

# COVER SHEET

for

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	6	1	3	8	7	0
---	---	---	---	---	---	---	---	---	---	---

### COMPANY NAME

A	R	E	I	T	,		I	N	C	.		(	F	o	r	m	e	r	l	y		O	n	e		D	e	l	a		
	R	o	s	a			P	r	o	p	e	r	t	y			D	e	v	e	l	o	p	m	e	n	t	,		I	n
c	.	)																													

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

2	8	t	h		F	l	o	o	r	,		T	o	w	e	r		O	n	e		a	n	d		E	x	c	h
a	n	g	e		P	l	a	z	a	,		A	y	a	l	a		T	r	i	a	n	g	l	e	,		A	y
a	l	a		A	v	e	n	u	e	,		M	a	k	a	t	i		C	i	t	y							

Form Type

A	A	F	S
---	---	---	---

Department requiring the report

S	E	C	
---	---	---	--

Secondary License Type, If Applicable

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

### COMPANY INFORMATION

Company's Email Address

[alzona.elaine@ayalaland.com.ph](mailto:alzona.elaine@ayalaland.com.ph)

Company's Telephone Number

Mobile Number

N/A

No. of Stockholders

9

Annual Meeting (Month / Day)

4/14

Fiscal Year (Month / Day)

12/31

### CONTACT PERSON INFORMATION

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

Name of Contact Person

Elaine Marie F. Alzona

Email Address

[alzona.elaine@ayalaland.com.ph](mailto:alzona.elaine@ayalaland.com.ph)

Telephone Number/s

Mobile Number

N/A

### CONTACT PERSON'S ADDRESS

28th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, 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.



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors  
AREIT, Inc.  
28th Floor, Tower One and Exchange Plaza  
Ayala Triangle, Ayala Avenue, Makati City

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of AREIT, Inc. (formerly One Dela Rosa Property Development, Inc.) (the Company), which comprise the statements of financial position as at December 31, 2019, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, 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, 2019, 2018 and 2017, and its financial performance and its cash flows for the years then ended 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.

#### 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.

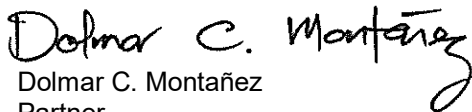
As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 auditors' 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.

SYCIP GORRES VELAYO & CO.



Dolmar C. Montañez  
Partner

CPA Certificate No. 112004

SEC Accreditation No. 1561-AR-1 (Group A),

January 31, 2019 valid until January 30, 2022

Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8125272, January 7, 2020, Makati City

March 19, 2020




## INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors  
AREIT, Inc.  
28th Floor, Tower One and Exchange Plaza  
Ayala Triangle, Ayala Avenue, Makati City

We have audited the financial statements of AREIT, Inc. (formerly One Dela Rosa Property Development, Inc.) (the Company) as at December 31, 2019, 2018 and 2017 and for the years then ended, on which we have rendered the attached report dated March 19, 2020.

In compliance with Revised Securities Regulation Code Rule No. 68, we are stating that the Company has two (2) stockholders owning 100 or more shares each.

SYCIP GORRES VELAYO & CO.



Dolmar C. Montañez  
Partner

CPA Certificate No. 112004  
SEC Accreditation No. 1561-AR-1 (Group A),  
January 31, 2019 valid until January 30, 2022  
Tax Identification No. 925-713-249  
BIR Accreditation No. 08-001998-119-2019,  
January 28, 2019, valid until January 27, 2022  
PTR No. 8125272, January 7, 2020, Makati City

March 19, 2020



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE**

The Stockholders and Board of Directors  
AREIT, Inc.  
28th Floor, Tower One and Exchange Plaza,  
Ayala Triangle, Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of AREIT, Inc. (formerly One Dela Rosa Property Development, Inc.) (the Company) as at December 31, 2019, 2018 and 2017 and for the years then ended and have issued our report thereon dated March 19, 2020. 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 purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Dolmar C. Montañez  
Partner

CPA Certificate No. 112004  
SEC Accreditation No. 1561-AR-1 (Group A),  
January 31, 2019 valid until January 30, 2022  
Tax Identification No. 925-713-249  
BIR Accreditation No. 08-001998-119-2019,  
January 28, 2019, valid until January 27, 2022  
PTR No. 8125272, January 7, 2020, Makati City

March 19, 2020



## **INDEPENDENT AUDITOR'S REPORT COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Stockholders and Board of Directors  
AREIT, Inc.  
28th Floor, Tower One and Exchange Plaza,  
Ayala Triangle, Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of AREIT, Inc. (formerly One Dela Rosa Property Development, Inc.) (the Company) as at December 31, 2019, 2018 and 2017 and for the years then ended and have issued our report thereon dated March 19, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019, 2018 and 2017 and for the years then ended and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez  
Partner  
CPA Certificate No. 112004  
SEC Accreditation No. 1561-AR-1 (Group A),  
January 31, 2019 valid until January 30, 2022  
Tax Identification No. 925-713-249  
BIR Accreditation No. 08-001998-119-2019,  
January 28, 2019, valid until January 27, 2022  
PTR No. 8125272, January 7, 2020, Makati City

March 19, 2020



**AREIT, INC.**  
**(Formerly One Dela Rosa Property Development, Inc.)**

**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash (Notes 4 and 20)	<b>₱122,180,606</b>	₱26,129,103	₱17,168,024
Receivables (Notes 5 and 20)	<b>1,994,499,843</b>	2,010,998,343	447,646,526
Other current assets (Note 6)	<b>157,602,667</b>	118,498,358	73,316,117
Total Current Assets	<b>2,274,283,116</b>	2,155,625,804	538,130,667
<b>Noncurrent Assets</b>			
Noncurrent portion of receivables (Notes 5 and 20)	<b>2,556,978,813</b>	209,417,570	86,773,563
Investment properties (Note 7)	<b>6,192,374,393</b>	8,188,049,035	1,155,750,359
Property and equipment (Note 8)	<b>20,089</b>	51,493	115,655
Deferred tax assets - net (Note 18)	<b>—</b>	24,693,950	23,202,995
Other noncurrent assets (Note 6)	<b>968,057,313</b>	1,001,815,948	192,509,107
Total Noncurrent Assets	<b>9,717,430,608</b>	9,424,027,996	1,458,351,679
	<b>₱11,991,713,724</b>	₱11,579,653,800	₱1,996,482,346
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts and other payables (Notes 9 and 20)	<b>₱274,477,842</b>	₱345,208,031	₱54,085,373
Current portion of deposits and other liabilities (Notes 11 and 20)	<b>166,793,502</b>	30,521,231	9,154,209
Income tax payable	<b>71,241,649</b>	58,587,947	21,351,451
Construction bonds (Notes 10 and 20)	<b>11,105,498</b>	2,738,439	2,799,751
Total Current Liabilities	<b>523,618,491</b>	437,055,648	87,390,784
<b>Noncurrent Liabilities</b>			
Deposits and other liabilities - net of current portion (Notes 11 and 20)	<b>600,134,138</b>	641,982,196	248,215,008
Deferred tax liabilities - net (Note 18)	<b>67,232,321</b>	—	—
Total Noncurrent Liabilities	<b>667,366,459</b>	641,982,196	248,215,008
Total Liabilities	<b>1,190,984,950</b>	1,079,037,844	335,605,792
<b>Equity (Note 12)</b>			
Paid-up capital	<b>10,451,224,050</b>	10,451,224,050	1,636,224,000
Treasury shares	<b>(673,299,700)</b>	(673,299,700)	(653,299,700)
Retained earnings	<b>1,022,804,424</b>	722,691,606	677,952,254
Total Equity	<b>10,800,728,774</b>	10,500,615,956	1,660,876,554
	<b>₱11,991,713,724</b>	₱11,579,653,800	₱1,996,482,346

See accompanying Notes to Financial Statements.



**AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)****STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>REVENUE</b>			
Rental income (Notes 7, 13 and 17)	<b>₱1,323,922,868</b>	₱696,017,710	₱551,966,359
Dues (Notes 7 and 14)	<b>192,320,957</b>	169,314,125	146,235,433
	<b>1,516,243,825</b>	865,331,835	698,201,792
<b>COSTS AND EXPENSES</b>			
Direct operating expenses (Notes 7 and 16)	<b>436,017,048</b>	181,014,314	145,442,372
General and administrative expenses (Note 16)	<b>14,181,546</b>	4,174,082	5,714,070
	<b>450,198,594</b>	185,188,396	151,156,442
<b>OTHER INCOME (CHARGES) - Net</b>			
Gain under finance lease (Notes 15 and 17)	<b>397,139,330</b>	—	—
Interest income (Notes 4, 15 and 19)	<b>105,099,448</b>	17,172,535	10,055,681
Interest expense (Notes 11 and 16)	<b>(12,562,538)</b>	(16,810,309)	(4,015,867)
Other income (Note 15)	<b>137,200</b>	357,743	576,752
	<b>489,813,440</b>	719,969	6,616,566
<b>INCOME BEFORE INCOME TAX</b>	<b>1,555,858,671</b>	680,863,408	553,661,916
<b>PROVISION FOR INCOME TAX</b> (Note 18)	<b>294,448,184</b>	143,772,034	106,881,155
<b>NET INCOME</b>	<b>1,261,410,487</b>	537,091,374	446,780,761
<b>OTHER COMPREHENSIVE INCOME</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱1,261,410,487</b>	₱537,091,374	₱446,780,761
<b>Basic/Diluted Earnings Per Share</b> (Note 21)	<b>₱1.29</b>	₱3.16	₱4.64

*See accompanying Notes to Financial Statements.*



**AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)****STATEMENTS OF CHANGES IN EQUITY**

	Years Ended December 31		
	2019	2018	2017
<b>PAID-UP CAPITAL</b> (Note 12)			
<b>Common Shares</b> - ₱10 par value in 2019 and 2018 and ₱1 par value in 2017			
Balance at beginning and end of year	<b>₱10,451,224,050</b>	₱12,924,300	₱12,924,300
Conversion of preferred shares	–	1,623,299,700	–
Issuance of new shares	–	8,815,000,050	–
Balance at end of year	<b>10,451,224,050</b>	10,451,224,050	12,924,300
<b>Preferred Shares</b> - ₱1 par value			
Balance at beginning of year	–	1,623,299,700	1,623,299,700
Conversion to common shares	–	(1,623,299,700)	–
Issuance of new shares	–	–	–
Balance at end of year	–	–	1,623,299,700
	<b>10,451,224,050</b>	10,451,224,050	1,636,224,000
<b>TREASURY SHARES</b> (Note 12)			
Balance at beginning of year	<b>(673,299,700)</b>	(653,299,700)	(633,299,700)
Redemption of shares	–	(20,000,000)	(20,000,000)
Balance at end of year	<b>(673,299,700)</b>	(673,299,700)	(653,299,700)
<b>RETAINED EARNINGS</b> (Note 12)			
Balance at beginning of year	<b>722,691,606</b>	677,952,254	593,671,493
Total comprehensive income/Net income	<b>1,261,410,487</b>	537,091,374	446,780,761
Share issuance costs	–	(108,352,022)	–
Cash dividends	<b>(961,297,669)</b>	(384,000,000)	(362,500,000)
Balance at end of year	<b>1,022,804,424</b>	722,691,606	677,952,254
	<b>₱10,800,728,774</b>	₱10,500,615,956	₱1,660,876,554

See accompanying Notes to Financial Statements.



**AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)****STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱1,555,858,671</b>	₱680,863,408	₱553,661,916
Adjustments for:			
Depreciation (Notes 7, 8 and 16)	<b>190,607,039</b>	76,009,715	47,322,616
Interest expense (Notes 11 and 16)	<b>12,562,538</b>	16,810,309	4,015,867
Gain under finance lease (Note 17)	<b>(397,139,330)</b>	–	–
Interest income (Notes 4, 15 and 19)	<b>(105,099,448)</b>	(17,172,535)	(10,055,681)
Operating income before working capital changes	<b>1,256,789,470</b>	756,510,897	594,944,718
Changes in operating assets and liabilities:			
Increase in:			
Receivables	<b>(262,130,803)</b>	(179,870,857)	(41,003,877)
Other assets	<b>(5,345,676)</b>	(854,489,082)	(24,313,679)
Increase (decrease) in:			
Accounts and other payables	<b>(79,193,659)</b>	205,735,959	(27,634,109)
Deposits and other liabilities	<b>81,861,675</b>	(9,990,617)	13,904,290
Construction bonds	<b>8,367,056</b>	(61,309)	(761,531)
Cash generated from (used in) operations	<b>1,000,348,063</b>	(82,165,009)	515,135,812
Interest received	<b>58,261,841</b>	17,172,535	10,055,681
Income tax paid	<b>(189,868,211)</b>	(108,026,492)	(104,032,309)
Net cash flows provided by (used in) operating activities	<b>868,741,693</b>	(173,018,966)	421,159,184
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (increase) in due from related parties (Notes 19 and 23)	<b>199,000,000</b>	(1,097,810,451)	(49,875,945)
Payments for additions to:			
Investment properties (Note 7)	<b>(10,392,521)</b>	(7,022,857,532)	(4,240,980)
Property and equipment (Note 8)	–	–	(40,179)
Net cash flows provided by (used in) investing activities	<b>188,607,479</b>	(8,120,667,983)	(54,157,104)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of dividends (Note 12)	<b>(961,297,669)</b>	(384,000,000)	(362,500,000)
Net proceeds from issuance of shares (Note 12)	–	8,706,648,028	–
Redemption of shares (Note 12)	–	(20,000,000)	(20,000,000)
Net cash flows provided by (used in) financing activities	<b>(961,297,669)</b>	8,302,648,028	(382,500,000)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>96,051,503</b>	8,961,079	(15,497,920)
<b>CASH AT BEGINNING OF YEAR</b>	<b>26,129,103</b>	17,168,024	32,665,944
<b>CASH AT END OF YEAR (Note 4)</b>	<b>₱122,180,606</b>	₱26,129,103	₱17,168,024

See accompanying Notes to Financial Statements.



