompanying financial statements.

Adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under the modified retrospective approach. The adoption of PFRS 15 is significant to our audit because this involves application of significant judgment and estimation particularly in the assessment of the probability that the Company will collect the consideration from the buyer.

In evaluating whether collectability of the amount of consideration is probable, the Company considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is assessed by considering factors such as past collection history, age of receivables and the pricing of the property. Management also regularly evaluates the history of sales cancellations and back-outs to determine if these would affect its current threshold of buyer's equity before commencing revenue recognition.

The disclosures related to the adoption of PFRS 15 are included in Notes 2 and 3 of the financial statements.

Audit Response
We obtained an understanding of the Company's process in implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption documentation and accounting policies prepared by management.

We obtained an understanding of the Company's revenue recognition process with respect to the real estate project and tested the related controls. We performed inquiries with relevant personnel on the sales, collection and reporting processes. For the buyer's equity, we evaluated the management's basis by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold. We traced the analysis to supporting documents such as the buyer's collection report and official receipts. We obtained sales and collection reports and compared the data with the information in the Company's revenue calculation and monitoring schedule, and reviewed the disposition of differences noted. On a test basis, we traced reported lot sales and actual collection remittances to corresponding sales invoices and contracts to sell and official receipts and bank records. We performed cut-off procedures by examining sales and collection reports for the month subsequent to the cut-off date.

We evaluated the disclosures made in the financial statements related to adoption of PFRS 15.

Adoption of PFRS 9, Financial Instruments

On January 1, 2018, the Company adopted PFRS 9, *Financial Instruments*. PFRS 9, which replaced PAS 39, *Financial Instruments: Recognition and Measurement*, provides revised principles for classifying financial assets and 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 PFRS 9 using modified retrospective approach.

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

Refer to Notes 2 and 3 of the financial statements for the disclosures in relation to the adoption and application of the PFRS 9 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) assessed the Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) checked the methodology used in applying the simplified approach by evaluating the key inputs, assumptions, and formulas used; (c) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (d) tested loss given default by inspecting historical recoveries including the timing, related direct costs, and write-offs; (e) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Company's receivables portfolios and broader industry knowledge; and (f) tested the effective interest rate, or an approximation thereof, used in discounting the expected loss.

Further, we checked the data used in the ECL models, such as the historical analysis of defaults, and related recovery data and method. We reviewed if the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We reviewed the disclosures made in the financial statements based on the requirements of PFRS 9.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditor's report thereon. The 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 the 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 the other information identified above when it becomes available and, in doing so, consider whether the other 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.

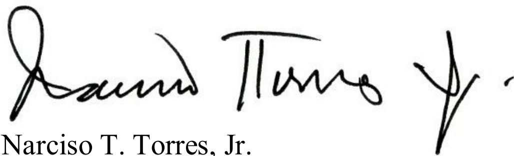
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 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 Araneta 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.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-AR-1 (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332621, January 3, 2019, Makati City

April 15, 2019

ARANETA PROPERTIES, INC.

21ST FLOOR CITIBANK TOWER PASEO DE ROXA S, SALCEDO VILLAGE, MAKATI CITY PHILIPPINES 1200
PHONE: (632)8481501 TO 04 • FAX: (632)848-1495•E-MAIL ara@info.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS (SRC RULE 68)

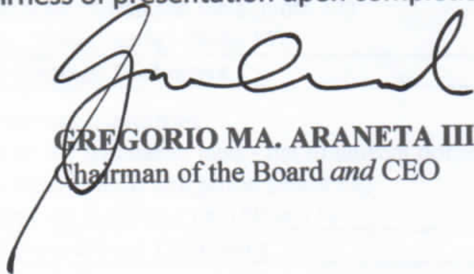
The Management of **Araneta Properties, Inc.,** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018, and 2017 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as 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.

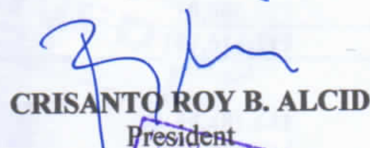
The Board of Directors (Trustees) is responsible for overseeing the Company's financial reporting process.

The Board of Directors (Trustees) reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

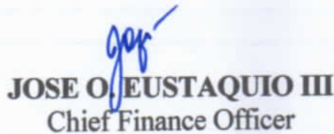
Sycip, Gorres, Velayo and Co., the independent auditors, appointed by the stockholders has audited the financial statements of the company in accordance with the Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.



GREGORIO MA. ARANETA III
Chairman of the Board *and* CEO



CRISANTO ROY B. ALCID
President



JOSE O. EUSTAQUIO III
Chief Finance Officer

Date Approved
April 12, 2019

MAKATI CITY
12 APR 2019

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PAGE NO. 18
BOOK NO. IV
SERIES OF 2019

ATTY. GERVACIO B. ORTIZ, JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2020
PTR NO. 7333104 / 01-03-2019 MAKATI
IBP NO 656155 LIFETIME MEMBER
APPT. NO. M104 / 2017/ROLL NO. 4009
MCLE COMPLIANCE NO.V-0006934
UNIT 102 PENINSULA COURT BLDG
8735 MAKATI AVE., MAKATI CITY

ARANETA PROPERTIES, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017 (As restated - see Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱27,360,025**	₱27,080,674
Trade and other receivables (Notes 5 and 18)	**161,965,600**	158,402,298
Due from related parties (Note 13)	**–**	20,922,876
Real estate inventories (Notes 6 and 18)	**505,060,705**	859,601,308
Input value-added tax (VAT) - net	**75,385,117**	80,766,411
Prepaid taxes	**6,526,409**	6,612,191
Total Current Assets	**776,297,856**	1,153,385,758
Noncurrent Assets		
Trade receivables - net of current portion (Note 5)	**181,392,613**	158,522,959
Property and equipment (Note 8)	**10,373,999**	11,700,878
Investment property (Note 9)	**1,023,069,063**	659,593,001
Equity instruments at fair value through other comprehensive income (FVOCI)	**4,231,898**	–
Available-for-sale (AFS) financial assets	**–**	2,490,000
Deposit for land acquisition (Note 10)	**–**	4,483,115
Total Noncurrent Assets	**1,219,067,573**	836,789,953
TOTAL ASSETS	**₱1,995,365,429**	₱1,990,175,711
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 11)	**₱35,649,694**	₱33,005,483
Liability for purchased land (Note 12)	**58,156,238**	64,148,202
Due to related parties (Note 13)	**13,805,287**	–
Total Current Liabilities	**107,611,219**	97,153,685
Noncurrent Liabilities		
Liability for purchased land - net of current portion (Note 12)	**55,481,641**	110,306,123
Retirement benefit obligation (Note 14)	**21,752,706**	21,555,685
Deferred tax liability - net (Note 15)	**36,258,914**	21,518,430
Total Noncurrent Liabilities	**113,493,261**	153,380,238
Total Liabilities	**221,104,480**	250,533,923
Equity		
Capital stock - ₱1 par value		
Authorized - 5,000,000,000 shares		
Issued - 1,951,387,570 shares (Note 17)	**1,951,387,570**	1,951,387,570
Additional paid-in capital (Note 17)	**201,228,674**	201,228,674
Other components of equity	**1,711,897**	(30,000)
Remeasurement losses on retirement benefit plan (Note 14)	**(310,430)**	(1,727,812)
Deficit (Note 17)	**(379,756,762)**	(411,216,644)
Total Equity	**1,774,260,949**	1,739,641,788
TOTAL LIABILITIES AND EQUITY	**₱1,995,365,429**	₱1,990,175,711

See accompanying Notes to Financial Statements.

ARANETA PROPERTIES, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
SALE OF REAL ESTATE (Notes 5 and 18)	**₱62,512,270**	₱60,971,337	₱134,877,756
COST OF REAL ESTATE SOLD (Note 6)	**(10,009,091)**	(21,422,829)	(66,876,325)
GROSS PROFIT	**52,503,179**	39,548,508	68,001,431
GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and wages	**20,396,819**	23,907,047	23,677,572
Taxes and licenses	**10,269,041**	10,094,205	8,232,346
Security services	**8,513,684**	12,206,473	11,108,348
Depreciation (Note 8)	**3,123,635**	3,286,818	4,060,915
Retirement benefit expense (Note 14)	**2,221,852**	2,378,627	2,817,295
Building dues and related charges	**1,613,208**	1,669,262	1,603,379
Professional fees	**1,319,819**	1,837,886	1,682,337
Entertainment, amusement and recreation	**729,316**	1,419,533	328,157
Utilities	**551,725**	599,421	655,815
Repairs and maintenance	**434,165**	982,072	247,974
Transportation and travel	**407,356**	832,038	225,206
Others	**6,474,954**	4,958,307	4,488,509
	(56,055,574)	(64,171,689)	(59,127,853)
OTHER INCOME (EXPENSE)			
Interests, penalties and other income (Notes 4 and 5)	**56,108,720**	20,162,942	19,657,136
Interest expense (Notes 12 and 21)	**(5,268,597)**	(7,390,895)	(2,383,190)
	50,840,123	12,772,047	17,273,946
INCOME (LOSS) BEFORE INCOME TAX	**47,287,728**	(11,851,134)	26,147,524
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 15)			
Current	**(1,694,811)**	(1,024,478)	(3,281,904)
Deferred	**(14,133,035)**	2,215,967	(7,219,705)
	(15,827,846)	1,191,489	(10,501,609)
NET INCOME (LOSS)	**31,459,882**	(10,659,645)	15,645,915
OTHER COMPREHENSIVE INCOME (LOSS)			
Item not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains on retirement benefit plan, net of deferred taxes of ₱0.61 million in 2018 ₱0.90 million in 2017 and ₱0.73 million in 2016 (Note 14)	**1,417,382**	2,109,768	1,694,993
Net changes in fair value of equity instruments at FVOCI	**1,741,897**	–	–
Unrealized valuation gains on AFS financial assets	**–**	90,000	50,000
	3,159,279	2,199,768	1,744,993
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱34,619,161**	(₱8,459,877)	₱17,390,908
EARNINGS (LOSS) PER SHARE			
Basic and diluted (Note 16)	**₱0.0161**	(₱0.0055)	₱0.0080

See accompanying Notes to Financial Statements.