**AREIT, INC.**  
**(Formerly One Dela Rosa Property Development, Inc.)**

---

**NOTES TO FINANCIAL STATEMENTS**

---

**1. Corporate Information**

AREIT, Inc. (formerly One Dela Rosa Property Development, Inc.) (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 4, 2006 with a corporate life of 50 years. The Company was organized primarily to engage in the business of a real estate investment trust, as provided under Republic Act No. 9856 (the Real Estate Investment Trust Act of 2009), including its implementing rules and regulations and other applicable laws, which business includes the following: (1) to own, invest in, purchase, acquire, hold, possess, lease, construct, develop, alter, improve, operate, manage, administer, sell, assign, convey, encumber, in whole or in part, or otherwise deal in and dispose of, income-generating real estate, whether freehold or leasehold, within or outside the Philippines with or to such persons and entities and under such terms and conditions as may be permitted by law; (2) to invest in, purchase, acquire own, hold, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real estate and managed funds; (3) to receive, collect and dispose of the rent, interest, dividends and income rising from its property and investments; and (4) to exercise, carry on or undertake such other powers, acts, activities and transactions as may be deemed necessary, convenient or incidental to or implied from the purposes herein mentioned.

In 2018, the Company became 90.15%-owned by Ayala Land Inc. (ALI) and 9.85%-owned by AyalaLand Offices, Inc. (ALOI) after the additional capital subscription from ALI (see Note 12). Previously, the Company was a wholly owned subsidiary of ALOI.

ALOI is a wholly owned subsidiary of ALI. ALI's parent is Ayala Corporation (AC). AC is 47.33%-owned by Mermac, Inc. and the rest by the public. Both ALI and AC are publicly listed companies domiciled and incorporated in the Philippines.

The Company's registered office address and principal place of business is 28th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

The operational and administrative functions of the Company are handled by ALI (see Note 19).

On September 26, 2018, the Board of Directors (BOD) approved the acquisition of the Ayala North Exchange (ANE) property from ALI through execution of a deed of assignment (see Notes 7 and 19).

On April 12, 2019, the SEC approved the change in the Company's name from One Dela Rosa Property Development, Inc. to AyalaLand REIT, Inc. Subsequently, on June 28, 2019, the SEC further approved the change in the Company's name from AyalaLand REIT, Inc. to AREIT, Inc.

The accompanying financial statements were approved and authorized for issue by the BOD on March 19, 2020.

---

**2. Summary of Significant Accounting Policies**

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (₱), which is also the Company's functional currency. All amounts are rounded to the nearest peso unit unless otherwise indicated.

The accompanying financial statements of the Company have been prepared for inclusion in the prospectus in relation to a planned capital-raising activity.



#### Statement of Compliance

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

#### Changes in Accounting Policies and Disclosures

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, 2019. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- 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 and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. 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 also be required to remeasure the lease liability upon the occurrence of certain events. 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 adopted PFRS 16 using the modified retrospective approach with the date of initial application of January 1, 2019. Under this method, the Company does not restate comparative figures, which continues to be presented under PAS 17, *Leases*. Instead, the cumulative effect of initially applying the standard, if any, is recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate at the date of initial application (i.e., January 1, 2019). The Company elected to use the transition's practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying PAS 17 at the date of initial application.

The adoption of PFRS 16 did not have significant impact to the statement of financial position as at January 1, 2019, and financial performance and cash flows of the Company for the year ended December 31, 2019 since the lease payments of the Company to the lessors under its existing lease contracts are purely variable which are linked to the future performance or use of the underlying assets. Accordingly, the Company did not recognize a right-of-use asset and lease liabilities in accordance with PFRS 16.

- 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

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Based on the Company's assessment, it has no material uncertain tax treatments. Accordingly, the adoption of this Interpretation has no significant impact on the financial statements.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs 2015-2017 Cycle*
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

#### Standards and Interpretations Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements.

#### *Effective beginning on or after January 1, 2020*

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

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

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

- 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.

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

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

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

These amendments are not applicable to the Company.

*Deferred effectivity*

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

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

Current and Noncurrent Classification

The Company presents assets and liabilities in the statements of financial position based on a current and noncurrent 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 period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- 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 noncurrent.

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

#### Cash

Cash includes cash on hand and in banks. Cash in banks are stated at face amounts and earn interest at the prevailing bank deposit rates.

#### Significant accounting policy on January 1, 2018

#### Financial Instruments

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

#### *Financial assets*

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. With the exception of 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 its transaction price.

In order for a debt financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that passes the 'solely payments of principal and interest' on the principal amount outstanding (SPPI criterion). 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 refer 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 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

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

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

### Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Company. 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; 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.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include cash in banks and receivables.

The Company has no financial assets under FVOCI with or without recycling and FVTPL categories.

### Financial liabilities

#### Initial recognition and measurement

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

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

The Company's financial liabilities include accounts and other payables, security deposits and construction bonds.

#### Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

#### Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in profit or loss. This category generally applies to accounts and other payables, deposits and other liabilities.



## Derecognition of Financial Instruments

### *Financial asset*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company 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 of 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 liability*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

## Impairment of Financial Assets

The Company recognizes an allowance for expected credit loss (ECL) 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 EIR. 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.

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

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

The Company considers a financial asset in default when contractual payments are 90 days past due since security deposits are equivalent to 90 days which are paid at the start of the lease term which will cover any defaults. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive



the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### Offsetting of Financial Instruments

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

#### 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 nonfinancial 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 assets in its highest and best use.

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

#### Fair value hierarchy

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) 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 it is significant to the fair value measurement is unobservable

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

External valuers are involved for valuation of significant assets, such as investment property. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.



Significant accounting policy prior to January 1, 2018

Financial Instruments

*Date of recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

*Initial recognition of financial instruments*

All financial assets and financial liabilities are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. The Company classifies its financial liabilities into financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market.

The Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2017, the financial instruments of the Company are of the nature of loans and receivables and other financial liabilities.

*'Day 1' difference*

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

*Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. This accounting policy relates to the statement of financial position captions "Cash" and "Receivables".

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. The amortization is included in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss.

Loans and receivables are included in current assets if maturity is within 12 months or when the Company expects to realize or collect within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

*Other financial liabilities*

Issued financial instruments or their components, which are not designated 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 its own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy applies primarily to the statement of financial position captions "Accounts and other payables" (except statutory liabilities), "Security deposits" under "Deposits and other liabilities" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

#### Deposits and other liabilities

Deposits and other liabilities which includes accrued rent and security deposits that are initially measured at fair value. After initial recognition, security deposits are subsequently measured at amortized cost using effective interest method. Accrued rent is recognized for the difference between the straight-line recognition of rent income for financial reporting purposes and the rental income due for the year based on contract terms.

The difference between the cash received and its fair value is deferred (included in the "Deferred credits" under "Deposits and other liabilities" account in the statement of financial position) and amortized using the straight-line method and recognized as "Amortization of deferred credits" under the "Rental income" account in profit or loss. Accretion of discount is recorded under "Interest expense" account in profit or loss.

#### Derecognition of Financial Instruments

##### *Financial asset*

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

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

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

##### *Financial liability*

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

#### Impairment of Financial Assets

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 a 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 the Company determines that no objective evidence of impairment exists for an 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). 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 effective interest rate of the asset. Loans and 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 period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is 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.

#### Other assets

Other assets include input value-added tax (VAT), prepaid expenses and creditable withholding taxes.

#### *Input VAT*

Input VAT represents taxes due or paid on purchases of goods and services subjected to VAT that the Company can claim against future liability to the Bureau of Internal Revenue (BIR) for output VAT received from sale of goods and services which are incurred and billings which has been received as of date. The input VAT can also be recovered as tax credit against future income tax liability of the Company or refunded subject to the approval of the BIR. These are carried at cost less allowance for impairment loss, if any. Impairment loss is recognized when input VAT can no longer be recovered.

#### *Deferred input VAT*

Deferred input VAT represents input VAT on purchase of capital goods exceeding ₱1 million. The related input VAT is recognized over five years or the useful life of the capital goods, whichever is shorter.

#### *Prepaid expenses*

Prepaid expenses represent paid expenses that are not yet incurred. Prepaid expenses are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.



*Creditable withholding taxes*

Creditable withholding taxes represent the amount withheld by the payee. These are recognized upon collection of the related income and utilized as tax credits against income tax due.

Investment properties

Investment properties comprise of construction-in-progress and completed properties that are held to earn rentals or capital appreciation or both and are not occupied by the Company. The initial cost of investment properties consists of any directly attributable costs of bringing the investment properties to their intended location and working condition, including borrowing costs.

These are carried at cost less accumulated depreciation and amortization and any impairment.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Depreciation of investment properties, which consist of buildings, are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives and the depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful life of the buildings is 40 years.

Investment properties are derecognized when either it has been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in PFRS 15, *Revenue from Contracts with Customers*.

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 the policy stated under property and equipment up to the date of change in use.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining estimated useful life.



### Equity

#### *Paid-up capital and Additional paid-in capital (APIC)*

Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Amount of contribution in excess of par value is accounted for as APIC.

#### *Stock issuance costs*

Stock issuance costs are incremental costs directly attributable to the issuance or subscription of new shares which are shown in equity as a deduction, net of tax, from the proceeds. These costs are charged to APIC or "Retained earnings", if no available APIC.

#### *Treasury shares*

Treasury shares are the Company's own equity instruments which were reacquired. These are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in APIC. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them respectively. When the shares are retired, the capital stock is reduced by its par value and the excess of cost over par value upon retirement is charged to APIC when the shares were issued and to retained earnings for the remaining balance.

#### *Retained earnings*

Retained earnings represent the cumulative balance of net income of the Company, net of dividend distribution, if any.

### Revenue Recognition

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

#### *Significant accounting policy on January 1, 2018*

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

#### *Rental income*

Rental income under noncancellable and cancellable leases on investment properties is accounted under operating lease and is recognized on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contracts. Lessor accounting under PFRS 16 is substantially the same under PAS 17.

#### *Significant accounting policy prior to January 1, 2018*

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

#### *Dues*

Dues are recognized when the related services are rendered. Common area, air conditioning, electricity and water dues in excess of actual charges and consumption are recorded as revenue. Billing from common area and air conditioning dues is computed based on a fixed rate per square meter of the leasable area occupied by the tenant.



*Interest income*

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

*Other income*

Other income is recognized when earned.

*Disaggregated revenue information*

The non-lease component of the Company's revenue arises from common area charges and utilities dues. The Company's performance obligations are to ensure that common areas are available for general use of its tenants and to provide for uninterrupted utility services such as water and electricity (see Note 14).

*Allocation of transaction price to performance obligation*

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

*Timing of revenue recognition*

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

*Deferral of Philippine Interpretations Committee Question and Answers (PIC Q&As) on accounting for Common Usage Service Area (CUSA)*

On February 14, 2018, the PIC issued PIC Q&A 2018-12 which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. This includes accounting for CUSA charges discussed in PIC Q&A No. 2018-12-H which concludes that real estate developers are generally acting as principal for CUSA. On October 25, 2018, the SEC decided to provide relief to the real estate industry by deferring the application of the provisions of the PIC Q&A 2018-12 for a period of three years. The deferral will only be applicable for real estate transactions. Effective January 1, 2021, the Company will adopt PIC Q&A No. 2018-12 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Company is currently presenting its common area, air conditioning, electricity and water dues on a net basis. Had the Company opted to not avail of the relief from the deferral and will comply in full requirement of PIC Q&A 2018-12, the Company will be presenting the revenue from common area charges at gross amounts (see Note 14).

Costs and Expenses

Costs and expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Costs and expenses are recognized:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Leases

*Company as lessor - operating lease*

Leases where the Company does not transfer substantially all the risks and benefits of the ownership of the assets are classified as operating leases. Rental income arising from operating lease is accounted for on a straight-line basis over the lease terms and is included in revenue due to its



operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

*Company as lessor - finance lease*

A lease is classified as a finance lease if the Company transfers substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Company shall recognize assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. The Company shall use the interest rate implicit in the lease to measure the net investment in the lease. Finance income is recognized over the lease term, based on a pattern reflecting a constant periodic rate of return on the Company's net investment in the lease.