ARANETA PROPERTIES, INC.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Capital Stock (Note 17)	Additional Paid-in Capital (Note 17)	Other Components of Equity	Remeasurement Gains (Losses) on Retirement Benefit Plan, net of Deferred Taxes (Note 14)	Deficit	Total
Balances at January 1, 2016	**₱1,951,387,570**	**₱201,228,674**	**(₱170,000)**	**(₱5,532,573)**	**(₱416,202,914)**	**1,730,710,757**
Net income	–	–	–	–	15,645,915	15,645,915
Other comprehensive loss	–	–	50,000	1,694,993	–	1,744,993
Total comprehensive income	–	–	50,000	1,694,993	15,645,915	17,390,908
Balances at December 31, 2016	**1,951,387,570**	**201,228,674**	**(120,000)**	**(3,837,580)**	**(400,556,999)**	**1,748,101,665**
Net loss	–	–	–	–	(10,659,645)	(10,659,645)
Other comprehensive income	–	–	90,000	2,109,768	–	2,199,768
Total comprehensive income (loss)	–	–	90,000	2,109,768	(10,659,645)	(8,459,877)
Balances at December 31, 2017	**1,951,387,570**	**201,228,674**	**(30,000)**	**(1,727,812)**	**(411,216,644)**	**1,739,641,788**
Net income	–	–	–	–	31,459,882	31,459,882
Other comprehensive income	–	–	1,741,897	1,417,382	–	3,159,279
Total comprehensive income	–	–	1,741,897	1,417,382	31,459,882	34,619,161
Balances at December 31, 2018	**₱1,951,387,570**	**₱201,228,674**	**₱1,711,897**	**(₱310,430)**	**(₱379,756,762)**	**₱1,774,260,949**

See accompanying Notes to Financial Statements.

ARANETA PROPERTIES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**₱47,287,728**	(₱11,851,134)	₱26,147,524
Adjustments for:			
Interest expense (Notes 12 and 21)	**5,268,597**	7,390,895	2,383,190
Depreciation (Note 8)	**3,123,635**	3,286,818	4,060,915
Retirement benefit expense (Note 14)	**1,614,402**	2,378,627	2,817,295
Interest income (Note 4)	**(207,381)**	(616,384)	(2,385,504)
Provision for impairment losses on receivables (Note 5)	**–**	241,290	–
Operating income before working capital changes	**57,086,981**	830,112	33,023,420
Decrease (increase) in:			
Trade and other receivables	**(26,432,956)**	(15,512,468)	(49,155,757)
Real estate inventories	**8,203,141**	21,422,829	66,876,325
Input VAT	**5,381,294**	(1,212,946)	(42,630,548)
Increase (decrease) in accounts payable and accrued expenses	**2,644,211**	2,373,979	760,343
Net cash generated from operations	**46,882,671**	7,901,506	8,873,783
Interest received	**207,381**	616,384	2,385,504
Income taxes paid	**(1,001,580)**	20,258	(7,402,470)
Net cash flows from operating activities	**46,088,472**	8,538,148	3,856,817
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to investment properties (Note 9)	**(12,655,485)**	(9,308,503)	(191,815,871)
Acquisitions of property and equipment (Note 8)	**(1,796,756)**	(49,374)	(5,489,695)
Deposits for land acquisition (Note 10)	**–**	–	(4,483,115)
Net cash flows used in investing activities	**(14,452,241)**	(9,357,877)	(201,788,681)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease (increase) in due from related parties (Note 13)	**34,728,163**	16,105,830	(32,869,529)
Payment of liability for purchased land (Note 21)	**(66,085,043)**	(64,152,804)	–
Net cash flows used in financing activities	**(31,356,880)**	(48,046,974)	(32,869,529)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**279,351**	(48,866,703)	(230,801,393)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**27,080,674**	75,947,377	306,748,770
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱27,360,025**	₱27,080,674	₱75,947,377

See accompanying Notes to Financial Statements.

ARANETA PROPERTIES, INC.
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information and Authorization for Issuance of Financial Statements**

Corporate Information
Araneta Properties, Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on June 15, 1988 to acquire, own, hold, improve, develop, subdivide, sell, lease, rent, mortgage, manage and otherwise deal in real estate or any interest therein, for residential, commercial, industrial and recreational purposes, as well as to construct and develop or cause to be constructed and developed on any real estate or other properties, golf course, buildings, hotels, recreation facilities and other similar structures with their appurtenances; and in general, to do and perform any and all acts or work which may be necessary or advisable for or related incidentally or directly with the aforementioned business or object of the Company. The Company is listed in the Philippine Stock Exchange (PSE) and has been included in the PSE composite index since November 14, 1989.

The Company's registered office address and principal place of business is 21st Floor, Citibank Tower, Paseo de Roxas, Makati City.

Authorization for Issuance of Financial Statements
The financial statements of the Company as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were authorized for issuance by the Company's Audit Committee on April 15, 2019, as delegated by the Board of Directors (BOD) on the same date.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The financial statements have been prepared under the historical cost basis, except for equity instruments which are carried at fair value. The financial statements are presented in Philippine peso (₱), which is the Company's functional currency. All values are rounded off to the nearest ₱ except when otherwise indicated.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS), which include the availment of the relief granted by the SEC under Memorandum Circular Nos. 14-2018 and 3-2019 as discussed in the section below on Adoption of New and Amended Accounting Standards and Interpretations. PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Unless otherwise indicated, adoption of these pronouncements did not have any significant impact on the Company's financial position or performance.

The nature and impact of each new standards and amendment are described below:

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

  The Company's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Company has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company's financial statements.

- PFRS 9, *Financial Instruments*
  The Company has adopted PFRS 9 with a date of initial application of January 1, 2018. PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

  The Company chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:
  - Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 will be retained for the comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.
  - The Company will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as of December 31, 2017.
  - The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application will be recognized in the opening Retained Earnings or other component of equity, as appropriate.
  - As comparative information is not restated, the Company is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

  Classification and measurement
  Except for certain receivables, under PFRS 9, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

  Under PFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

  The assessment of the Company's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

  The classification requirements of PFRS 9 did not have significant impact to the Company.

Financial assets are classified and subsequently measured, as follows:

- Cash and cash equivalents and trade and other receivables previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost beginning January 1, 2018.
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Company intends to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition. The Company classified its investments in quoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under PFRS 9. Under PAS 39, the Company's quoted equity instruments were classified as AFS financial assets.
- Financial assets at FVPL comprise of derivative instruments which the Company had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities.

In summary, upon adoption of PFRS 9, the Company had the following required or elected reclassifications as at January 1, 2018:

		PFRS 9 Measurement Categories		
PAS 39 Categories	Balances	Fair value through profit or loss	Amortized cost	Fair value through OCI
Loans and receivables:				
Cash and cash equivalents	₱27,080,674	₱–	₱27,080,674	₱–
Trade and other receivables*	314,917,592	–	314,917,592	–
Due from related parties	20,922,876	–	20,922,876	–
Available-for-sale financial assets	2,490,000	–	–	2,490,000
	₱365,411,142	₱–	₱362,921,142	₱2,490,000

**Excluding other receivables amounting to ₱156.52 million as of December 31, 2017.*

Impairment of Financial Instruments

Under PFRS 9, the level of provision for credit and impairment losses has generally increased due to the incorporation of a more forward-looking approach in determining provisions. Further, since the implementation of PFRS 9, all financial assets except receivables and those measured at FVTPL are assessed for at least 12-month ECL and the population of financial assets to which the lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with PAS 39.

The adoption of the ECL requirements of PFRS 9 did not result in an adjustment to the impairment allowances of the Company's debt financial assets.

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

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 to the Company since it has no activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under PFRS 15, revenue is 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 of 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.

  On February 14, 2018, the PIC issued PIC Q&A 2018-12 which provides guidance on some implementation issues of PFRS 15 affecting real estate industry. Subsequently on October 25, 2018, the Philippine SEC issued SEC Memorandum Circular No. 14 Series of 2018 (the Memorandum) which provides relief to the real estate industry by deferring the application of the following provisions of the PIC Q&A No. 2018-12 (Q&A) for a period of three years until December 31, 2020:
  a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E
  b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D
  c. Accounting to Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H.

  Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14: *PFRS 15 - Accounting for Cancellation of Real Estate Sales* was also deferred until December 31, 2020.

  The Memorandum also provided the mandatory disclosure requirements should the real estate company decided to avail of any relief. Disclosures should include:
  - The accounting policies applied.
  - Discussion of the deferral of the subject implementation issues in the PIC Q&A
  - Qualitative discussion of the impact to the financial statements had the concerned application guideline in the PIC Q&A has been adopted.
  - Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, i.e., retrospectively, together with the corresponding required quantitative disclosures.

  The above deferral will only be applicable for real estate sales transactions. Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Company availed of the deferral of adoption of the above specific provisions of PIC Q&As. Had these provisions been adopted, the below would have an impact to the Company's financial statements:

- Upon sales cancellation, the repossessed inventory would be recorded at fair value plus cost to repossess (or fair value less cost to repossess if this would have been opted). This would have increased retained earnings as at January 1, 2018 and gain from repossession in 2018. Currently, the Company records the repossessed inventory at its original carrying amount and recognize any difference between the carrying amount of the derecognized receivable and the repossessed property in profit or loss.

The other matters addressed by the PICs are essentially not applicable to the Company since its real estate project currently being sold has long been completed.

The Company elected to apply the modified retrospective method to all contracts at the date of initial application which is January 1, 2018.

The Company assessed its contracts to have single performance obligation. Under PFRS 15, the Company concluded that revenue from these contracts will continue to be recognized over time.

- PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*
  On March 14, 2018 the PIC issued PIC Q&A 2018-11 which provides guidance on the correct classification of land owned by a real estate developer in accordance with PAS 2, *Inventories*, PAS 40, *Investment Property or* PAS 16, *Property Plant and Equipment.*

  The Company adopted PIC Q&A 2018-11 and complied with the classification requirement of its land in accordance with the interpretation in the Company's financial statements and correspondingly, the Company reclassified its land held for future development amounting to ₱654.15 million to investment properties as of December 31, 2017.

- Amendments to PAS 28, *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 amendment has no impact to the Company's financial statements since the Company is not a venture capital organization or alike.

- 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 clarifications issued, the amendment does not have a significant effect on the Company's 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.

  The interpretation does not have a significant effect on the Company's financial statements.

  The following are the restatements of the prior years financial statements resulting from the adoption of new accounting standards:

  Statement of financial position

	As of December 31, 2017		
	Previous PFRS	Increase (decrease)	PFRS 15
Land held for future development	₱654,148,925	₱–	₱654,148,925
PIC Q&A 2018-11	–	(654,148,925)	(654,148,925)
Total	₱654,148,925	(₱654,148,925)	₱–
Investment properties	₱5,444,076	₱–	₱5,444,076
PIC Q&A 2018-11	–	654,148,925	–
Total	₱5,444,076	₱654,148,925	₱659,593,001

Future Changes in Accounting Policies
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

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.

  These amendments will have no impact on the financial statements of the Company.

- 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 standard's transition provisions permit certain reliefs.

  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
  - 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.

Effective beginning on or after January 1, 2020
- 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 judgements.

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

Deferred effectivity
- Amendments to PFRS 10, *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. 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.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

  These amendments do not have any impact on the Company's financial statements.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and are subject to an insignificant risk of change in value.

Financial Instruments - Initial Recognition and Subsequent Measurement (prior to adoption of PFRS 9)

Date of Recognition

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instruments. The Company determines the classification of its financial instruments on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

Initial Recognition

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

The Company classifies its financial assets in the following categories: financial assets at FVPL, available-for-sale (AFS) financial assets, held-to-maturity (HTM) investments and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified as financial liabilities at FVPL or other financial liabilities.

As of December 31, 2017, the Company does not have financial assets at FVPL, HTM investments and financial liabilities at FVPL.

Financial Assets

The Company's financial assets consist of loans and receivables and AFS financial assets.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated as financial assets at FVPL. This accounting policy mainly relates to the statement of financial position captions "Cash and cash equivalents", "Trade and other receivables" and "Due from related parties."

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is included in "Interest" account in the statement of comprehensive income as part of profit or loss. The losses arising from impairment of receivables, if any, are recognized as expense in the statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts.

AFS Financial Assets

AFS financial assets are those investments which are designated as such or do not qualify to be classified as financial assets at FVPL or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurements, AFS financial assets are measured at fair value. Unrealized gains and losses arising from fair valuation of AFS equity investments are reported as part of the “Other comprehensive income” section of the statement of comprehensive income.

AFS financial assets whose fair value cannot be reliably established are carried at cost less an allowance for any possible impairment. This normally applies to equity investments that are unquoted and whose cash flows cannot be forecasted reasonably.

When the investment is disposed of, the cumulative gains or losses previously recognized in the statement of changes in equity is recognized as part of net income in the statement of comprehensive income as a reclassification adjustment. Interest earned on holding AFS financial assets are reported as interest income using the EIR method. Dividends earned on holding AFS financial assets are recognized when the right to receive has been established which is usually the date of declaration of dividends. The losses arising from impairment of such investments are recognized as provision for impairment losses as part of profit or loss.

The Company has proprietary shares presented as “AFS financial assets” in the statements of financial position.

Financial Liabilities

The Company’s financial liabilities consist of other financial liabilities.

Issued financial liabilities or their components, which are not designated as financial liabilities at FVPL, are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Company’s “Accounts payable and accrued expenses”, “Liability for purchased land” and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement benefit obligation).

Financial Instruments – Initial Recognition and Subsequent Measurement (upon adoption of PFRS 9)

Initial recognition

The Company classifies financial assets, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (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. Except for trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15.

For a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI 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.

Subsequent measurement of financial assets
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost
- Financial assets at fair value through profit or loss
- Financial assets at fair value through OCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- Financial assets designated at fair value through OCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Financial assets at amortized cost
The Company measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset 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 cost are initially recognized at fair value plus directly attributable transaction costs and subsequently measured using the effective interest (EIR) method, less any impairment in value. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. This accounting policy relates to the Company's "Cash and cash equivalents", "Receivables" and "Due from related parties".

Financial assets at FVOCI
Debt instruments. The Company measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

As of December 31, 2018, the Company does not have debt instruments at FVOCI.

Equity instruments. The Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. However, the Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company elected to classify irrevocably its quoted equity investments under this category.

Financial assets at FVTPL
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments which the Company had not irrevocably elected to classify at fair value through OCI.

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:
- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:
- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Reclassifications of Financial Instruments (upon adoption of PFRS 9)
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

Impairment of Financial Assets (prior to adoption of PFRS 9)
The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being

evaluated. 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 for impairment. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of counterparty, credit history, past due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on historical loss experience is based and to remove the effects of conditions in the historical period that do not which the exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Impairment of Financial Assets (upon adoption of PFRS 9)

The Company recognizes an allowance for expected credit losses (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 sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are also recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

The Company applies a simplified approach in calculating ECLs for “Receivables”. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. For leasing receivables, the Company has established a provision matrix that is based on its historical credit loss experience. For ICR, the Company uses a vintage analysis that is based on its historical credit loss experience. Both are further adjusted for forward-looking factors specific to the debtors and the economic environment.

For all debt financial assets other than receivables, ECLs are recognized using the general approach wherein the Company tracks changes in credit risk and recognizes a loss allowance based on either a 12-month or lifetime ECLs at each reporting date.

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Company's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Company from the time of origination.

The Company's "Cash and cash equivalents" and "Due from related parties" are graded to be low credit risk investment based on the credit ratings of depository banks and related parties as published by Bloomberg Terminal.

Write-off policy
The Company writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Derecognition of Financial Assets and Liabilities (prior to and upon adoption of PFRS 9)
Financial Asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) 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 the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Offsetting Financial Instruments (prior to and upon adoption of PFRS 9)
Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

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 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.

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient date 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 each reporting date.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Current versus Noncurrent Classification
The Company presents assets and liabilities in statements of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading.
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

Interests in Joint Operations
Interests in joint operations represent one or more assets, usually in the form of real estate development, contributed to, or acquired for the purpose of the joint operations. The assets are used to obtain benefits for the operators. Each operator takes a share of the output from the assets, as agreed between parties and each bears an agreed share of the expenses incurred. These joint operations do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the operators themselves. Each operator has control over its share of future economic benefits through its share of the results of the joint operation. Contribution of the Company to the joint operation is included in real estate inventories.

The Company's project agreement with Sta. Lucia Realty and Development, Inc. (SLRDI) is accounted for as a joint operation (see Note 18).

Real Estate Inventories
Property acquired or those that are being developed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, are held as inventory and are measured at the lower of cost and net realizable value (NRV).

Cost includes:
- Land cost;
- Borrowing costs, professional fees, property transfer taxes and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs necessary to make the sale.

Value-added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

For its VAT-registered activities, 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 statement 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 up to the extent of the recoverable amount.

Prepaid Taxes
Prepaid taxes pertain to the excess payment against the current income tax due which are expected to be utilized as payment for income taxes within twelve (12) months.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The initial cost of property and equipment comprises its purchase price, including import duties, any nonrefundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to expense 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.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is calculated using the straight-line method over the estimated useful life of the assets or term of the lease, in the case of building and improvements, whichever is shorter, as follows:

Category	Number of Years
Office condominium unit	25
Building and improvements	25
Hauling and transportation equipment	5
Machinery and equipment	5
Furniture, fixtures and other equipment	5

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

When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation are removed from the accounts. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income as part of profit or loss in the year the asset is derecognized.

Fully depreciated assets are retained as property and equipment until these are no longer in use.

Investment Property
Investment property, comprising parcels of land, is held either to earn rental income or for capital appreciation or both. Investment property is measured initially and subsequently at cost, including transaction costs less any accumulated impairment losses.

Investment property is derecognized when 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 as part of profit or loss in the year of the retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with PAS 16 up to the date of change in use.

Investment property also consist of land held for future development that are carried at the lower of cost and NRV. All costs incurred that are directly and clearly associated with the acquisition of the land and obtaining the necessary land conversion approval, including borrowing costs, are capitalized to land held under development. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale.

Deposit for Land Acquisition
This represents deposits made to land owners for the purchase of certain parcels of land that are intended for future development. The Company normally makes deposits before a Contract to Sell (CTS) or Deed of Absolute Sale is executed between the Company and the land owner. Deposit for land acquisition is initially measured at cost, including transaction costs. Subsequent to initial recognition, deposit for land acquisition is stated at cost less any accumulated impairment losses.

Impairment of Property and Equipment, Investment Property and Other Nonfinancial Assets
These assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The fair value less costs to sell 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 less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of comprehensive income as part of profit or loss.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the statement of comprehensive income as part of profit or loss. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

Capital Stock and Additional Paid-in Capital
The Company has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of tax, from the proceeds. Additional paid-in capital represents the excess of the investors' total contribution over the stated par value of shares.

Deficit
Deficit includes accumulated losses attributable to the Company's stockholders. Deficit may also include effect of changes in the accounting policy as may be required by the transitional provisions of new and amended standards.