*Company as lessee – accounting policy prior to January 1, 2019*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as an expense on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

*Company as lessee – accounting policy on January 1, 2019*

*Right-of-use assets*

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use) except when the rental payment is purely variable linked to the future performance or use of an underlying asset. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

*Lease liabilities*

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

Income Tax

*Current tax*

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



compute the amount are those that have been enacted or substantively enacted as at the reporting date.

#### *Deferred tax*

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and NOLCO can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply in 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 as at the end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred taxes relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to common equity holders of the Company by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year attributable to common equity holders of the Company by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential common shares that would have an antidilutive effect on earnings per share.

#### Segment Reporting

The Company's lease operation is its only segment. Financial information on business segment is presented in Note 22 of the financial statements.

#### 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 obligations, and a reliable estimate can be made of the amount of the obligation.

Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where



appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### 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 benefits is probable.

#### Events After the Reporting Date

Post year-end events up to the date when the financial statements are authorized for issue that provide additional information about the Company's financial position at the reporting date (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. Summary of Significant Accounting Estimates, Judgments and Assumptions**

The preparation of the accompanying financial statements in compliance with PFRSs requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates, judgments and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

#### Judgment

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.

#### *Operating lease commitments - Company as lessor*

The Company has entered into commercial property leases on its investment property portfolios. The Company has determined that it retains all significant risks and rewards of ownership of the property as the Company considered, among others, the length of the lease term as compared with the estimated useful life of the assets.

#### *Finance lease commitments - Company as lessor*

The Company has entered into a lease agreement on the portion (composed of 18 floors stacked on top of the headquarters tower) of ANE building. The Company has determined, based on evaluation of the terms and arrangement, particularly on the economic life, that the Company has transferred substantially all the significant risks and rewards of ownership of this property to the lessee and accounts for the agreement as finance lease.

#### Estimates and Assumptions

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

#### *Provision for expected credit losses of trade receivables*

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

The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product and inflation rate) are expected to deteriorate over the next year which can lead to an increased number of



defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

The carrying value of the Company's trade receivables amounted to ₱479.28 million, ₱284.12 million and ₱128.92 million as of December 31, 2019, 2018 and 2017, respectively, net of allowance for credit losses amounting to ₱7.66 million as of December 31, 2019, 2018 and 2017 (see Note 5).

#### *Evaluating impairment of nonfinancial assets*

The Company regularly reviews its nonfinancial asset for impairment of value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. If such indicators are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Company estimates the recoverable amount as the higher of the fair value less costs to sell and value in use. 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 estimates and assumptions that may affect its nonfinancial assets.

The Company's nonfinancial assets are not impaired as of December 31, 2019, 2018 and 2017. The carrying values of the Company's nonfinancial assets follow:

	2019	2018	2017
Input VAT (Note 6)	<b>₱436,890,469</b>	₱291,247,064	₱240,460,922
Deferred input VAT (Note 6)	<b>622,744,439</b>	789,199,670	2,766,914
Investment properties (Note 7)	<b>6,192,374,393</b>	8,188,049,035	1,155,750,359
	<b>₱7,252,009,301</b>	₱9,268,495,769	₱1,398,978,195

#### *Estimating useful lives of investment properties*

The Company estimates the useful life of its investment properties based on the period over which the asset is expected to be available for use. The estimated useful life of investment properties is reviewed at least annually and is updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of the asset. It is possible that future financial performance could be materially affected by changes in estimates brought about by changes in the factors mentioned above. See Note 7 for the related balances.

## 4. Cash

This account consists of:

	2019	2018	2017
Cash on hand	<b>₱22,500</b>	₱22,500	₱22,500
Cash in banks	<b>122,158,106</b>	26,106,603	17,145,524
	<b>₱122,180,606</b>	₱26,129,103	₱17,168,024

Cash in banks earn interest at the respective bank deposit rates which ranges from 0.35% to 0.45% in 2019, 2018 and 2017. Interest income earned from cash in banks amounted to ₱0.31 million, ₱0.10 million and ₱0.08 million in 2019, 2018 and 2017, respectively (see Note 15).



## 5. Receivables

This account consists of:

	2019	2018	2017
Finance lease receivable (Notes 17 and 19)	<b>₱2,267,931,937</b>	<b>₱-</b>	<b>₱-</b>
Due from related parties (Note 19)	<b>1,803,889,622</b>	1,936,214,187	405,415,332
Trade receivables			
Accrued rent	<b>369,059,057</b>	232,395,231	93,646,773
Billed	<b>117,888,650</b>	59,384,931	42,934,020
Other receivables	<b>374,307</b>	86,481	88,881
	<b>4,559,143,573</b>	2,228,080,830	542,085,006
Less allowance for credit losses	<b>7,664,917</b>	7,664,917	7,664,917
	<b>4,551,478,656</b>	2,220,415,913	534,420,089
Less noncurrent portion	<b>2,556,978,813</b>	209,417,570	86,773,563
	<b>₱1,994,499,843</b>	<b>₱2,010,998,343</b>	<b>₱447,646,526</b>

Accrued rent pertains to receivables resulting from the straight-line method of recognizing rental income.

Billed receivables arise mainly from tenants for rentals of office and retail spaces and recovery charges for common area and utilities. These are noninterest-bearing and are generally collectible on 30-day term.

The movements in allowance for credit losses follows:

	2019	2018	2017
Balance at beginning of year	<b>₱7,664,917</b>	₱7,664,917	₱8,032,199
Reversals (Note 16)	<b>-</b>	-	(367,282)
Balance at end of year	<b>₱7,664,917</b>	₱7,664,917	₱7,664,917

### Noncurrent portion of receivables

This account consists of:

	2019	2018	2017
Finance lease receivable (Notes 17 and 19)	<b>₱2,215,249,105</b>	<b>₱-</b>	<b>₱-</b>
Trade receivables	<b>341,729,708</b>	209,417,570	86,773,563
	<b>₱2,556,978,813</b>	<b>₱209,417,570</b>	<b>₱86,773,563</b>

## 6. Other Assets

### Other Current Assets

This account consists of:

	2019	2018	2017
Input VAT	<b>₱91,577,595</b>	₱78,630,786	₱50,718,729
Creditable withholding taxes	<b>66,025,072</b>	26,609,340	3,886,389
Prepaid expenses	-	8,083,759	16,959,213
Advances to suppliers	-	5,174,473	1,751,786
	<b>₱157,602,667</b>	<b>₱118,498,358</b>	<b>₱73,316,117</b>

Input VAT is applied against output VAT within 12 months. This includes input VAT claimed for refund amounting to ₱6.39 million which is awaiting approval from the BIR.



Creditable withholding taxes represent the amount withheld by the Company. These are recognized upon collection of the related lease receivable and are utilized as tax credits against income tax due.

Advances to suppliers are recouped upon every progress billing payment depending on the percentage of accomplishment or delivery.

#### Other Noncurrent Assets

This account consists of:

	2019	2018	2017
Deferred input VAT	<b>₱622,744,439</b>	₱789,199,670	₱2,766,914
Input VAT	<b>345,312,874</b>	212,616,278	189,742,193
	<b>₱968,057,313</b>	<b>₱1,001,815,948</b>	<b>₱192,509,107</b>

Deferred input VAT pertains to input tax on the Company's purchases of capital goods exceeding ₱1.00 million per transaction which is available for offset against the Company's future output VAT.

The remaining balance of input VAT and deferred input VAT are recoverable in future periods.

### **7. Investment Properties**

	2019		
	Building and Improvements	Construction-in-Progress	Total
<b>Cost</b>			
At January 1	<b>₱6,134,749,678</b>	<b>₱2,720,149,866</b>	<b>₱8,854,899,544</b>
Transfer	2,718,170,000	(2,718,170,000)	-
Disposals (Note 17)	(1,823,955,000)	-	(1,823,955,000)
Additions	18,855,993	-	18,855,993
At December 31	<b>7,047,820,671</b>	<b>1,979,866</b>	<b>7,049,800,537</b>
<b>Accumulated Depreciation</b>			
At January 1	666,850,509	-	666,850,509
Depreciation and amortization (Note 16)	190,575,635	-	190,575,635
At December 31	<b>857,426,144</b>	<b>-</b>	<b>857,426,144</b>
<b>Net Book Value</b>	<b>₱6,190,394,527</b>	<b>₱1,979,866</b>	<b>₱6,192,374,393</b>

	2018		
	Building and Improvements	Construction-in-Progress	Total
<b>Cost</b>			
At January 1	₱1,746,655,315	₱-	₱1,746,655,315
Additions	4,388,094,363	2,720,149,866	7,108,244,229
At December 31	6,134,749,678	2,720,149,866	8,854,899,544
<b>Accumulated Depreciation</b>			
At January 1	590,904,956	-	590,904,956
Depreciation (Note 16)	75,945,553	-	75,945,553
At December 31	666,850,509	-	666,850,509
<b>Net Book Value</b>	<b>₱5,468,026,043</b>	<b>₱2,720,149,866</b>	<b>₱8,188,049,035</b>

	2017
	Building and Improvements
<b>Cost</b>	
At January 1	₱1,742,414,335
Additions	4,240,980
At December 31	1,746,655,315
<b>Accumulated Depreciation</b>	
At January 1	543,645,980
Depreciation (Note 16)	47,258,976
At December 31	590,904,956
<b>Net Book Value</b>	<b>₱1,155,750,359</b>



On October 5, 2018, the Company and ALI executed a deed of assignment wherein ALI assigned, transferred and conveyed its ownership, rights, interests and obligations, including without limitation, those relating to the construction, development and operation thereof, as well as certain permits, licenses and contracts which it has obtained and entered into, respectively in connection with its obligation with the development of Ayala North Exchange (ANE) for a consideration amounting to ₱6,913.00 million.

Investment properties are composed of one (1) stand-alone building and one (1) mixed-used property, which are being leased out for office and retail and serviced apartment. The stand-alone building, Solaris One building, is located along Dela Rosa St. Legaspi Village, Makati City. The mixed-used property, ANE property, is composed of business process outsourcing and headquarters tower, retail spaces and serviced apartment, which is located along Ayala Avenue cor. Salcedo St., Legaspi Village, Makati City.

Construction-in-progress pertains to ongoing construction, installation and related activities on certain investment property or other items necessary to prepare it for use. These are transferred to the related investment property account once construction is completed and is ready for service.

Additions include initial direct costs which comprise broker's commission paid to various brokers amounting to ₱8.46 million in 2019 and ₱85.39 million in 2018 and nil in 2017. These are amortized over the lease term on the same basis as the lease income.

The fair value of the investment properties was determined by independent and professionally qualified appraiser on March 16, 2020. The fair value of investment properties, excluding the portion of ANE building under finance lease, amounted to ₱23,024.01 million as of December 31, 2019.

The fair value of the Company's investment properties was determined using the Income Approach which is a method in which the appraiser derives an indication of value for income-producing property by converting anticipated future benefits into current property value.

The following table provides the fair value hierarchy of the Company's investment properties as of December 31, 2019, 2018 and 2017:

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment properties	March 16, 2020	₱23,024,010,000	₱-	₱-	₱23,024,010,000

Description of valuation techniques used and key inputs to valuation of investment properties:

	Valuation technique	Significant unobservable inputs
Solaris	Income approach	The fair value is sensitive to the following unobservable inputs – lease income growth rate and discount rate
ANE	Income approach	The fair value is sensitive to the following unobservable inputs – lease income growth rate and discount rate

Rental income and dues earned from investment properties and direct operating expenses incurred are as follows:

	2019	2018	2017
Rental income (Note 13)	<b>₱1,323,922,868</b>	₱696,017,710	₱551,966,359
Dues (Note 14)	<b>192,320,957</b>	169,314,125	146,235,433
Direct operating expenses (Note 16)	<b>436,017,048</b>	181,014,314	145,442,372



## 8. Property and Equipment

This account pertains to electronic data processing equipment. The rollforward analyses follow:

	2019	2018	2017
<b>Cost</b>			
Balances at beginning of year	<b>₱ 1,888,872</b>	<b>₱1,888,872</b>	<b>₱1,848,693</b>
Additions	—	—	40,179
Balances at end of year	<b>1,888,872</b>	<b>1,888,872</b>	<b>1,888,872</b>
<b>Accumulated Depreciation</b>			
Balances at beginning of year	<b>1,837,379</b>	<b>1,773,217</b>	<b>1,709,577</b>
Depreciation (Note 16)	<b>31,404</b>	<b>64,162</b>	<b>63,640</b>
Balances at end of year	<b>1,868,783</b>	<b>1,837,379</b>	<b>1,773,217</b>
<b>Net Book Value</b>	<b>₱20,089</b>	<b>₱51,493</b>	<b>₱115,655</b>

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2019, 2018 and 2017.

There are no contractual purchase commitments for property and equipment as of December 31, 2019, 2018 and 2017.

Costs of fully depreciated electronic data processing equipment still in use amounted to ₱1.55 million as of December 31, 2019, 2018 and 2017.

## 9. Accounts and Other Payables

This account consists of:

	2019	2018	2017
Due to related parties (Note 19)	<b>₱179,751,118</b>	<b>₱113,352,349</b>	<b>₱19,790,423</b>
Accrued expenses			
Light and water	<b>12,144,253</b>	<b>4,537,697</b>	<b>3,644,341</b>
Repairs and maintenance	<b>6,079,597</b>	<b>6,399,576</b>	<b>4,081,959</b>
Rent	<b>3,298,736</b>	<b>3,318,735</b>	<b>—</b>
Others	<b>29,429,565</b>	<b>22,861,269</b>	<b>13,085,743</b>
Accounts payable	<b>29,755,900</b>	<b>6,179,359</b>	<b>9,299,322</b>
Taxes payable	<b>13,233,473</b>	<b>187,966,846</b>	<b>3,699,385</b>
Retention payable	<b>785,200</b>	<b>592,200</b>	<b>484,200</b>
	<b>₱274,477,842</b>	<b>₱345,208,031</b>	<b>₱54,085,373</b>

Accrued expenses others consist mainly of accruals for professional fees, postal and communication, supplies, transportation and travel, security, insurance and representation. These are noninterest-bearing.

Accounts payable arises from regular transactions with suppliers and service providers. These are noninterest-bearing and are normally settled on 15- to 60-day terms.

Taxes payable consist of amounts payable to taxing authority pertaining to expanded withholding taxes.

Retention payable pertains to the portion of contractor's progress billings withheld by the Company which will be released after the satisfactory completion of the contractor's work. The retention payable serves as a security from the contractor should there be defects in the project. These are noninterest-bearing and are normally settled upon completion of the relevant contract.



## 10. Construction Bonds

Construction bonds represent cash bonds to be used as a guarantee against damages to properties resulting from the construction, renovation or improvements being undertaken therein by the lessee. The bond will be refunded after full completion of the construction, renovation or improvements and inspection by the Company.

The carrying value of the Company's construction bonds amounted to ₱11.11 million, ₱2.74 million and ₱2.80 million as of December 31, 2019, 2018 and 2017, respectively.

## 11. Deposits and Other Liabilities

This account consists of:

	2019	2018	2017
Advance rentals	₱386,014,343	₱324,801,647	₱120,974,132
Security deposits	314,447,416	278,631,820	106,325,664
Deferred credits	66,465,881	69,069,960	30,069,421
	766,927,640	672,503,427	257,369,217
Less current portion	166,793,502	30,521,231	9,154,209
	₱600,134,138	₱641,982,196	₱248,215,008

The current portion of these accounts follows:

	2019	2018	2017
Security deposits	₱84,729,181	₱23,379,284	₱8,070,048
Advance rentals	81,793,332	6,318,693	1,043,556
Deferred credits	270,989	823,254	40,605
	₱166,793,502	₱30,521,231	₱9,154,209

### *Advance rentals*

Advance rentals from lessees represent cash received in advance representing three (3) months' rent which will be applied to the last three (3) months' rentals on the related lease contracts.

### *Security deposits*

Security deposits represent deposits from lessees to secure the faithful compliance by lessees of their obligation under the lease contract. These are equivalent to three (3) months' rent and will be refunded to the lessee at the end of the lease term.

The rollforward of security deposits follows:

	2019	2018	2017
<b>Gross Amount</b>			
Balance at beginning of year	₱355,834,182	₱153,405,313	₱134,652,518
Additions	80,405,744	206,995,538	18,752,795
Refunds	(41,502,262)	(4,566,669)	–
Balance at end of year	394,737,664	355,834,182	153,405,313
<b>Unamortized Discount</b>			
Balance at beginning of year	77,202,362	47,079,649	44,817,830
Additions	15,650,424	46,933,022	6,277,686
Accretion (Note 16)	(12,562,538)	(16,810,309)	(4,015,867)
Balance at end of year	80,290,248	77,202,362	47,079,649
<b>Net Amount</b>	₱314,447,416	₱278,631,820	₱106,325,664



*Deferred credits*

Deferred credits pertain to the difference between the nominal value of the deposits and its fair value. This is initially measured at fair value and subsequently amortized using the straight-line method.

The rollforward of deferred credits follows:

	2019	2018	2017
Balance at beginning of year	<b>₱69,069,960</b>	₱30,069,421	₱28,241,770
Additions	<b>15,650,424</b>	46,933,022	6,277,685
Amortization (Note 13)	<b>(18,254,503)</b>	(7,932,483)	(4,450,034)
Balance at end of year	<b>66,465,881</b>	69,069,960	30,069,421
Less current portion	<b>270,989</b>	823,254	40,605
	<b>₱66,194,892</b>	₱68,246,706	₱30,028,816

## 12. Equity

Capital stock

The details of the Company's capital stock as of December 31, 2019, 2018 and 2017 follow:

	2019		
	Common	Preferred	
		A	B
Authorized	<b>1,174,000,000</b>	-	-
Par value per share	<b>₱10.00</b>	₱-	₱-
Issued and outstanding shares	<b>977,792,435</b>	-	-
	2018		
	Common	Preferred	
		A	B
Authorized	1,174,000,000	-	-
Par value per share	₱10.00	₱-	₱-
Issued and outstanding shares	977,792,435	-	-
	2017		
	Common	Preferred	
		A	B
Authorized	33,679,500	716,320,500	990,000,000
Par value per share	₱1.00	₱1.00	₱1.00
Issued and outstanding shares	12,924,300	-	970,000,000



The changes in the number of shares follow:

	2019			2018			2017		
	Common	Preferred		Common	Preferred		Common	Preferred	
		A	B		A	B		A	B
<b>Authorized number of shares</b>									
Balance at beginning of year at ₱1 par value	<b>₱1,174,000,000</b>	—	—	33,679,500	716,320,500	990,000,000	33,679,500	716,320,500	990,000,000
Reclassification of unissued Preferred A shares (b.i)	—	—	—	83,020,800	(83,020,800)	—	—	—	—
Reclassification of Preferred A shares held in treasury (b.ii)	—	—	—	633,299,700	(633,299,700)	—	—	—	—
Reclassification of Preferred B shares held in treasury (b.iii)	—	—	—	40,000,000	—	(40,000,000)	—	—	—
Reclassification of outstanding preferred B shares (b.iv)	—	—	—	950,000,000	—	(950,000,000)	—	—	—
Change in par value from ₱1 to ₱10 (c)	—	—	—	(1,566,000,000)	—	—	—	—	—
Increase in authorized capital stock at ₱10 par value (a)	—	—	—	1,000,000,000	—	—	—	—	—
<b>Balance at end of year</b>	<b>₱1,174,000,000</b>	—	—	<b>₱1,174,000,000</b>	—	—	<b>33,679,500</b>	<b>716,320,500</b>	<b>990,000,000</b>
<b>Issued shares</b>									
Balance at beginning of year	<b>1,045,122,405</b>	—	—	12,924,300	633,299,700	990,000,000	12,924,300	633,299,700	—
Reclassification of Preferred A shares (b.ii)	—	—	—	633,299,700	(633,299,700)	—	—	—	—
Reclassification of Preferred B shares (b.iii and b.iv)	—	—	—	990,000,000	—	(990,000,000)	—	—	—
Change in par value from ₱1 to ₱10 (c)	—	—	—	(1,472,601,600)	—	—	—	—	—
Issuance of new shares (a)	—	—	—	881,500,005	—	—	—	—	990,000,000
<b>Balance at end of year</b>	<b>1,045,122,405</b>	—	—	<b>1,045,122,405</b>	—	—	<b>12,924,300</b>	<b>633,299,700</b>	<b>990,000,000</b>
<b>Treasury shares</b>									
Balance at beginning of year	<b>(67,329,970)</b>	—	—	—	(633,299,700)	(20,000,000)	—	(633,299,700)	—
Redemption of shares	—	—	—	—	—	(20,000,000)	—	—	(20,000,000)
Reclassification of Preferred A shares (b.ii)	—	—	—	(633,299,700)	633,299,700	—	—	—	—
Reclassification of Preferred B shares (b.iii)	—	—	—	(40,000,000)	—	40,000,000	—	—	—
Change in par value from ₱1 to ₱10 (c)	—	—	—	605,969,730	—	—	—	—	—
<b>Balance at end of year</b>	<b>(67,329,970)</b>	—	—	<b>(67,329,970)</b>	—	—	—	<b>(633,299,700)</b>	<b>(20,000,000)</b>
<b>Outstanding</b>	<b>977,792,435</b>	—	—	<b>977,792,435</b>	—	—	<b>12,924,300</b>	—	<b>970,000,000</b>



- a. On September 26, 2018, the Company's BOD approved the increase in its authorized capital stock by ₱10 billion additional common shares with a par value of ₱1 per share and approved the subscription of ALI of ₱8.815 billion shares at ₱1 per share.
- b. On the same date, the Company's BOD approved the reclassification of the following shares:
  - i. ₱83,020,800 unissued Preferred A shares with a par value of ₱1 per share;
  - ii. ₱633,299,700 Preferred A shares with a par value of ₱1 per share held in treasury
  - iii. ₱40,000,000 of Preferred B shares with a par value of ₱1 per share held in treasury
  - iv. ₱950,000,000 of outstanding Preferred B shares with a par value of ₱1 into ₱1,706,320,500 Common shares
- c. The Company's BOD also approved the increase in the par value of the common shares from ₱1 to ₱10 per share.

On December 18, 2018, the SEC approved the Company's application for (a) increase in authorized capital stock, (b) reclassification/conversion into common shares of (1) unissued Preferred A shares; (2) Preferred A shares held in treasury; (3) Preferred B shares held in treasury; and (4) outstanding Preferred B shares issued to ALO and its nominees, and (c) the increase in the par value of the common shares from ₱1 to ₱10 per share.

#### Preferred shares

Preferred shares A have the following features: (a) voting, (b) participating, (c) preferred in liquidation to the extent of par value, and (d) redeemable at the option of the Company.

Preferred shares B have the following features: (a) voting, (b) preferred in dividend over Common, (c) non-cumulative, (d) non-participating, (e) no pre-emptive right to any issue of shares, and (d) redeemable at the option of the Company.

As of December 31, 2018, preferred shares A and B have all been converted to common shares.

#### Retained earnings

On October 26, 2017, the Company's BOD approved the declaration of cash dividends of ₱24.22 per common share or an aggregate amount of ₱313.00 million and 5% coupon dividend amounting to ₱49.50 million to Preferred B stockholders of record as of October 26, 2016. These are paid in 2017.

On September 26, 2018, the Company's BOD approved the declaration of cash dividends of ₱25.96 per common share or an aggregate amount of ₱335.50 million and 5% coupon dividend amounting to ₱48.50 million to Preferred B stockholders of record as of October 26, 2017. These are paid in 2018.

On April 3, 2019, the Company's BOD approved the declaration of cash dividends of ₱0.98 per share or an aggregate amount of ₱961.30 million to stockholders of record as of the same date. These are paid in 2019.

#### Treasury shares

On October 26, 2017, the Company's BOD approved the redemption of Preferred B shares amounting to ₱20.00 million which was paid in 2017.

On September 26, 2018, the Company's BOD approved the redemption of Preferred B shares amounting to ₱20.00 million which was paid in 2018.

On December 13, 2018, the Company's treasury shares were all converted to common shares.

#### Capital management

The primary objectives of the Company's capital management policies are to afford the financial flexibility to support its business initiatives while providing a sufficient cushion to absorb cyclical



industry risks and to maximize stakeholder value. The Company manages its capital structure and make adjustments to it, in light of changes in economic conditions. The Company considers its total equity as capital.

The Company's sources of capital as of December 31, 2019, 2018 and 2017 follow:

	2019	2018	2017
Paid-up capital	<b>₱10,451,224,050</b>	₱10,451,224,050	₱1,636,224,000
Treasury shares	<b>(673,299,700)</b>	(673,299,700)	(653,299,700)
Retained earnings	<b>1,022,804,424</b>	722,691,606	677,952,254
	<b>₱10,800,728,774</b>	₱10,500,615,956	₱1,660,876,554

The Company is not subject to any external capital requirement.

No changes were made in the Company's capital management objectives, policies or processes in 2019, 2018 and 2017.

### 13. Rental Income

This account consists of:

	2019	2018	2017
Office and retail	<b>₱1,247,556,282</b>	₱652,943,086	₱517,367,851
Parking fees	<b>58,112,083</b>	35,142,141	30,148,474
Amortization of deferred credits (Note 11)	<b>18,254,503</b>	7,932,483	4,450,034
	<b>₱1,323,922,868</b>	₱696,017,710	₱551,966,359

Rental income from office, retail and parking includes income from straight-line method of recognizing rental income amounting to ₱136.66 million, ₱138.75 million and ₱39.52 million in 2019, 2018 and 2017, respectively.