Revenue Recognition under PFRS 15
Revenue from Contract with Customers
Revenue from contracts with customers is recognized when control of the goods 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. The Company has generally concluded that it is the principal in its revenue arrangements.

The disclosures of significant accounting judgments, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

Sale of Real Estate
The Company derives primarily its sale of real estate from project agreement with SLRDI. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Company uses the output method. The Company recognizes revenue on the basis of direct measurements of the value to customers of the goods transferred to date, relative to the remaining goods promised under the contract. Progress is measured using survey of performance completed to date. This is based on the project accomplishment report prepared by the project's supervising engineers which integrates the surveys of performance to date of the construction activities.

Interest Income
Interest income is recognized as it accrues using the EIR method.

Income from Penalties and Other Income
Income from penalties and other income is recognized when earned.

Cost and Expense Recognition

Cost of Real Estate Sold

The Company recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets. These include costs of land, planning and design, professional fees, property transfer taxes, among others. These costs are allocated to the saleable area, with the portion allocable to the sold units being recognized as cost of real estate sold while the portion allocable to the unsold units being recognized as part of real estate inventories.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

General and Administrative Expenses

General and administrative expenses constitute costs of administering the business and are expensed as incurred.

Contract Balances

Trade Receivables

Trade receivables represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets

A contract asset is the right to consideration in exchange for goods transferred to the customer. If the Company performs by transferring goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract Liabilities

A contract liability is the obligation to transfer goods to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

The contract liabilities also include payments received by the Company from the customers for which revenue recognition has not yet commenced.

Costs to Obtain Contract

The incremental costs of obtaining a contract with a customer are recognized as an asset if the Company expects to recover them. These are charged to expense in the period in which the related revenue is recognized as earned.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

Amortization, de-recognition and impairment of capitalized costs to obtain a contract

The Company amortizes capitalized costs to obtain a contract to cost of real estate sold over the expected construction period using POC following the pattern of real estate revenue recognition. The amortization is included within cost of real estate sold.

A capitalized cost to obtain a contract is derecognized either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Company determines whether there is an indication that cost to obtain a contract maybe impaired. If such indication exists, the Company makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant costs or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific performance indicators that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Revenue Recognition under PAS 18
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Real Estate
Real estate revenue arising from the project agreement with SLRDI is accounted for using the percentage of completion method. The percentage of completion method is used to recognize income from sales of projects where the Company has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the project's supervising engineer's percentage of completion report.

Interest Income
Interest income is recognized as it accrues using the EIR method.

Income from Penalties and Other Income
Income from penalties and other income is recognized when earned.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expenses arise while interest expenses are accrued in the appropriate period.

Cost of Real Estate Sold
Cost of real estate sales arising from the project agreement with SLRDI is recognized consistent with the revenue recognition method applied. Cost of subdivision land includes land cost, planning and design costs, professional fees, property transfer taxes and other related costs.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Retirement Benefit Expense
The Company has an unfunded, defined benefit retirement 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
- Interest on the defined benefit liability
- Remeasurements of defined benefit liability

Service costs which may include current service costs, past service costs and gains or losses on non-routine settlements are recognized in the statement of comprehensive income as part of profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Interest on the defined benefit liability is the change during the period in the defined benefit liability that arises from the passage of time which is determined by applying the discount rate based on government bonds to the defined benefit liability. Interest on the defined benefit liability is recognized in the statement of comprehensive income as part of profit or loss.

Remeasurements comprising actuarial gains and losses 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.

Income Taxes
Current Income Tax
Current income tax liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

Deferred Tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized directly in equity is recognized in the statement of changes in equity and as other comprehensive income in the statement of comprehensive income.

Provisions

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

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income as part of profit or loss, net of any reimbursement.

Segment Reporting

The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Earnings (Loss) Per Share

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings/loss per share is calculated by dividing the net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares issued and outstanding during the period after giving retroactive effect to any stock dividends declared.

Diluted earnings (loss) per share is calculated in the same manner, adjusted for the effects of any dilutive potential common shares. Where the effect of the dilutive potential common shares would be anti-dilutive, basic and diluted earnings per share are stated at the same amount.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefit is probable.

Events After the Reporting Date

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

3. **Significant Accounting Judgments and Estimates**

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. The judgments and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

Revenue Recognition Method and Measure of Progress
The Company concluded that sale of real estate is to be recognized over time because: (a) the Company's performance does not create an asset with an alternative use and; (b) the Company has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Company's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date. In addition, the Company requires a certain percentage of buyer's payments of total selling price (buyer's equity), to be collected as one of the criteria in order to initiate revenue recognition. Reaching this level of collection is an indication of buyer's continuing commitment and the probability that economic benefits will flow to the Company.

The Company has determined that output method used in measuring the progress of the performance obligation faithfully depicts the Company's performance in transferring control of real estate development to the customers.

Incorporation of Forward-looking Information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

To do this, the Company has considered a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. Based on the Company's evaluation and assessment and after taking into consideration external actual and forecast information, the Company considers a representative range of possible forecast scenarios. This process involves gathering two or more economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The Company has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3-5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Company has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

Definition of Default and Credit-Impaired Financial Assets
The Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- *Quantitative criteria*
  The customer is more than 90 days past due on its contractual payments, i.e. principal and/or interest, which is consistent with the regulatory definition of default.
- *Qualitative criteria*
  The customer meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
  - The customer is experiencing financial difficulty or is insolvent;
  - The customer is in breach of financial covenant(s);
  - An active market for that financial assets has disappeared because of financial difficulties;
  - Concessions have been granted by the Company, for economic or contractual reasons relating to the customer's financial difficulty;
  - It is becoming probable that the customer will enter bankruptcy or other financial reorganization; and
  - Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) throughout the Company's expected loss calculation.

An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of six months as it has exhibited a satisfactory track record. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Distinction between Joint Operation and Joint Venture
The Company applies judgment when assessing whether a joint arrangement is a joint operation or a joint venture. The Company determines the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. The Company assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances. The Company's arrangement with SLRDI is not structured through a separate vehicle. The contractual arrangement establishes the Company's and SLRDI's rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses. Accordingly, this agreement was accounted for as a joint operation (see Note 18).

Determining Indicators of Impairment of Property and Equipment, Investment Property and Deposit for Land Acquisition
The Company assesses impairment on these assets whenever events or changes in circumstances indicate that their carrying amounts are no longer recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the cost of disposal. The value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make judgments and estimates that can materially affect the financial statements.

There were no impairment indicators noted for property and equipment, investment property and deposit for land acquisition in 2018, 2017 and 2016, as such, there were no impairment provided.

The aggregate carrying amounts of property and equipment, investment property and deposit for land acquisition amounted to ₱1,033.44 million and ₱675.78 million (as restated) as of December 31, 2018 and 2017, respectively (see Notes 8, 9 and 10).

<u>Estimates</u>
Revenue Recognition on Real Estate Projects
The Company's revenue recognition require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Company's revenue from sale of real estate.

Revenue Recognition on Sale of Real Estate and Collectability of the Sales Price
The Company's sale of real estate arises from its joint operation agreement with SLRDI. The Company's revenue from the sale of real estate are disclosed more fully in Note 2 to the financial statements. Management uses 20% of the contract price as the collection threshold before a sale is recognized. Revenue from sale of real estate amounted to ₱62.51 million, ₱60.97 million, and ₱ 134.88 million in 2018, 2017 and 2016, respectively. The related costs of real estate sold amounted to ₱10.01 million, ₱21.42 million, and
₱66.88 million in 2018, 2017 and 2016, respectively.

Estimating Impairment of Trade and Other Receivables under PAS 39
The Company evaluates specific accounts where the Company has information that certain customers or third parties are unable to meet their financial obligations. Factors, such as the Company's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered in determining the amount of allowance for impairment that will be recorded. The allowance is re-evaluated and adjusted as additional information is received.

Allowance for impairment losses amounted to ₱55.54 million as of December 31, 2017. Provision for impairment losses on trade and other receivables recognized amounted to ₱0.24 million and nil in 2017 and 2016, respectively. The carrying amounts of trade and other receivables amounted to ₱316.93 million as of December 31, 2017 (see Note 5).

Estimating Impairment of Trade and Other Receivables under PFRS 9
The Company uses a provision matrix to calculate ECLs for trade and other 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 such as inflation and gross domestic product growth rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The Company uses vintage analysis approach to calculate ECLs for trade and other receivables. The vintage analysis accounts for expected losses by calculating the cumulative loss rates of a given loan pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the PD model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

The Company defines a financial instrument as in default when a customer is more than 90 days past due on its contractual obligations. 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. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria.

The assessment of the correlation between historical observed default rates, forecast economic conditions (inflation and interest rates) 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.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Reversal of impairment loss on trade and other receivables recognized in 2018 amounted to ₱55.54 million in 2018. The carrying amounts of trade and other receivables amounted to ₱343.36 million as of December 31, 2018 (see Note 5).

Estimating NRV of Real Estate Inventories
The Company estimates adjustments for write-down of real estate inventories to reflect the excess of cost of real estate inventories over their NRV. NRV of real estate inventories are assessed regularly based on selling prices of real estate inventories in the ordinary course of business, less the costs of marketing and distribution. The Company provides write-down on the carrying amount whenever NRV of real estate inventories becomes lower than cost due to changes in price levels or other causes. No adjustments on real estate inventories were recognized in 2018, 2017 and 2016. The aggregate carrying amounts of real estate inventories, at cost, amounted to ₱505.06 million and ₱859.61 million as of December 31, 2018 and 2017, respectively (see Note 6).

Estimating Retirement Benefit Expense
The determination of the Company's retirement benefit obligation and expense is dependent on the management's selection of certain assumptions used by the actuary in calculating such amounts (see Note 14).

Retirement benefit expense amounted to ₱1.61 million, ₱2.38 million and ₱2.82 million in 2018, 2017 and 2016, respectively. Actuarial gain (losses) on retirement benefit plan recognized in other comprehensive income, net of tax, amounted to ₱1.42 million gain, ₱2.11 million gain and ₱1.69 million gain in 2018, 2017 and 2016, respectively. Retirement benefit obligation amounted to ₱21.75 million and ₱21.56 million as of December 31, 2018 and 2017, respectively (see Note 14).

Estimating Realizability of Deferred Tax Assets
The Company reviews the carrying amounts of its deferred tax assets at each reporting date and reduces the amounts 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 assets to be utilized. The amount of deferred tax assets that are recognized is based upon the likely timing and level of future taxable profits together with future planning strategies to which the deferred tax assets can be utilized as well as the volatility of government issuances on tax interpretations. As of December 31, 2018 and 2017, the Company's deferred tax assets amounted to ₱19.53 million and ₱27.11 million, respectively (see Note 15).

4. Cash and Cash Equivalents

	2018	2017
Cash on hand and in banks	**₱7,083,648**	₱6,959,610
Cash equivalents	**20,276,377**	20,121,064
	₱27,360,025	₱27,080,674

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods up to three months depending on the immediate cash requirements of the Company and earn interest at the respective deposit rates.

Interest income earned from cash with banks and cash equivalents amounted to ₱0.21 million, ₱0.62 million and ₱2.39 million in 2018, 2017 and 2016, respectively.

5. Trade and Other Receivables

	2018	2017
Trade receivables (see Note 18)	**₱339,974,722**	₱314,917,592
Impaired installment receivables	–	55,316,122
Advances to officers and employees and others:		
Impaired	–	226,458
Unimpaired	**3,383,491**	2,007,665
	343,358,213	372,467,837
Less allowance for impairment losses	–	55,542,580
	343,358,213	316,925,257
Less noncurrent portion of trade receivables	**181,392,613**	158,522,959
Current portion	**₱161,965,600**	₱158,402,298

Trade receivables mainly represent the Company's outstanding balance in the sale of real estate. These receivables pertain to amounts due from SLRDI and customers.

Receivables from SLRDI pertain to collections by SLRDI from customers for remittance to the Company. These are noninterest-bearing and are due on demand.

Receivables from customers consist of interest-bearing and noninterest-bearing receivables which are collectible in monthly installments over a period of one to five years. Income from interests and penalties arising from late payment of these receivables amounting to ₱25.99 million, ₱19.54 million and ₱17.27 million in 2018, 2017 and 2016, respectively, are recognized as "Interests, penalties and other income" in the "Other Income (Expense)" section in the statement of comprehensive income.

Impaired installment receivables pertain to the uncollected portion of the amount arising from the sale of non-operating properties to Platinum Group Metal Corporation (PGMC) in 2005. The contract price is collectible in fixed monthly payment of ₱2.00 million starting January 24, 2006. Installment receivables were discounted using the credit-adjusted risk-free rates prevailing at the time of the sale which resulted in an effective interest rate of 9.45%. In 2018, the Company sold these non-operating properties to Fongfu Mining and Trading Co. (FMTC) located at Poblacion, Manticao, Misamis Oriental for ₱33.00 million which was fully collected during the year resulting to a gain of ₱29.91 million, net of applicable taxes. The Company also written off its impaired installment receivables from PGMC.

Advances to officers and employees and others are noninterest-bearing receivables and are due within 12 months from the reporting date.

The movements in the allowance for impairment losses on receivables from customers determined through collective impairment assessment follow:

	2018	2017
Balances at beginning of year	**₱55,542,580**	₱55,301,290
Provision (write off)	**(55,542,580)**	241,290
Balances at end of year	**₱–**	₱55,542,580

6. **Real Estate Inventories**

This account pertains to land developed for residential subdivisions under the project agreement with SLRDI. As discussed in Note 18 to the financial statements, the Company, together with SLRDI, began their regular activities in 2005 based on their project agreement. As of December 31, 2018, the residential area of Phase 1, Phase 2, and Phase 3 are 100% completed, based on the physical completion report provided by the project's supervising engineer.

The roll-forward of this account follows:

	2018	2017
Balances at beginning of year	**₱859,601,308**	₱881,024,137
Recognized as cost of real estate sold	**(10,009,091)**	(21,422,829)
Transfer to investment property (Note 9)	**(346,337,462)**	–
Others	**1,805,950**	–
Balances at end of year	**₱505,060,705**	₱859,601,308

Based on management's evaluation, the NRV of the real estate inventories is substantially higher than its cost, accordingly, no write-down was recognized in 2018, 2017 and 2016.

The amount of real estate inventories recognized under "Cost of real estate sold" in the statements of comprehensive income amounted to ₱10.01 million, ₱21.42 million and ₱66.88 million in 2018, 2017 and 2016, respectively.

7. Land Held for Future Development

This account comprises parcels of land acquired by the Company for future real estate development.

Movements in land held for future development are set-out below:

	2018	2017
Balances at beginning of year	**₱654,148,925**	₱644,840,422
Additions	**17,138,600**	9,308,503
Reclassification to investment properties	**(671,287,525)**	(654,148,925)
Balances at end of year	**₱–**	₱–

On September 19, 2016, the Company entered into a contract for acquisition of a 580,154 sqm. land, from Insular Life Insurance Company for a total gross consideration of ₱430.47 million, inclusive of input VAT amounting to ₱46.07 million. As of December 31, 2017, the Company has already paid ₱257.51 million of the contract price. The remaining balance of ₱172.96 million is payable on installment basis over a period of four years and is recognized under "Liability for purchased land" account (see Note 12). The effect of discounting of the liability amounting to ₱20.91 million was deducted from the contract price to arrive at the cost of the acquired land.

Also in 2016, a 169,904 sqm. land is transferred from deposit for land acquisition for a consideration of ₱61.03 million from a third party. As of December 31, 2017, the Company has already paid ₱48.40 million while the remaining balance of ₱12.63 million was recognized under "Liability for purchased land" (see Notes 10 and 12).

In 2017, the Company purchased land from Paramount Finance Corporation amounting to ₱3.72 million, while the remaining portion amounting to ₱5.59 million pertains to additions made to previous lots purchased.

In compliance with PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*, land held for future development were reclassified to investment properties.

8. Property and Equipment

2018

	Office Condominium Unit	Building and Improvements	Hauling and Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Other Equipment	Total
Costs:						
Balances at beginning of year	**₱46,047,004**	**₱15,290,341**	**₱7,065,298**	**₱4,486,929**	**₱9,529,123**	**₱82,418,695**
Additions	**–**	**–**	**1,513,488**	**–**	**283,268**	**1,796,756**
Disposal	**–**	**–**	**–**	**–**	**(70,909)**	**(70,909)**
Balances at end of year	**46,047,004**	**15,290,341**	**8,578,786**	**4,486,929**	**9,741,482**	**84,144,541**
Accumulated depreciation:						
Balances at beginning of year	**36,808,696**	**14,191,067**	**6,475,889**	**4,486,929**	**8,755,236**	**70,717,817**
Depreciation	**1,841,880**	**343,218**	**638,402**	**–**	**300,135**	**3,123,635**
Disposal	**–**	**–**	**–**	**–**	**(70,909)**	**(70,909)**
Balances at end of year	**38,650,576**	**14,534,285**	**7,114,291**	**4,486,929**	**8,984,462**	**73,770,543**
Net book values	**₱ 7,396,428**	**₱756,056**	**₱1,464,495**	**₱–**	**₱757,020**	**₱10,373,999**

2017

	Office Condominium Unit	Building and Improvements	Hauling and Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Other Equipment	Total
Costs:						
Balances at beginning of year	₱46,047,004	₱15,290,341	₱11,958,448	₱4,486,929	₱9,479,749	₱87,262,471
Additions	–	–	–	–	49,374	49,374
Reclassification	–	–	(4,893,150)	–	–	(4,893,150)
Balances at end of year	46,047,004	15,290,341	7,065,298	4,486,929	9,529,123	82,418,695
Accumulated depreciation:						
Balances at beginning of year	34,966,490	13,643,008	6,638,985	4,486,929	8,429,560	68,164,972
Depreciation	1,842,206	548,059	570,877	–	325,676	3,286,818
Reclassifications	–	–	(733,973)	–	–	(733,973)
Balances at end of year	36,808,696	14,191,067	6,475,889	4,486,929	8,755,236	70,717,817
Net book values	₱9,238,308	₱1,099,274	₱589,409	₱–	₱773,887	₱11,700,878

Depreciation expense is presented as part of “General and administrative expenses” in the statements of comprehensive income.

Fully depreciated property and equipment with cost of ₱7.49 million and ₱21.42 million are still being used in operations as of December 31, 2018 and 2017, respectively.

No property and equipment were pledged as security to the Company’s obligations in 2018, 2017 and 2016.

9. Investment Property

On January 24, 2005, the Company entered into a contract of lease with PGMC for the lease of the land where the non-operating properties are located (see Note 5). The contract is for a period of 10 years subject to renewal upon mutual consent of both parties. The contract also calls for an initial payment of ₱0.60 million comprising of one month advance rental deposit and security deposit amounting to ₱0.20 million and ₱0.40 million, respectively.

The Company did not recognize the rent income from this lease arrangement in 2018, 2017 and 2016, as management assessed that it is not probable that the benefit associated with the transaction will flow to the Company. There were no restrictions on realizability of the investment property and no significant costs were incurred to maintain the investment property. There are also no obligations on the part of the Company to develop this investment property.