### 14. Dues

Dues pertains to net recoveries from tenants for the usage of common areas and utilities. This account consists of:

	2019	2018	2017
Dues	<b>₱519,298,804</b>	₱306,666,900	₱273,428,400
Direct operating expenses			
Utilities	<b>218,098,134</b>	91,418,469	88,738,906
Outside services	<b>63,827,195</b>	20,282,707	14,984,364
Repairs and maintenance	<b>39,120,487</b>	23,682,165	21,775,416
Miscellaneous	<b>5,932,031</b>	1,969,434	1,694,281
	<b>326,977,847</b>	137,352,775	127,192,967
	<b>₱192,320,957</b>	₱169,314,125	₱146,235,433

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

	2019	2018	2017
Dues:			
Common area charges	<b>₱162,061,630</b>	₱160,714,250	₱139,671,291
Utilities dues	<b>30,259,327</b>	8,599,875	6,564,142
	<b>₱192,320,957</b>	₱169,314,125	₱146,235,433



## 15. Interest and Other Income

### Interest Income

This account consists of:

	2019	2018	2017
Interest income from intercompany loans (Note 19)	<b>₱57,948,496</b>	₱17,077,503	₱9,979,440
Interest income from finance lease (Notes 17 and 19)	<b>46,837,607</b>	–	–
Interest income from cash in banks (Note 4)	<b>313,345</b>	95,032	76,241
	<b>₱105,099,448</b>	₱17,172,535	₱10,055,681

### Gain under Finance Lease

Gain under finance lease pertains to the difference between the fair value of finance lease receivable and the carrying amount of the portion of investment property under finance lease (see Notes 7 and 17).

### Other Income

This account pertains to income earned from interest and penalties arising from late payments amounting to ₱0.14 million, ₱0.36 million and ₱0.58 million in 2019, 2018 and 2017, respectively.

## 16. Costs and Expenses and Other Charges

### Direct Operating Expenses

This account consists of:

	2019	2018	2017
Depreciation (Note 7)	<b>₱190,575,635</b>	₱75,945,553	₱47,258,976
Land lease (Notes 17 and 19)	<b>97,521,679</b>	39,641,491	35,559,393
Taxes and licenses	<b>101,510,662</b>	34,414,200	33,365,168
Management fees (Note 19)	<b>35,543,753</b>	27,273,745	26,154,707
Insurance	<b>6,125,499</b>	1,611,480	1,033,065
Others	<b>4,739,820</b>	2,127,845	2,071,063
	<b>₱436,017,048</b>	₱181,014,314	₱145,442,372

### General and Administrative Expenses

This account consists of:

	2019	2018	2017
Professional fees	<b>₱11,025,773</b>	₱361,920	₱348,000
Taxes and licenses	<b>1,769,095</b>	1,955,099	3,928,573
Systems costs (Note 19)	<b>149,500</b>	154,950	150,000
Depreciation (Note 8)	<b>31,404</b>	64,162	63,640
Reversal of provision for credit losses (Note 5)	–	–	(367,282)
Others	<b>1,205,774</b>	1,637,951	1,591,139
	<b>₱14,181,546</b>	₱4,174,082	₱5,714,070

### Interest Expense

This account pertains to accretion of security deposit amounting to ₱12.56 million, ₱16.81 million and ₱4.02 million in 2019, 2018 and 2017, respectively (see Note 11).



## 17. Agreements and Lease Commitments

### *Company as lessor - operating lease*

The Company entered into lease agreements with third parties covering its investment properties for a period of two (2) to more than five (5) years. These noncancellable leases are subject to 5% to 10% annual escalation rate.

The future minimum rentals receivable under noncancellable operating leases are as follows:

	2019	2018	2017
Within one year	<b>₱1,247,102,277</b>	₱1,043,809,274	₱526,547,466
After one year but not more than five years	<b>5,111,571,372</b>	4,599,357,333	1,903,526,975
More than five years	<b>341,483,942</b>	1,329,693,902	698,460,155
	<b>₱6,700,157,591</b>	₱6,972,860,509	₱3,128,534,596

Total rental income amounted to ₱1,323.92 million, ₱696.02 million and ₱551.97 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 13). Rental income arising from variable rent based on gross sales amounted to ₱2.12 million for the year ended December 31, 2019 (nil in 2018 and 2017).

### *Company as lessor - finance lease*

In 2019, the Company entered into a building lease agreement with Makati North Hotel Ventures, Inc. (MNHVI) for a term of 39 years (see Note 19). The agreement pertains to the lease of a portion, composed of 18 floors stacked on top of the headquarters tower, of ANE building. The lease agreement states that the Company shall deliver to MNHVI the physical possession of the leased premise on July 8, 2019. The lease generally provides for (a) quarterly rent based on a fixed rate for the first five (5) years and (b) fixed rate plus a certain percentage of total revenue of the Lessee for the remaining period of the lease term.

The maturity analysis of finance lease receivables, including the undiscounted lease payments to be received are as follows:

	2019
Within one year	₱203,280,000
More than one year and not more than five years	650,496,000
More than 5 years	5,552,653,750
Total undiscounted lease payments and unguaranteed residual value	<b>6,406,429,750</b>
Less: unearned finance income	4,138,497,813
Net investment in the lease	<b>₱2,267,931,937</b>

The net investment in the lease consists of the present value of minimum lease payments amounting to ₱2,221.09 million. The Company derecognized the portion of investment property under finance lease amounting to ₱1,823.95 million (see Note 7) which resulted to a gain under finance lease amounting to ₱397.14 million. The Company also recognized interest income earned amounting to ₱46.84 million in 2019 (see Notes 15 and 19).

The Company remains to be the legal owner of the portion of ANE building under finance lease.

### *Company as lessee*

On October 5, 2018, ALI assigned to the Company the land lease agreement with HLC with a lease term of 40 years. The agreement pertains to land lease of ANE properties. The lease generally provides for a monthly rent based on a certain percentage of gross receipt income.

On January 1, 2016, the Company entered into a land lease agreement with ALI for a term of 50 years (see Note 19). The agreement pertains to land lease of Solaris building. The lease



generally provides for a monthly rent based on a certain percentage of gross receipt income. On April 26, 2019, the lease agreement was amended reducing the lease term from 50 years to 33 years.

The Company's contracts of lease for the land spaces that it occupies include dismantling provision clause at the option of the lessor. The Company did not recognize any asset retirement obligation as of the reporting date as the current assessment of the amount of outflow in dismantling the asset in the future is immaterial.

Rental expense recognized as "Land lease" under "Direct operating expenses" in the statements of comprehensive income amounted to ₱97.52 million, ₱39.64 million and ₱35.56 million in 2019, 2018 and 2017, respectively (see Note 16).

## 18. Income Tax

Provision for (benefit from) income tax consists of:

	2019	2018	2017
Current	<b>₱202,459,244</b>	₱145,243,982	₱101,290,488
Deferred	<b>91,926,271</b>	(1,490,954)	5,577,236
Final	<b>62,669</b>	19,006	13,431
	<b>₱294,448,184</b>	₱143,772,034	₱106,881,155

The current provision for income tax represents RCIT in 2019, 2018 and 2017.

In 2019, 2018 and 2017, the Company availed of the optional standard deduction (OSD).

The components of net deferred tax assets (liabilities) follow:

	2019	2018	2017
Deferred tax assets on:			
Advance rentals	<b>₱60,317,256</b>	₱58,464,297	₱34,932,664
Accrued expense	<b>10,395,708</b>	6,681,109	3,747,065
Allowance of credit losses	<b>1,379,685</b>	1,379,685	1,379,685
	<b>72,092,649</b>	66,525,091	40,059,414
Deferred tax liabilities on:			
Difference between finance and operating lease method	<b>(72,894,340)</b>	-	-
Excess of lease income over collections	<b>(66,430,630)</b>	(41,831,141)	(16,856,419)
	<b>(₱67,232,321)</b>	₱24,693,950	₱23,202,995

The reconciliation between the statutory income tax rate to the effective income tax rate shown in the statements of comprehensive income follows:

	2019	2018	2017
Statutory income tax rate	<b>30.00%</b>	30.00%	30.00%
Add (deduct) tax effect of:			
Nondeductible expenses	<b>0.16</b>	3.01	0.64
Nontaxable income	<b>(4.17)</b>	(0.35)	(0.25)
Deductible expenses due to option to use OSD	<b>(7.07)</b>	(11.54)	(11.06)
Effective income tax rate	<b>18.92%</b>	21.12%	19.33%



## 19. Related Party Transactions

Parties are considered to be related 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 operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates.

### Terms and Conditions of Transactions with Related Parties

The Company, in its regular conduct of business, has entered into transactions with related parties consisting of advances and development, management, marketing and leasing and administrative service agreements. These are based on terms agreed by the parties.

Outstanding balances at yearend are unsecured, noninterest-bearing and settlement occurs in cash, unless otherwise indicated. There have been no guarantees provided or received for any related party receivables or payables.

The following tables provide the total balances and amount of transactions that have been entered into with related parties for the relevant financial year:

Category	December 31, 2019			
	Volume	Outstanding Balance	Terms	Conditions
<b>Due from related parties</b>				
<b>Parent Company</b>				
Ayala Land, Inc. (a and b)	₱75,070,139	₱514,752,540	Interest-bearing and noninterest-bearing; Due and demandable	Unsecured; No impairment
<b>Affiliates*</b>				
Makati North Hotel Ventures, Inc. (m)	2,267,931,937	2,267,931,937	Noninterest-bearing; Payable quarterly	Unsecured; No impairment
Bay City Commercial Ventures Corp. (b)	386,891,522	386,891,522	Interest-bearing; On demand	Unsecured; No impairment
Amaia Land Corp. (b)	319,356,979	170,643,021	Interest-bearing; On demand	Unsecured; No impairment
HLC Development Corporation (b and c)	119,644,900	119,644,900	Interest-bearing; On demand	Unsecured; No impairment
Central Block Developers, Inc. (b)	50,309,899	115,609,899	Interest-bearing; On demand	Unsecured; No impairment
Cavite Commercial Towncenter Inc. (b)	100,217,708	100,217,708	Interest-bearing; On demand	Unsecured; No impairment
Arvo Commercial Corporation (b)	43,715,380	80,539,895	Interest-bearing; On demand	Unsecured; No impairment
Crans Montana Property Holdings Corporation (b)	48,594,653	48,594,653	Interest-bearing; On demand	Unsecured; No impairment
Cebu Holdings, Inc. (b)	5,218,238	42,018,238	Interest-bearing; On demand	Unsecured; No impairment
ALI Triangle Hotel Ventures, Inc. (b)	41,189,478	41,189,478	Interest-bearing; On demand	Unsecured; No impairment
Bank of the Philippine Islands (i)	38,190,369	38,190,369	Noninterest-bearing; On demand	Unsecured; No impairment
Soltea Commercial Corp. (b)	37,788,693	37,788,693	Interest-bearing; On demand	Unsecured; No impairment
Capitol Central Commercial Ventures Corp. (b)	31,340,560	31,340,560	Interest-bearing; On demand	Unsecured; No impairment
Sunnyfield E-Office Corp. (b)	9,628,326	25,371,674	Interest-bearing; On demand	Unsecured; No impairment
Westview Commercial Ventures Corp. (b)	1,089,157	21,722,132	Interest-bearing; On demand	Unsecured; No impairment
Airswift Transport, Inc. (b)	12,026,125	13,582,349	Interest-bearing; On demand	Unsecured; No impairment
First Gateway Real Estate Corp. (k)	111,608,067	7,491,933	Noninterest-bearing; On demand	Unsecured; No impairment
Ayalaland Logistics Holdings Corp (b)	5,688,274	5,688,274	Interest-bearing; On demand	Unsecured; No impairment
Ayalaland Malls Synergies, Inc. (b)	1,988,235	1,988,235	Interest-bearing; On demand	Unsecured; No impairment
Ayala Property Management Corporation (b)	248,738	248,738	Interest-bearing; On demand	Unsecured; No impairment
Accendo Commercial Corp (b)	226,742	121,551	Interest-bearing; On demand	Unsecured; No impairment

(Forward)



December 31, 2019				
Category	Volume	Outstanding Balance	Terms	Conditions
Econorth Resorts Ventures, Inc. (b)	₱38,270	₱119,225	Interest-bearing; On demand	Unsecured; No impairment
Cagayan De Oro Gateway Corporation (b)	100,921	100,921	Interest-bearing; On demand	Unsecured; No impairment
Alveo Land Corp. (g)	2,812,276	33,114	Noninterest-bearing; On demand	Unsecured; No impairment
		<b>₱ 4,071,821,559</b>		

\*Entities under common control

December 31, 2019				
Category	Volume	Outstanding Balance	Terms	Conditions
<b>Due to related parties</b>				
<b>Parent Company</b>				
Ayala Land Inc. (a)	₱62,736,563	₱153,545,941	Noninterest-bearing, due and demandable	Unsecured
<b>Affiliates*</b>				
Direct Power Services, Inc. (d)	5,811,587	10,334,751	Noninterest-bearing; On demand	Unsecured
HLC Development Corporation (c)	5,648,541	5,648,541	Noninterest-bearing; On demand	Unsecured
Ayala Property Management, Corp. (f)	3,592,279	4,218,940	Noninterest-bearing; On demand	Unsecured
AyalaLand Offices, Inc. (h)	2,549,092	2,922,779	Noninterest-bearing; On demand	Unsecured
Makati Development Corp. (e)	—	2,019,459	Noninterest-bearing; On demand	Unsecured
Manila Water Company, Inc. (n)	1,249,964	858,101	Noninterest-bearing; On demand	Unsecured
First Gateway Real Estate Corp. (l)	73,767	73,767	Noninterest-bearing; On demand	Unsecured
Innovate Communications (j)	128,839	128,839	Noninterest-bearing; On demand	Unsecured
		<b>₱ 179,751,118</b>		