As of December 31, 2018 and 2017, the carrying value of investment property amounted to ₱1,023.07 million and ₱659.59 million, respectively. Details of this account follow:

	2018	2017
Investment properties:		
Balances at beginning of the year	**₱5,444,076**	₱5,444,076
Transfer from real estate inventories (Note 6)	**346,337,462**	–
	351,781,538	5,444,076
Land held for future development:		
Balances at beginning of the year	**654,148,925**	644,840,422
Additions	**17,138,600**	9,308,503
	671,287,525	654,148,925
Balances at end of year	**₱1,023,069,063**	₱659,593,001

Based on the latest appraisal report, the fair value of the investment property amounted to ₱1.544 billion. The valuation performed was made by a qualified independent appraiser. The valuation techniques were in accordance with that recommended by the International Valuation Standards Committee and in accordance with PFRSs.

This is categorized as Level 3 in the fair value hierarchy as of December 31, 2018 and 2017.

Valuation technique used and key inputs to valuation on investment property are as follows:

	Valuation technique	Significant unobservable inputs	Range
Land			
Residential	Market		₱800 - ₱375
Industrial	Data Approach/	Price per	₱1,750 - ₱600
Foreshore/beaches	Sales Comparison	square meter	₱2,500 - ₱1,800

For land, significant increases (decreases) in price per square meter would result in a significantly higher (lower) fair value of the property.

10. Deposit for Land Acquisition

Deposit for land acquisition amounted to nil and ₱4.48 million in 2018 and 2017, respectively.

In 2016, upon execution of the CTS, the Company transferred to "Investment Properties" account the deposit made to a third party in 2015 amounting to ₱33.51 million for the acquisition of a 169,904 sqm. parcel of land situated in Laoag, Ilocos Norte. The cost of the land transferred amounted to ₱61.03 million.

11. Accounts Payable and Accrued Expenses

	2018	2017
Trade payables	**₱30,473,301**	₱25,617,535
Accrued expenses	**3,963,471**	6,057,652
Others	**1,212,922**	1,330,296
	₱35,649,694	₱33,005,483

Trade payables are unsecured, noninterest-bearing and are generally due and demandable.

Accrued expenses include accruals for professional fees, utilities, salaries and wages and outside services.

Others include withholding taxes payable, SSS, Philhealth and HDMF contributions.

12. Liability for Purchased Land

This account pertains to the outstanding payable of the Company for the cost of land purchased recognized under "Investment properties". This consists of the following:

	2018	2017
Current	**₱58,156,238**	₱64,148,202
Noncurrent	**55,481,641**	110,306,123
Total	**₱113,637,879**	₱174,454,325

As discussed in Note 7, on September 19, 2016, the Company entered into a contract for acquisition of a 580,154 sqm. land from Insular Life Insurance Company for a total gross consideration of ₱430.47 million. As of December 31, 2018, the Company has already paid ₱52.38 million of the contract price. The liability pertaining to the remaining balance which is payable on installment basis over a period of four years was recorded at fair value upon initial recognition using the discounted cash flow model using the prevailing discount rate at the time of acquisition.

Details of the liability of purchased land from Insular Life Insurance Company as of December 31, 2018 follow:

Principal	₱115,305,608
Unamortized discount:	
Beginning balance	11,135,181
Amortization (see Note 21)	(5,268,597)
Ending balance	5,866,584
	109,439,024
Less noncurrent portion	55,481,641
	₱53,957,383

In 2015, the Company entered into a contract for acquisition of a 169,904 sqm. land, for a consideration of ₱61.03 million from a third party. This was initially recorded as deposit for land acquisition (see Note 10). In 2016, this was reclassified to "Investment properties" account (see Note 6). As of December 31, 2018, the Company has already paid ₱56.33 million while the remaining balance of ₱4.70 million was recognized as "Liability for purchased land".

13. Related Party Transactions

Parties are considered related parties if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and other operating decisions. Parties are considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The Company has transactions with related parties in 2018 and 2017 as follows:

Category/ Related Party	**Year**	**Transactions**	**Outstanding balance**	**Terms**	**Conditions**
Under common control					
HE Heacock Resources Corporation					
Advances	2018	**₱7,932,240**	**₱–**	Due and demandable; noninterest-bearing	Unsecured
Stockholder					
Gregorio Araneta, Inc.					
Due to related parties	2018	**(20,922,876)**	**13,805,287**	Due and demandable; noninterest-bearing	Unsecured
		₱12,990,636	**₱13,805,287**		

Category/ Related Party	Year	Transactions	Outstanding balance	Terms	Conditions
Under common control					
HE Heacock Resources Corporation					
Advances	2017	₱6,500,000	(₱7,932,240)	Due and demandable; noninterest-bearing	Unsecuredt
Stockholder					
Carmel Development, Inc.					
Due from related parties	2017	(49,114,093)	20,922,876	Due and demandable; noninterest-bearing	Unsecured; no impairment
		(₱42,614,093)	₱12,990,636		

Compensation of Key Management Personnel
Short-term compensation of key management personnel of the Company amounted to ₱4.50 million, ₱6.61 million and ₱7.60 million in 2018, 2017 and 2016, respectively.

14. Retirement Benefit Obligation

The Company has an unfunded defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on the years of service and percentage of latest monthly salary.

The defined benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement in 2018, 2017 and 2016.

The movements of retirement benefit obligation recognized in the statements of financial position are as follows:

	2018	2017
Balances at beginning of year	**₱21,555,685**	₱22,191,012
Retirement benefit expense recognized in profit or loss:		
Current service costs	**1,344,262**	1,507,972
Net interest costs	**877,590**	870,655
	2,221,852	2,378,627
Remeasurement gains recognized in other comprehensive income	**(2,024,831)**	(3,013,954)
Balances at end of year	**₱21,752,706**	₱21,555,685

The components of retirement benefit expense recognized in profit or loss are as follows:

	2018	2017	2016
Current service costs	**₱1,344,262**	₱1,507,972	₱1,753,692
Net interest costs	**877,590**	870,655	1,063,603
	₱2,221,852	₱2,378,627	₱2,817,295

The principal assumptions used in determining the defined benefit obligation are as follows:

	2018	2017	2016
Discount rate	**7.28%**	5.75%	5.31%
Salary increase rate	**5.00%**	6.70%	6.70%

The sensitivity analysis below has been determined based on reasonably possible changes to each significant assumption on the retirement benefit obligation, assuming all other assumptions are held constant:

	Increase (decrease)	Amounts	
	in basis points	2018	2017
Discount rate	+100	**(₱832,491)**	(₱997,704)
	-100	**948,760**	1,151,823
Salary increase rate	+100	**1,064,366**	1,229,275
	-100	**(954,255)**	(1,090,868)

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018:

Years	Amounts
Less than 1 year	₱12,874,007
1 year to less than 5 years	4,082,930
5 years to less than 10 years	2,248,838
10 years to less than 15 years	17,363,377
15 years to less than 20 years	2,320,995
20 years and above	16,843,956
Total	₱55,734,103

The Company does not expect to contribute to its retirement plan in 2018.

The average working life of employees as of December 31, 2018 and 2017 is 14.55 years and 13.26 years, respectively.

15. Income Taxes

The provision for current income tax represents minimum corporate income tax (MCIT) in 2018 and regular corporate income tax in 2017 and 2016.

The components of the Company's net deferred tax liability are as follows:

	2018	2017
Recognized in profit or loss:		
Deferred tax assets:		
Allowance for impairment losses	**₱–**	₱16,662,774
Retirement benefit recognized in profit or loss	**5,177,872**	5,726,215
Net operating loss carryover (NOLCO)	**10,286,250**	2,954,691
MCIT	**2,719,292**	1,024,477
	18,183,414	26,368,157
Deferred tax liability:		
Effect of difference between revenue recognized for tax and accounting	**(55,790,268)**	(48,627,078)
	(37,606,854)	(22,258,921)
Recognized in other comprehensive income:		
Remeasurement losses on defined benefit obligation	**1,347,940**	740,491
Net deferred tax liability	**(₱36,258,914)**	(₱21,518,430)

A reconciliation of the statutory income tax expense at statutory rate of 30% to the provision for income tax expense is as follows:

	2018	2017	2016
At statutory income tax rate	**₱14,186,319**	(₱3,555,340)	₱7,844,257
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	**1,705,603**	2,551,672	3,373,003
Nontaxable income	**(64,076)**	(187,821)	(715,651)
	₱15,827,846	(₱1,191,489)	₱10,501,609

Details of the tax effects of the Company's NOLCO and MCIT which are available for offset against future taxable income and income tax payable, respectively, follow:

Inception Year	NOLCO	Expired	Balance	Expiry Year
2018/2017	₱10,286,251	₱–	₱10,286,251	2021/2020

Inception Year	MCIT	Expired	Balance	Expiry Year
2018/2016	₱2,910,323	₱–	₱2,910,323	2021/2019

16. Earnings (Loss) Per Share

	2018	2017	2016
Net income (loss)	**₱31,459,884**	(₱10,659,645)	₱15,645,915
Weighted average common shares	**1,951,387,570**	1,951,387,570	1,951,387,570
Basic and diluted earnings (loss) per share	**₱0.0161**	(₱0.0055)	₱0.0080

The Company does not have any dilutive common shares outstanding, accordingly, the basic and diluted earnings per share are the same.

The weighted average number of shares takes into account the weighted average effect of changes in number of shares outstanding during the year.

17. Financial Instruments and Capital Management

General

The Company has risk management policies that systematically view the risks that could prevent the Company from achieving its objectives. These policies are intended to manage risks identified in such a way that opportunities to deliver the Company's objectives are achieved. The Company's risk management takes place in the context of day-to-day operations and normal business processes such as strategic planning and business planning. Management has identified each risk and is responsible for coordinating and continuously improving risk strategies, processes and measures in accordance with the Company's established business objectives.

Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist of cash and cash equivalents and trade and other receivables. The primary purpose of these financial instruments is to finance the Company's operations. The Company has other financial instruments such as AFS financial assets and accounts payable and accrued expenses and liability for purchased land which arise directly from its operations. The main risks arising from the Company's financial instruments are liquidity risk and credit risk.

As of December 31, 2018 and 2017, the Company has minimal exposure to any significant foreign currency risk because its financial instruments are denominated in Philippine peso, the Company's functional currency. As assessed by the management, the Company has minimal exposure to equity price risk for the AFS financial assets and as such, has no material impact to the financial statements. BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect to the Company's credit standing.

The Company seeks to manage its liquid funds through cash planning on a monthly basis. The Company uses historical figures and experiences and forecasts from its collection and disbursement.

The following tables summarize the maturity profile of the Company's financial assets held for liquidity purposes based on contractual and undiscounted receivables and financial liabilities based on contractual and undiscounted payables.

2018

	On demand	**Within 1 year**	**More than 1 year**	**Total**
Financial assets:				
Cash and cash equivalents	**27,306,779**	**–**	**–**	**27,306,779**
Trade and other receivables[1]	**–**	**161,965,600**	**181,392,613**	**343,358,213**
	27,306,779	**161,965,600**	**181,392,613**	**370,664,992**
Financial liabilities:				
Accounts payable and accrued expenses[2]	**(35,278,808)**	**–**	**–**	**(35,278,808)**
Liability for purchased land	**–**	**(58,156,238)**	**(55,481,641)**	**(113,637,879)**
Due to related parties	**(13,805,287)**	**–**	**–**	**(13,805,287)**
	(49,084,095)	**(58,156,238)**	**(55,481,641)**	**(162,721,974)**
Net financial assets (liabilities)	**(₱21,777,316)**	**₱103,809,362**	**₱125,910,972**	**₱207,943,018**

[1] Excluding impaired receivables.
[2] Excluding withholding taxes and other statutory tax liabilities.

2017

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash and cash equivalents	27,048,393	–	–	27,048,393
Trade and other receivables[1]	–	158,402,298	158,522,959	316,925,257
Due from related parties	20,922,876	–	–	20,922,876
	47,971,269	158,402,298	158,522,959	364,896,526
Financial liabilities:				
Accounts payable and accrued expenses[2]	(32,517,223)	–	–	(32,517,223)
Liability for purchased land	–	(64,148,202)	(110,306,123)	(174,454,325)
	(32,517,223)	(64,148,202)	(110,306,123)	(206,971,548)
Net financial assets (liabilities)	₱15,454,046	₱94,254,096	₱48,216,836	₱157,924,978

[1] Excluding impaired receivables.
[2] Excluding withholding taxes and other statutory tax liabilities.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The credit risk of the Company is controlled by the approvals, limits and monitoring procedures. It is the Company's policy to enter into transactions with creditworthy parties to mitigate any significant concentration of credit risk. The Company ensures that credit transactions are made with parties with appropriate credit history and has internal mechanism to monitor granting of credit and management of credit exposures. The Company's maximum exposure to credit risk is equal to the carrying amounts of its financial assets (excluding cash on hand) amounting to ₱370.66 million and ₱364.90 million as of December 31, 2018 and 2017, respectively. Except for impaired receivables amounting to ₱55.54 million as of December 31, 2017, the Company's financial assets are neither

past due nor impaired as of December 31, 2017. The Company's financial assets are neither past due nor impaired as of December 31, 2018.

Receivables that are neither past due nor impaired are due from creditworthy counterparties with good payment history with the Company. Such receivables are collectible and in good standing as assessed by the Company's management.

Cash with banks and short-term investments are deposits and investments, respectively, made with reputable banks duly approved by the BOD. As such, cash and cash equivalents are assessed by Management as high grade.

Capital Management

The Company considers the following items in the statements of financial position as its core capital:

	2018	2017
Capital stock	**₱1,951,387,570**	₱1,951,387,570
Additional paid-in capital	**201,228,674**	201,228,674
Deficit	**(379,756,762)**	(411,216,644)
	₱1,772,859,482	₱1,741,399,600

The primary objective of the Company's capital management is to ensure that it maintains a strong credit standing and stable capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2018, 2017 and 2016.

Below is the Company's track record of registration of securities under the Securities Regulation Code of the SEC:

Date of Registration (SEC Approval)	Description	Number of shares (in 000's)	Par value per share	Total amount (in 000's)
1988	Capital upon registration:			
	Class A	30,000,000	₱0.01	₱300,000
	Class B	20,000,000	0.01	200,000
		50,000,000		500,000
1992	Decrease in authorized capital stock and change of par value from ₱0.01 to ₱1.00			
	Class A	150,000	1.00	150,000
	Class B	100,000	1.00	100,000
		250,000		250,000

(Forward)

Date of Registration (SEC Approval)	Description	Number of shares (in 000's)	Par value per share	Total amount (in 000's)
1994	Change of par value from ₱1.00 to ₱0.30			
	Class A	150,000	₱0.30	₱45,000
	Class B	100,000	0.30	30,000
		250,000		75,000
1995	Increase in authorized capital stock and removal of classification of shares of stock	1,000,000	0.30	300,000
1996	Increase in authorized capital stock and change of par value from ₱0.30 to ₱1.00	5,000,000	1.00	5,000,000
Total authorized capital		5,000,000	₱1.00	₱5,000,000

As of December 31, 2018, there are 2,155 shareholders who hold 1,951,387,570 shares in the Company.

Fair Value and Categories of Financial Instruments

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	2018		2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Trade receivables	**₱181,392,613**	**₱181,392,613**	₱158,522,959	₱158,522,959
Equity instruments	**4,231,898**	**4,231,898**	2,490,000	2,490,000
	₱185,624,511	**₱185,624,511**	₱161,012,959	₱161,012,959
Liability for purchased land	**₱113,637,879**	**₱113,637,879**	₱174,454,325	₱174,454,325

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents, Other Receivables, Due from Related Parties, and Accounts Payable and Accrued Expenses

The carrying amounts of these financial instruments approximate fair values due to the short-term nature of these financial instruments.

Noncurrent Trade Receivables

Fair value is based on discounted value of future cash flows using the prevailing interest rates for similar types of receivables as of the reporting date using the remaining terms of maturity. This is classified under level 3 of the fair value hierarchy.

Equity Instruments

Equity instruments are carried at fair value. The fair values of AFS financial assets are based on the quoted market prices. This is classified under level 2 of the fair value hierarchy.

Liability for Purchased Land
Fair value of liability for purchased land is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. This is classified under level 3 of the fair value hierarchy.

In 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.

18. Project Agreement with SLRDI

The Company together with SLRDI began their activities based on their agreement dated June 5, 2003. Under the agreement, SLRDI will develop and sell certain parcels of land owned by the Company at its own cost. The Company is responsible for the delivery of the parcels of land free from liens and encumbrances including any claims of tenants or third parties and from any form of litigation. The project shall consist of the development of an exclusive mixed-use residential-commercial subdivision with a country club. Once developed, the property will be shared by the parties either through cash or lot overrides. The Company shall receive 40% of the net sales proceeds, in case of cash override, or 40% of the saleable lots, in case of a lot override, while SLRDI shall receive 60% of the net sales proceeds or the saleable lots. The Company opted to receive its share through a combination of cash override and lot override.

On April 27, 2006, SLRDI's application to obtain license to sell from the Housing and Land Use Regulatory Board was approved.

On January 29, 2013, SLRDI assigned its rights and interests over the sales proceeds from the sales of saleable area in Phase 3 to Sta. Lucia Land, Inc. The latter assumes the responsibility of collecting payments or amortizations and undertakes to remit the Company's share from the sales proceeds.

As at December 31, 2018, the project has been substantially completed.

The Company presently derives its revenue and the related costs solely from the sale of real estate under this joint operation. The Management uses 20% of the contract price as the collection threshold before a sale is recognized.

The Company's unsold real estate inventories amounting to ₱505.06 million and ₱859.60 million and trade receivables amounting to ₱339.97 million and ₱314.92 million as of December 31, 2018 and 2017, respectively, pertains to its share in the assets of the joint operation.

Sale of real estate and cost of real estate sold recognized amounted to ₱62.51 million and ₱10.01 million, respectively, in 2018, ₱60.97 million and ₱21.42 million, respectively, in 2017 and ₱134.88 million and ₱66.88 million, respectively, in 2016.

19. Contingencies

In the ordinary course of business, the Company has pending claims/assessments which are in various stages of discussion/protest/appeal with relevant third parties. Management believes that the bases of the Company's position are legally valid such that the ultimate resolution of these claims/assessments would not have a material effect on the Company's financial position and results of operations. No provision is recognized as the criteria under PAS 37 have not been met based on management's assessment.

20. Segment Reporting

The Company has only one reportable segment that sells only one product line.

All segment revenues are derived from external customers. The Company sells real estate properties. No specific customer pass the concentration threshold.

Operating results of the Company are regularly reviewed by the Company's Chief Operating Decision Maker, who is the Company's Chief Executive Officer, to make decisions about resources to be allocated to the segment and assess its performance. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the presentation and classification in the statements of comprehensive income.

The Company has only one geographical segment as all of its assets are located in the Philippines.

21. Other Matters

Note to Statement of Cash Flows
The following are noncash investing activities in 2016:

- Transfer from "Deposit for land acquisition" to "Investment properties" amounting to ₱33.51 million.
- Unpaid additions to "Investment properties" recorded under "Liability for purchased land" amounting to ₱228.83 million.

There are no noncash investing activities in 2017.

In 2018, noncash investing activity is:

- Transfer from "Deposit for land acquisition" to "Investment properties" amounting to ₱4.48 million.

In 2018 and 2017, the movements in the financing activity pertain to the advances made by/to the related parties to/by the Company for funding purposes and the payment for the liability of the purchased land. There are no noncash financing activities incurred during the year.