\*Entities under common control

December 31, 2018				
Category	Volume	Outstanding Balance	Terms	Conditions
<b>Due from related parties</b>				
<b>Parent Company</b>				
Ayala Land, Inc. (a)	₱927,700,000	₱439,682,401	Noninterest-bearing, due and demandable	Unsecured, no impairment
<b>Affiliates*</b>				
Avida Land Corp. (b)	819,550,000	646,850,000	Interest-bearing; On demand	Unsecured; No impairment
Amaia Land Corp. (b)	505,000,000	490,000,000	Interest-bearing; On demand	Unsecured; No impairment
HLC Development Corporation (b and c)	119,100,000	119,100,000	Interest-bearing; On demand	Unsecured; No impairment
Central Block Developers, Inc. (b)	65,300,000	65,300,000	Interest-bearing; On demand	Unsecured; No impairment
Arvo Commercial Corporation (b)	36,550,000	36,824,515	Interest-bearing; On demand	Unsecured; No impairment
Cebu Holdings, Inc. (b)	36,800,000	36,800,000	Interest-bearing; On demand	Unsecured; No impairment
Sunnyfield E-Office Corp. (b)	—	35,000,000	Interest-bearing; On demand	Unsecured; No impairment
Hillsford Property Corporation (b)	—	25,000,000	Interest-bearing; On demand	Unsecured; No impairment
Westview Commercial Ventures Corp. (b)	—	20,632,975	Interest-bearing; On demand	Unsecured; No impairment
Summerhill Commercial Ventures Corp. (b)	50,000,000	10,997,634	Interest-bearing; On demand	Unsecured; No impairment
Ayalaland Metro North, Inc. (b)	—	5,000,000	Interest-bearing; On demand	Unsecured; No impairment
Alveo Land Corp. (Alveo) (g)	—	2,845,390	Noninterest-bearing; On demand	Secured; No impairment
Airswift Transport, Inc. (b)	65,000,000	1,556,224	Interest-bearing; On demand	Unsecured; No impairment
Accendo Commercial Corp (b)	—	348,293	Interest-bearing; On demand	Unsecured; No impairment
Econorth Resorts Ventures, Inc. (b)	—	157,495	Interest-bearing; On demand	Unsecured; No impairment

(Forward)



December 31, 2018				
Category	Volume	Outstanding Balance	Terms	Conditions
Ayala Property Management Corporation (b)	₱—	₱119,260	Interest-bearing; On demand	Unsecured; No impairment
Southportal Properties, Inc. (b)	50,000,000	—	Interest-bearing; On demand	Unsecured; No impairment
Ten Knots Philippines, Inc. (b)	50,000,000	—	Interest-bearing; On demand	Unsecured; No impairment
		₱ 1,936,214,187		

Due to related parties				
Parent Company				
Ayala Land Inc. (a)	₱123,787,320	₱105,809,378	Noninterest-bearing, due and demandable	Unsecured
Affiliates*				
Direct Power Services, Inc. (d)	47,262,880	4,523,164	Noninterest-bearing; On demand	Unsecured
Makati Development, Inc. (e)	—	2,019,459	Noninterest-bearing; On demand	Unsecured
Ayala Property Management, Corp. (f)	7,273,245	626,661	Noninterest-bearing; On demand	Unsecured
AyalaLand Offices, Inc. (h)	521,459	373,687	Noninterest-bearing; On demand	Unsecured
		₱ 1,113,352,349		

\*Entities under common control

December 31, 2017				
Category	Volume	Outstanding Balance	Terms	Conditions
Due from related parties				
Parent Company				
Ayala Land, Inc. (a)	₱90,000,000	₱6,693,997	Noninterest-bearing, due and demandable	Unsecured, no impairment
Affiliates*				
Avida Land Corp. (b)	—	107,800,000	Interest-bearing; On demand	Unsecured; No impairment
Amaia Land Corp. (b)	—	73,300,000	Interest-bearing; On demand	Unsecured; No impairment
Ayalaland Metro North, Inc. (b)	60,000,000	55,000,000	Interest-bearing; On demand	Unsecured; No impairment
Hillsford Property Corporation (b)	35,000,000	35,000,000	Interest-bearing; On demand	Unsecured; No impairment
Sunnyfield E-Office Corp. (b)	—	35,000,000	Interest-bearing; On demand	Unsecured; No impairment
Summerhill Commercial Ventures Corp. (b)	30,000,000	30,357,335	Interest-bearing; On demand	Unsecured; No impairment
Accendo Commercial Corp (b)	30,000,000	30,299,767	Interest-bearing; On demand	Unsecured; No impairment
Westview Commercial Ventures Corp. (b)	20,000,000	20,000,000	Interest-bearing; On demand	Unsecured; No impairment
Econorth Resorts Ventures, Inc. (b)	5,500,000	5,549,302	Interest-bearing; On demand	Unsecured; No impairment
Alveo Land Corp. (g)	2,845,390	2,845,390	Noninterest-bearing; On demand	Secured; No impairment
Greenhaven Property Venture, Inc. (b)	34,000,000	2,282,816	Interest-bearing; On demand	Unsecured; No impairment
UP North Property Holdings, Inc. (b)	892,950	892,950	Interest-bearing; On demand	Unsecured; No impairment
Arvo Commercial Corporation (b)	30,000,000	274,515	Interest-bearing; On demand	Unsecured; No impairment
Ayala Property Management Corporation (b)	119,260	119,260	Interest-bearing; On demand	Unsecured; No impairment
		₱ 405,415,332		

Due to related parties				
Parent Company				
Ayala Land, Inc. (a)	₱56,977,618	₱11,732,043	Noninterest-bearing; On demand	Unsecured
Affiliates*				
Direct Power Services, Inc. (d)	88,738,908	5,891,143	Noninterest-bearing; On demand	Unsecured
Makati Development, Inc. (e)	—	2,019,462	Noninterest-bearing; On demand	Unsecured
AyalaLand Offices, Inc. (h)	899,022	147,775	Noninterest-bearing, due and demandable	Unsecured
Ayala Property Management, Corp. (f)	6,154,707	—	Noninterest-bearing; On demand	Unsecured
		₱ 19,790,423		

\*Entities under common control



The following describes the nature of the material transactions of the Company with related parties in 2019, 2018 and 2017:

- (a) The Company's intercompany receivable from ALI pertains to collection of lease payments of tenant on behalf of the Company amounting to ₱29.63 million as of December 31, 2019 and 2018 (nil in 2017), and payment of operating expenses for and on behalf of ALI amounting to ₱0.02 million, ₱0.66 million and ₱6.69 million as of December 31, 2019, 2018 and 2017, respectively.

ALI handles the lease management and marketing functions including key management personnel services of the Company and is entitled to receive a management fee. The Company recognized management fee amounting to ₱20.00 million in 2019, 2018 and 2017 (see Note 16).

The Company entered into a contract of lease with ALI to occupy a parcel of land where the building is located. The Company recognized "Land lease" under "Direct operating expenses" in the statements of comprehensive income amounting to ₱35.98 million, ₱36.32 million and ₱35.56 million in 2019, 2018 and 2017, respectively (see Note 16).

ALI allocated system costs amounting to ₱0.15 million in 2019, 2018 and 2017 (see Note 16).

On October 5, 2018, the Company acquired the ANE property from ALI amounting to ₱6,913.00 million. The first installment for the payment amounting to ₱3,222.02 million was made on the same date, while the second and final installment amounting to ₱3,690.98 million was made on December 17, 2018 (see Note 7). On the same date, ALI transferred the advance rent, security deposits and initial direct costs incurred for existing tenants of ANE property amounting to ₱204.15 million, ₱204.17 million and ₱85.39 million, respectively.

- (b) The Company provides interest-bearing loan to related parties which are subject to monthly repricing and maturing in one month with interest ranging from 2.64% to 6.25%, 2.19% to 2.36% and 2.36% to 2.98% per annum in 2019, 2018 and 2017, respectively.

The Company recognized interest income amounting to ₱57.95 million, ₱17.08 million and ₱9.98 million in 2019, 2018 and 2017, respectively (see Note 15).

Documentary stamp tax is paid by the borrowers at the time of the loan.

- (c) HLC, a subsidiary of Amorsedia Development, Corporation, leases a land to the Company. The Company recognized "Land lease" under "Direct operating expenses" in the statements of comprehensive income amounting to ₱61.54 million and ₱3.32 million in 2019 and 2018, respectively (nil in 2017; see Note 16).
- (d) Direct Power Services, Inc., a subsidiary of ALI, provides energy distribution service to the Company. Energy distribution expense incurred amounted to ₱77.04 million in 2019 and ₱47.26 million in 2018 and ₱88.74 million in 2017, of which the remaining payable amounted to ₱10.33 million, ₱4.52 million and ₱5.89 million as of December 31, 2019, 2018 and 2017, respectively.
- (e) On December 19, 2006, the Company and Makati Development Corp. (the 'Contractor') signed a construction contract agreement for a specific project. The Company has an outstanding retention payable to the contractor amounting to ₱2.02 million as of December 31, 2019, 2018 and 2017.
- (f) Ayala Property Management Corporation, a subsidiary of ALI, handles the facilities management of the Company in exchange for a fee equivalent to ₱12.00 per square meter of the total gross leasable area of units accepted by tenants subject to an annual escalation of 5% of the immediate succeeding year's rate. Provided, that if during the term, the occupancy rate of the building shall be 85% or above. If below 85%, the actual management fee for any given year



shall be subject to approval of the BOD as part of the annual operating maintenance budget process. In the event no such approval is obtained, the management fee prevailing for the immediately preceding year shall apply. The Company recognized management fees amounting to ₱15.54 million, ₱7.27 million and ₱6.15 million in 2019, 2018 and 2017, respectively (see Note 16).

- (g) Alveo Land Corp., a subsidiary of ALI, is a lessee of the Company. The Company recognized "Rental Income" in the statements of comprehensive income amounting to ₱4.25 million, ₱2.68 million and ₱3.54 million in 2019, 2018 and 2017, respectively, of which the remaining receivable amounted ₱0.03 million as of December 31, 2019 and ₱2.85 million as of December 31, 2018 and 2017.
- (h) The Company's intercompany payable to ALOI pertains to outstanding balance of accounting shared services billed on behalf of the Company amounting to ₱2.92 million, ₱0.37 million and ₱0.15 million in 2019, 2018 and 2017, respectively. The Company recognized accounting shared services in "Others" under "Direct operating expenses" in the statements of comprehensive income amounting to ₱0.93 million, ₱0.70 million in 2019 and 2018 and nil in 2017, respectively.
- (i) Bank of the Philippine Islands, an associate of AC, is a lessee of the Company. The Company recognized "Rental Income" in the statements of comprehensive income amounting to ₱116.74 million and ₱2.01 million in 2019 and 2018, respectively, of which the remaining receivable amounted to ₱38.19 million as of December 31, 2019 (nil as of December 31, 2018 and 2017).
- (j) The Company's outstanding payables to Innove Communications pertains to postal and communications expense transactions.
- (k) First Gateway Real Estate Corporation (FGREC), a subsidiary of AyalaLand Offices, Inc. (ALOI), is a lessee of the Company. The Company recognized "Rental Income" in the statements of comprehensive income amounting to ₱4.78 million in 2019 (nil in 2018 and 2017).
- (l) The Company's intercompany receivable from ALI pertains to payment of operating expenses for and on behalf of FGREC amounting to ₱0.07 million in 2019 (nil in 2018 and 2017).
- (m) This pertains to the receivable arising from lease agreement with MNHVI (see Note 17). The Company recognized finance lease receivable amounting to ₱2,267.93 million. This includes interest income accretion amounting to ₱46.84 million in 2019 (nil in 2018 and 2017; see Note 15).  
  
Gain under finance lease amounted to ₱397.14 million in 2019 (nil in 2018 and 2017; see Notes 15 and 17).
- (n) The Company's intercompany payable to Manila Water Company, Inc. pertains to outstanding balance of water consumption incurred by the Company amounting to ₱0.86 million in 2019. The Company recognized utility services in "Utilities" under "Dues" in the statements of comprehensive income amounting to ₱1.25 million in 2019 (nil in 2018 and 2017; see Notes 14).

#### Cash in bank

The Company has entered into transactions with Bank of the Philippine Islands, an associate of AC, consisting of cash in bank amounting to ₱54.81 million, ₱4.39 million and ₱1.94 million in 2019, 2018 and 2017, respectively (see Note 4). Interest income earned from these deposits amounted to ₱41,175, ₱34,038 and ₱25,936 in 2019, 2018 and 2017, respectively (see Note 15).

#### Compensation of Key Management Personnel

The key management functions of the Company are handled by ALI which charges management fees for such services (see item (a) above).



## 20. Financial Assets and Liabilities

### Fair Value Information

Except for the Company's security deposits, which are disclosed below, carrying values of the other financial instruments of the Company approximate their fair values due to the short-term nature of the transactions.

	2019		2018		2017	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Security deposits	<b>₱314,447,416</b>	<b>₱335,432,923</b>	₱278,631,820	₱267,898,715	₱106,325,664	₱85,260,224

### Fair Value Hierarchy

As of December 31, 2019, 2018 and 2017, the Company has no financial instrument measured at fair value. In 2019, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

The fair value of the Company's security deposits is categorized under Level 3 in the fair value hierarchy.

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy as at December 31, 2019, 2018 and 2017 are shown below:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value
Security deposits	DCF Method	Discount rate	2019: 0.10%-4.36% 2018: 0.39%-5.39% 2017: 1.89%-4.79%	Increase (decrease) in the discount would decrease (increase) the fair value

### Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash, receivables, accounts and other payables and security deposits which arise directly from the conduct of its operations. The main risks arising from the use of financial instruments are liquidity risk and credit risk.

The Company reviews policies for managing each of these risks. The Company monitors market price risk from all financial instruments and regularly reports financial management activities and the results of these activities to the BOD.

Exposure to credit, interest rate and liquidity risks arise in the normal course of the Company's business activities. The main objectives of the Company's financial risk management follow:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

ALI's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Company.

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company's credit risks are primarily attributable to cash, receivables and other financial assets. To manage credit risks, the Company maintains defined credit policies and monitors on a continuous basis its exposure to credit risks.

Credit risk arising from rental income from leased properties is primarily managed through a tenant selection process. In accordance with the provisions of the lease contracts, the lessees are required



to deposit with the Company security deposits and advance rentals which helps reduce the Company's credit risk exposure in case of defaults by the tenants. For existing tenants, the Company has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of financial capacity. Except for the trade receivables, the maximum exposure to credit risk of all financial assets is equal to their carrying amounts.

As of December 31, 2019, 2018 and 2017, the ECL relating to cash in banks is minimal as these are considered as low credit risk.

The Company has applied the simplified approach and has calculated ECLs based on lifetime ECL for finance lease receivable. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. As of December 31, 2019 (nil as of December 31, 2018 and 2017), ECL related to the Company's finance lease receivable is minimal given that the receivable is fully covered by the value of the underlying asset (as title to the asset is not transferred to the lessee) in the event of default by the counterparty and the counterparty is of good credit standing.

The Company did not provide any allowance relating to receivable from related parties in prior year. There are also no ECL recognized in the current year for related party receivables since there are no history of default payments. This assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due of all customers as they have similar loss patterns. The security deposits are considered in the calculation of impairment as recoveries. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. As of December 31, 2019, 2018 and 2017, 69.08%, 64.55% and 62.42% of the Company's trade receivables are covered by security deposits, respectively. Trade receivables include receivables as a result of straight-line method amounting to ₱369.09 million, ₱232.40 million and ₱93.65 million as of December 31, 2019, 2018 and 2017, respectively. ECL related to trade receivables is minimal given its low credit risk and are generally covered by security deposits. The resulting ECL of ₱7.66 million as of December 31, 2019, 2018 and 2017 pertains to receivables aged over 360 days.

The Company's maximum exposure to credit risk as of December 31, 2019, 2018 and 2017 is equal to the carrying values of its financial assets, except for "Trade receivables" under "Receivables" in the statements of financial position. Details follow:

	2019			Financial effect of collateral or credit enhancement
	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	
Cash in banks	₱122,158,106	₱—	₱122,158,106	₱—
Receivables				
Finance lease receivable	2,267,931,937	2,461,200,000	—	2,267,931,937
Due from related parties	1,803,889,622	—	1,803,889,622	—
Trade receivables	486,947,707	335,432,923	153,486,192	333,461,515
Other receivables	374,307	—	374,307	—
	₱4,681,301,679	₱2,796,632,923	₱2,079,908,227	₱2,601,393,452



2018				
	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	Financial effect of collateral or credit enhancement
Cash in banks	₱26,106,603	₱–	₱26,106,603	₱–
Receivables				
Due from related parties	1,936,214,187	–	1,936,214,187	–
Trade receivables	291,780,162	267,898,715	103,440,660	188,339,502
Other receivables	86,481	–	86,481	–
	₱2,254,187,433	₱267,898,715	₱2,065,847,931	₱188,339,502

2017				
	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	Financial effect of collateral or credit enhancement
Cash in banks	₱17,145,524	₱–	₱17,145,524	₱–
Receivables				
Due from related parties	405,415,332	–	405,415,332	–
Trade receivables	136,580,793	85,260,224	51,320,569	85,260,224
Other receivables	88,881	–	88,881	–
	₱559,230,530	₱85,260,224	₱473,970,306	₱85,260,224

Given the Company's tenant mix and credit quality, it is not exposed to significant credit risks. As of December 31, 2017, the aging analysis of receivables presented per class, follows:

		2017					
		Past Due but not Impaired			Total	Impaired	Total
Neither Past Due nor Impaired		<30 days	30-120 days	>120 days			
Receivables							
Due from related parties	₱398,428,313	₱–	₱3,707,707	₱3,279,312	₱6,987,019	₱–	₱405,415,332
Trade receivables	117,898,775	7,145,172	3,657,936	213,993	11,017,101	7,664,917	136,580,793
Others	–	–	88,881	–	88,881	–	88,881
	₱516,327,088	₱7,145,172	₱7,454,524	₱3,493,305	₱18,093,001	₱7,664,917	₱542,085,006

No financial assets are individually determined to be impaired as of December 31, 2017.

As of December 31, 2017, all of the Company's neither past due nor impaired financial assets are considered as high grade.

The credit quality of the financial assets was determined as follows:

Cash in banks - based on the nature of the counterparty and the Company's internal rating system.

Receivables - high grade pertains to receivables from counterparties with no default in payment; medium grade pertains to receivables from counterparties with up to three (3) defaults in payment; and low grade pertains to receivables from counterparties with more than three (3) defaults in payment.

#### Liquidity risk

The Company actively manages its liquidity position so as to ensure that all operating, investing and financing needs are met. The Company's policy is to maintain a level of cash deemed sufficient to fund its monthly cash requirements, at least for the next two months. Capital expenditures are funded through long-term debt, while working capital requirements are sufficiently funded through cash collections and capital infusion by stockholders.

Through scenario analysis and contingency planning, the Company also assesses its ability to withstand both temporary and longer-term disruptions relative to its capacity to finance its activities and commitments in a timely manner and at reasonable cost and ensures the availability of ample unused credit facilities as back-up liquidity.



The tables below summarize the maturity profile of the Company's financial assets and financial liabilities based on contractual undiscounted payments:

	2019			Total
	< 1 year	1 to 5 years	> 5 years	
<b>Financial assets</b>				
Cash in banks	<b>₱122,158,106</b>	<b>₱—</b>	<b>₱—</b>	<b>₱122,158,106</b>
Receivables				
Finance lease receivable	52,682,832	56,549,854	2,158,699,251	2,267,931,937
Due from related parties	1,803,889,622	—	—	1,803,889,622
Trade receivables*	145,217,999	334,064,791	—	479,282,790
Other receivables	374,307	—	—	374,307
	<b>₱2,124,322,866</b>	<b>₱390,614,645</b>	<b>₱2,158,699,251</b>	<b>₱4,673,636,762</b>
<b>Financial liabilities</b>				
Accounts and other payables				
Due to related parties	₱179,751,118	₱—	₱—	₱179,751,118
Accrued expenses	50,952,151	—	—	50,952,151
Accounts payable	29,755,899	—	—	29,755,899
Retention payable	785,200	—	—	785,200
Construction bonds	11,105,498	—	—	11,105,498
Security deposits	84,729,181	229,718,235	—	314,447,416
	<b>₱357,079,047</b>	<b>₱229,718,235</b>	<b>₱—</b>	<b>₱586,797,282</b>

\*net of allowance for credit losses

	2018			Total
	< 1 year	1 to < 5 years		
<b>Financial assets</b>				
Cash in banks	₱26,106,603	₱—	₱26,106,603	
Receivables				
Due from related parties	1,936,214,187	—	1,936,214,187	
Trade receivables*	82,362,642	201,752,603	284,115,245	
Other receivables	86,481	—	86,481	
	<b>₱2,044,769,913</b>	<b>₱201,752,603</b>	<b>₱2,246,522,516</b>	
<b>Financial liabilities</b>				
Accounts and other payables				
Due to related parties	₱113,352,349	₱—	₱113,352,349	
Accrued expenses	37,117,277	—	37,117,277	
Accounts payable	6,179,359	—	6,179,359	
Retention payable	592,200	—	592,200	
Construction bonds	2,738,439	—	2,738,439	
Security deposits	23,379,284	255,252,536	278,631,820	
	<b>₱183,358,908</b>	<b>₱255,252,536</b>	<b>₱438,611,444</b>	

\*net of allowance for credit losses

	2017			Total
	< 1 year	1 to < 5 years		
<b>Financial assets</b>				
Cash in banks	₱17,145,524	₱—	₱17,145,524	
Receivables				
Due from related parties	405,415,332	—	405,415,332	
Trade receivables*	49,807,230	79,108,646	128,915,876	
Other receivables	88,881	—	88,881	
	<b>₱472,456,967</b>	<b>₱79,108,646</b>	<b>₱551,565,613</b>	
<b>Financial liabilities</b>				
Accounts and other payables				
Accrued expenses	₱20,812,043	₱—	₱20,812,043	
Due to related parties	19,790,423	—	19,790,423	
Accounts payable	9,299,322	—	9,299,322	
Retention payable	484,200	—	484,200	
Construction bonds	2,799,751	—	2,799,751	
Security deposits	8,070,048	98,255,616	106,325,664	
	<b>₱61,255,787</b>	<b>₱98,255,616</b>	<b>₱159,511,403</b>	

\*net of allowance for credit losses



---

## 21. Earnings Per Share

The Company's earnings per share for the years ended December 31, 2019, 2018 and 2017 were computed as follows:

	2019	2018	2017
Net income	<b>₱1,261,410,487</b>	₱537,091,374	₱446,780,761
Weighted average number of common shares	<b>977,792,435</b>	169,750,764	96,292,430
Basic/Diluted earnings per share	<b>₱1.29</b>	₱3.16	₱4.64

The weighted average number of common shares for the year ended December 31, 2018 is adjusted for the change in par value from ₱1 to ₱10 and the reclassification of preferred shares to common shares made by the Company on December 18, 2018 (see Note 12).

The Company also assessed that there were no potential dilutive common shares in 2019, 2018 and 2017.

---

## 22. Segment Reporting

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

The Company's two-building lease operation is its only income-generating activity, and such is the measure used by the Chief Operating Decision Maker in allocating resources.

There were revenue transactions with two external customers which accounted for 10% or more of the total revenue amounting to ₱356.32 million and ₱254.33 million for the year ended December 31, 2019.

---

## 23. Notes to Statements of Cash Flow

The Company's noncash operating and investing activities are as follows:

- Movement in intercompany loans presented under investing activities amounting to ₱199.00 million and ₱1,097.81 million in 2019 and 2018 (nil in 2017), respectively, is accounted as movement in "Receivables" that is presented under operating activities.
- Noncash movement of "Receivables" and "Investment properties" arising from lease agreement with MNVHI amounting to ₱2,221.09 million and ₱1,823.96 million, respectively, in 2019 (nil in 2018 and 2017; see Notes 7, 17, 19).
- Interest income from finance lease amounting to ₱46.84 million in 2019 (nil in 2018 and 2017; see Notes 15, 17, 19).
- Uncollected advance rent and security deposits amounting to ₱408.31 million in 2018 (nil in 2019 and 2017; see Note 19).
- Broker's commission capitalized as investment property amounting to ₱8.46 million and ₱85.39 million in 2019 and 2018, respectively (nil in 2017, see Note 7).
- Interest expense arising from accretion of security deposit amounting to ₱12.56 million, ₱16.81 million and in ₱4.02 million in 2019, 2018 and 2017, respectively.



---

**24. Event After Financial Reporting Date**

On January 31, 2020, the Company entered into a contract of lease with ALI for the lease of land and building commencing on February 1, 2020 for a period of 34 years. The rent is payable at a fixed monthly rate of ₱2.73 million subject to 5% annual escalation rate.