Interest Expense
Interest expense consists of amortization of discount liability for purchased land amounting to ₱5.27 million and ₱7.39 million in 2018 and 2017, respectively (see Note 12).

22. Supplementary Tax Information Required under Revenue Regulations (RR) 15-2010

The Company reported and/or paid the following types of taxes in 2017:

VAT

a. The Company is VAT-registered with taxable sale of goods amounting to ₱76,115,762 with a corresponding output VAT of 12% amounting to ₱9,133,891.

   The Company's income that are subject to VAT are based on actual collections received, hence, may not be the same as the amounts recognized in the 2018 statement of comprehensive income. The Company's VAT exempt sales arise from the sale of real properties from the Company's project agreement with SLRDI.

   RA No. 8424, Tax Reform Act of 1997, Title IV, Chapter 1, Section 109(p) specified that sale of residential lot amounting to ₱1,500,000 and below for purposes of computing VAT are VAT exempt transactions and therefore, will not be subject to VAT. Provided, however that not later than January 31, 2009 and every three (3) years thereafter, the amounts stated herein shall be adjusted to its present value using the Consumer Price Index, as published by the National Statistics Office (NSO) and that such adjustment shall be published through revenue regulations to be issued not later than March 31 of each year.

   Per RR 3-2013, the adjustment in computing VAT resulted in a revised threshold amounting to ₱1,919,500 effective January 1, 2013.

b. Input VAT

   The amount of input VAT claimed are broken down as follows:

Balance at January 1, 2018	₱80,766,411
Domestic purchases/payments for:	
Goods for resale or manufacture	4,339,270
Services lodged under other accounts	887,074
Balance at December 31, 2018	₱85,992,755

Other Taxes and Licenses

The following are the details of the Company's taxes and licenses:

A. Local	
Business taxes	₱3,595,095
Real estate taxes	3,418,980
Licenses, permits and fees	7,044
Community tax certificate	10,500
Others	2,875,489
B. National	
Annual registration	361,933
	₱10,269,041

Withholding Taxes

The amount of withholding taxes paid/accrued for the year amounted to:

Withholding taxes on compensation and benefits	₱191,409
Expanded withholding taxes	51,948
	₱243,357

Tax Assessment and Cases

As at December 31, 2018, the Company has no pending final assessment notices. The Company is not aware of any tax case under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

SGV
Building a better
working world

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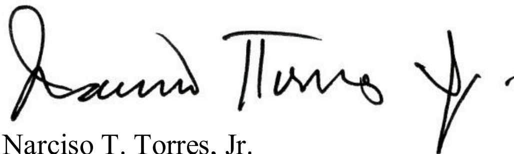
BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Board of Directors and the Stockholders
Araneta Properties, Inc.
21st Floor, Citibank Tower
Paseo de Roxas, Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Araneta Properties, Inc. 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 April 15, 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 the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with 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 information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-AR-1 (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332621, January 3, 2019, Makati City

April 15, 2019

ARANETA PROPERTIES, INC.
INDEX TO THE FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES

FINANCIAL STATEMENTS

Statements of Financial Position as of December 31, 2018 and December 31, 2017.

Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017 and 2016.

Statements of Changes in Equity for the Years Ended December 31, 2018, 2017 and 2016.

Statements of Cash flows for the Years Ended December 31, 2018, 2017 and 2016.

SUPPLEMENTARY SCHEDULES

Report of Independent Auditors on Supplementary Schedules

I. Supplementary schedules required by Annex 68-E

A. Marketable Securities (Current Marketable Equity Securities and Other Short-Term Cash Investments)

B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

C. Non-current Marketable Equity Securities, Other Long-term Investments In Stock and Other Investments

D. Intangible Assets - Other Assets

E. Long Term and Short Term Loan

F. Indebtedness to Related Parties (Long-term Loans from Related Parties)

G. Guarantees of Securities of Other Issuer

H. H.1 Capital Stock

H.2 Capital Stock Track Record

J. J.1 Security Ownership of Certain Beneficial Owners and Management

J.2 Ownership Held by CEO and Four Highly Compensated Executive Officers

K. Supplemental Statements of Financial Report

II. Schedule of all of the effective standards and interpretations

SCHEDULE A

ARANETA PROPERTIES, INC.

SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS

DECEMBER 31, 2018

	Amount shown in the statement of financial position	Income received or accrued
Cash and cash equivalents	**₱27,360,025**	₱213,586
Trade and other receivables	**339,974,722**	25,989,105
Advances to officers and employees	**3,383,491**	–
	₱370,718,238	₱26,202,691

SCHEDULE B

ARANETA PROPERTIES, INC.

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

DECEMBER 31, 2018

Name and Designation of debtor	Balance at beginning of year	Additions	Amounts collected	Current	Not Current	Balance at the end of the year
Officers and Employees	₱310,819	₱1,267,210	₱949,727	₱628,302	₱–	₱628,302

SCHEDULE C

ARANETA PROPERTIES, INC.

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

DECEMBER 31, 2018

	Receivable Balance	Payable Balance	Current Portion
	N/A		

SCHEDULE D

ARANETA PROPERTIES, INC.

SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS

DECEMBER 31, 2018

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
			N/A			

SCHEDULE E

ARANETA PROPERTIES, INC.

SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT

DECEMBER 31, 2018

Long-term Debt

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term debt" in related statement of financial position	Amount shown under caption "long-term debt" in related statement of financial position

N/A

ARANETA PROPERTIES, INC.

SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2018

Indebtedness to related parties (Long-term loans from Related Companies)

Name of related party	Balance at beginning of year	Balance at end of year
	N/A	

ARANETA PROPERTIES, INC.

SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2018

Guarantees of Securities of Other Issuers				
Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee
		N/A		

ARANETA PROPERTIES, INC.

SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK
DECEMBER 31, 2018

Capital Stock

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Capital Stock	5,000,000,000	1,951,387,570	–	1,026,277,497	10	–

SCHEDULE I

ARANETA PROPERTIES, INC.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2018

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		**(₱411,216,644)**
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Earnings		₱31,459,882
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)	–	
Unrealized actuarial gain		
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	–	
Sub-total	–	31,459,882
Add: Non-actual/Unrealized 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)	–	
	–	
Net Income Actual/Realized		31,459,882
Add(Less):		
Dividend declarations during the period	–	
Appropriations of Retained Earnings during the period	–	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		**(₱379,756,762)**

SCHEDULE J

ARANETA PROPERTIES, INC.

SCHEDULE OF FINANCIAL RATIOS

DECEMBER 31, 2018

Financial ratios	2018	2017 (As restated)
Current/Liquidity Ratios		
Current Assets	776,297,856	1,153,385,758
Current Liabilities	107,611,219	97,153,685
Current Ratios	**7.21**	**11.87**
Current Assets	776,297,856	1,153,385,758
Less: Real Estate Inventories	505,060,705	859,601,308
Quick Assets	271,237,151	293,784,450
Current Liabilities	107,611,219	97,153,685
Quick Ratios	**2.52**	**3.02**
Solvency/ debt-to-equity ratios		
Debt	113,637,879	174,454,325
Equity	1,774,260,949	1,739,641,788
Debt-to-Equity	**0.06**	**0.10**
Debt	113,637,879	174,454,325
Cash and Cash Equivalents	27,360,025	27,080,674
Net Debt	86,277,854	147,373,651
Equity	1,774,260,949	1,739,641,788
Net Debt-to-Equity	**0.05**	**0.08**
Asset to Equity Ratios		
Total Assets	1,995,365,429	1,990,175,711
Total Equity	1,774,260,949	1,739,641,788
Asset to Equity Ratio	**1.12**	**1.14**
Liabilities to Equity Ratios		
Total Liabilities	221,104,480	250,533,923
Total Equity	1,774,260,949	1,739,641,788
Liability to Equity Ratio	**0.12**	**0.14**

Financial ratios	2018	2017 (As restated)
Interest rate coverage ratio		
Net income (loss)	31,459,882	(10,659,645)
Add:		
Provision for (benefit from) income tax	15,827,846	(1,191,489)
Interest expense	5,268,597	7,390,895
EBIT	52,556,325	(4,460,239)
Interest expense	5,268,597	7,390,895
	9.98	**(0.60)**
Profitability ratios		
Net income (loss)	31,459,882	(10,659,645)
Revenue	62,512,270	60,971,337
Net Income (Loss) Margin	**0.50**	**(0.17)**
Net income after tax	**31,459,882**	**(10,659,645)**
Total Asset CY	1,995,365,429	1,990,175,711
Total Asset PY	1,990,175,711	2,054,970,626
Average total asset	**1,992,770,570**	**2,022,573,169**
Return on Asset	**1.58%**	**(0.52%)**
Total Annualized Net Income after tax	**31,459,882**	**(10,659,645)**
Total Equity CY	1,774,260,949	1,739,641,788
Total Equity PY	1,739,641,788	1,748,101,665
Average total equity	**1,756,951,369**	**1,743,871,727**
Return on Equity	**1.79%**	**(0.61%)**

SCHEDULE K

ARANETA PROPERTIES, INC.

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES

DECEMBER 31, 2018

N/A

ARANETA PROPERTIES, INC.

SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS AS OF DECEMBER 31, 2018

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code 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 prescribed the additional schedule requirements for large entities showing a list of all effective standards and interpretations under Philippine Financial Reporting Standards (PFRS).

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		**Adopted**	**Not Adopted**	**Not Applicable**
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements			✓
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 38	Intangible Assets			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease			✓
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies	✓		
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2018**		**Adopted**	**Not Adopted**	**Not Applicable**
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

Standards tagged as “Not applicable” have been adopted by the Company but have no significant covered transactions for the year ended December 31, 2018.

Standards tagged as “Not adopted” are standards issued but not yet effective as of December 31, 2018. The Company will adopt the Standards and Interpretations when these become effective.