**AREIT, INC.**  
**(Formerly One Dela Rosa Property Development, Inc.)**

---

**INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

<b>Schedule</b>	<b>Contents</b>
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, and Principal Stockholders (Other than Related parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Long-Term Debt
E	Indebtedness to Related Parties
F	Guarantees of Securities of Other Issuers
G	Capital Stock

**SCHEDULE A****AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)****SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS****DECEMBER 31, 2019**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received or accrued
Cash			
Cash in banks			
Deutsch Bank	₱51,550,967	₱51,550,967	₱272,170
Bank of Philippine Islands	70,607,139	70,607,139	41,175
	122,158,106	122,158,106	313,345
Receivables			
Related parties	4,071,821,559	4,071,821,559	501,925,433
Third parties	486,947,707	486,947,707	–
Others	374,307	374,307	–
	4,559,143,573	4,559,143,573	501,925,433
	₱4,681,301,679	₱4,681,301,679	₱502,238,778

**SCHEDULE B**

**AREIT, INC.**

**(Formerly One Dela Rosa Property Development, Inc.)**

---

**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS,  
OFFICERS, EMPLOYEES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN  
RELATED PARTIES)  
DECEMBER 31, 2019**

Name and designation of debtor	Balance at beginning of year	Additions	Amounts collected	Current	Noncurrent	Balance at the end of the year
N/A	N/A	N/A	N/A	N/A	N/A	N/A

**AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)**


---

**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED  
PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF  
FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

	Receivable Balance	Payable Balance	Current portion
Total Eliminated Receivables/Payables	N/A	N/A	N/A

**SCHEDULE D****AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)****SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT**  
**DECEMBER 31, 2019**

<b>Long-term Debt</b>			
<b>Title of issue and type of obligation</b>	<b>Amount authorized by indenture</b>	<b>Amount shown under caption "current portion of long-term" in related balance sheet</b>	<b>Amount shown under caption "long- term debt" in related balance sheet</b>
N/A	N/A	N/A	N/A

**AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)**

---

**SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES  
(LONG-TERM LOANS FROM RELATED COMPANIES)  
DECEMBER 31, 2019**

<b>Indebtedness to Related Parties (Long-term Loans from Related Companies)</b>		
<b>Name of related party</b>	<b>Balance at beginning of period</b>	<b>Balance at end of period</b>
N/A	N/A	N/A

**AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)****SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS****DECEMBER 31, 2019**

<b>Guarantees of Securities of Other Issuers</b>				
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	N/A	N/A	N/A	N/A

**SCHEDULE G**

**AREIT, INC.**

(Formerly One Dela Rosa Property Development, Inc.)

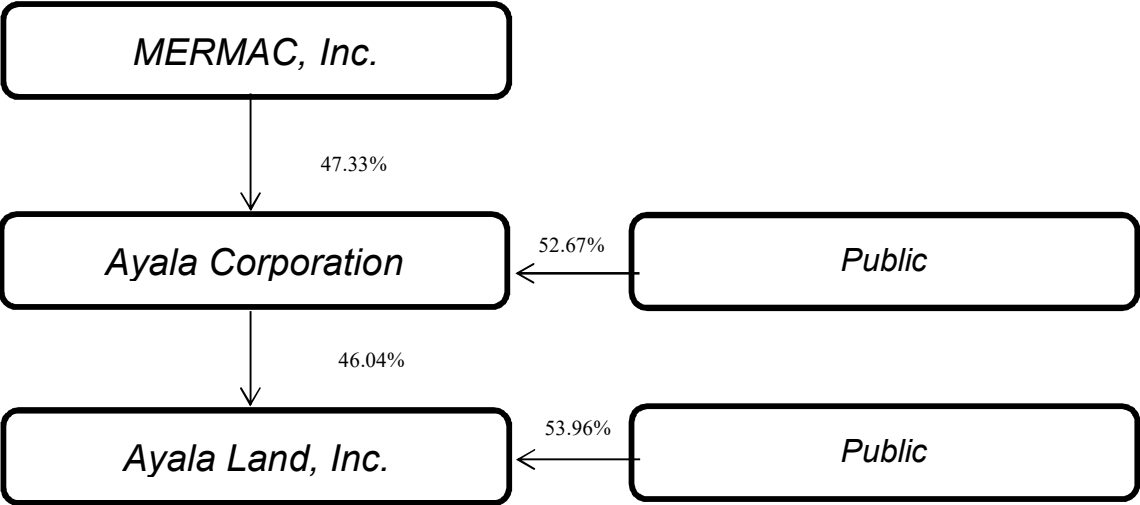
**SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK**

**DECEMBER 31, 2019**

<b>Capital Stock</b>						
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
Common shares	1,174,000,000	977,792,435	-	977,792,428	7	-

**AREIT, INC.**  
(Formerly One Dela Rosa Property Development, Inc.)

**MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES  
DECEMBER 31, 2019**

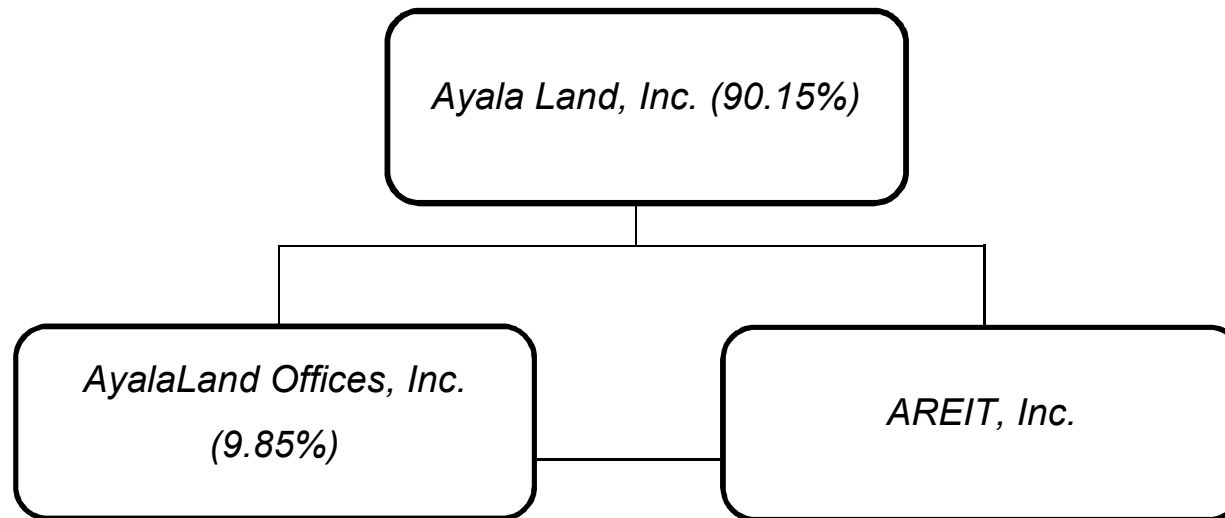


**AREIT, INC.**

(Formerly One Dela Rosa Property Development, Inc.)

**MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES**  
**DECEMBER 31, 2019**

---



AYALA LAND, INC.

*Cagayan de Oro Gateway Corp. (70%)*

*Adauga Commercial Corporation (60%)*

*Alabang Commercial Corporation (50%)*

*Ayala Property Management Corp. (100%)*

*Soltea Commercial Corp. (60%)*

*Southgateway Development Corp. (100%)*

*Makati Development Corporation (100%)*

*Ayala Theatres Management, Inc. & S. (100%)*

*CMPI Holdings, Inc. (60%)*

*Ayalaland MetroNorth, Inc. (100%)*

*Ayala Hotels, Inc. (50%)*

*DirectPower Services, Inc. (100%)*

*ALI-CII Development Corporation (50%)*

*North Triangle Depot Commercial Corp. (73%)*

*AyalaLand Hotels and Resorts Corp. (100%)*

*Phil. Integrated Energy Solutions, Inc. (100%)*

*Roxas Land Corporation (50%)*

*BGWest Properties, Inc. (50%)*

*Lagdigan Land Corp. (60%)*

*Five Star Cinema, Inc. (100%)*

*Ten Knots Phils, Inc. (60%)*

*Ten Knots Development, Corp. (60%)*

*Southportal Properties Inc. (65%)*

*Leisure and Allied Industries Philippines, Inc. (50%)*

*ALInet.com, Inc. (100%)*

*First Longfield Investments Limited (100%)*

*Aprisa Business Process Solutions, Inc. (100%)*

*AyalaLand Club Management, Inc. (100%)*

*Varejo Corp. (100%)*

*Ayala Land Malls, Inc. (100%)*

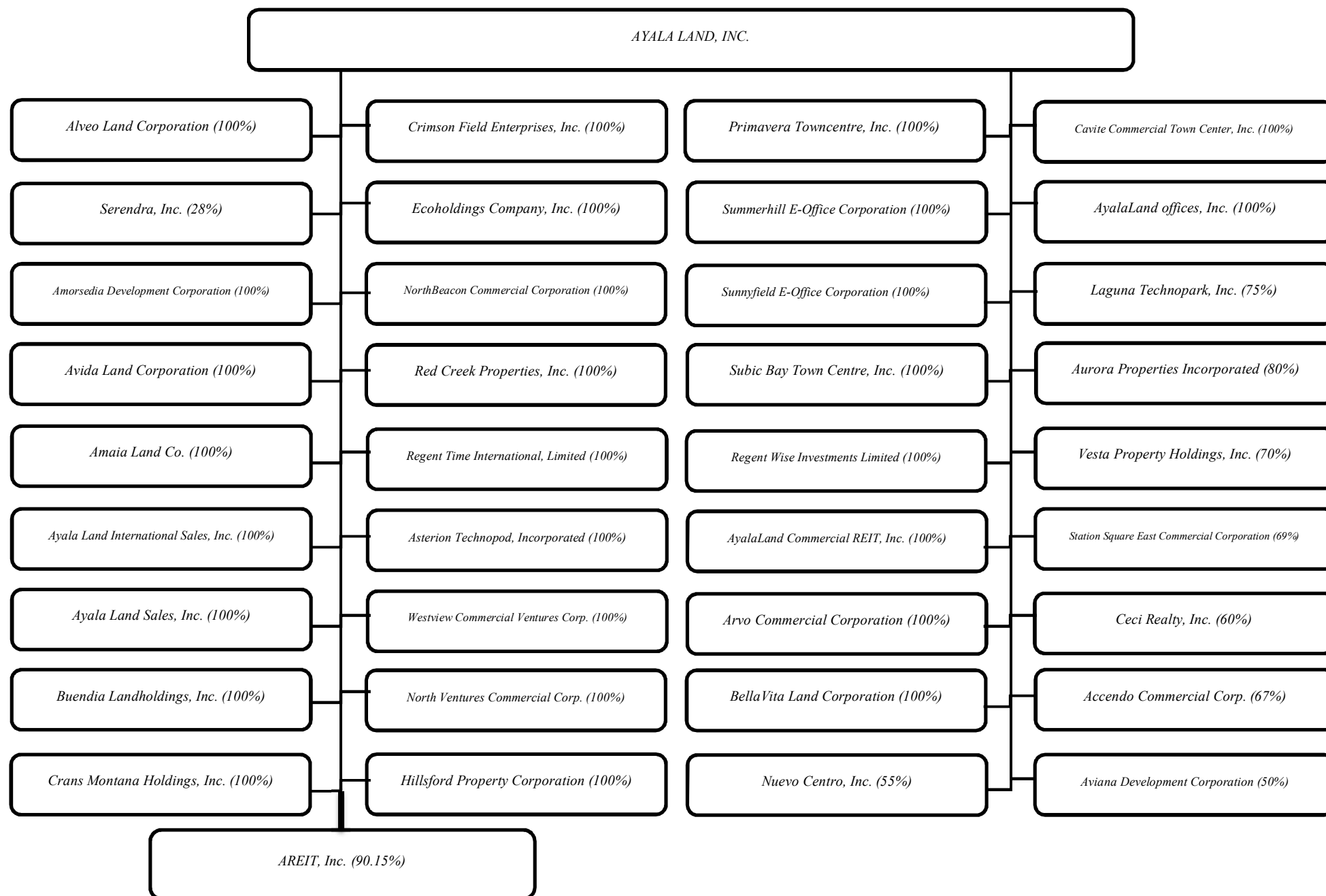
*Verde Golf Development Corporation (100%)*

*Whiteknight Holdings, Inc. (100%)*

*ALI Commercial Center Inc. (100%)*

*Cebu Holdings Inc. (50%)*

*AREIT, Inc. (90.15%)*



**AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)****COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS****DECEMBER 31, 2019**

Ratio	Formula	2019	2018	2017
Current ratio	Current assets / Current liabilities	<b>4.35</b>	4.93	6.16
Acid test ratio	Quick assets / Current liabilities (Quick assets includes cash)	<b>0.24</b>	0.06	0.20
Solvency ratio	EBITDA / Total debt (Total debt includes short-term debt, long-term debt and current portion of long-term debt)	<b>0.00</b>	0.00	0.00
Debt-to-equity ratio	Total debt / Stockholders' equity	<b>0.00</b>	0.00	0.00
Asset-to-equity ratio	Total assets / Stockholders' equity	<b>1.11</b>	1.10	1.20
Interest rate coverage ratio	EBITDA / Interest expense	<b>100.04</b>	45.00	148.15
Return on equity	Net income / Average total stockholders' equity	<b>0.12</b>	0.09	0.27
Return on assets	Net income after tax / Average total assets	<b>0.11</b>	0.08	0.23
Net profit margin	Net income / Total revenue	<b>0.83</b>	0.62	0.64