One Dela Rosa Property Development, Inc.

Financial Statements
December 31, 2018, 2017 and 2016

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
One Dela Rosa Property Development, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of One Dela Rosa Property Development, Inc. (the Company), which comprise the statements of financial position as at December 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, 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.

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January 28, 2019 to January 27, 2022
PTR No. 7332588, January 3, 2019, Makati City

March 29, 2019

ONE DELA ROSA PROPERTY DEVELOPMENT, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31		
	2018	2017	2016
ASSETS			
Current Assets			
Cash (Notes 4 and 20)	**₱26,129,103**	₱17,168,024	₱32,665,944
Receivables (Notes 5 and 20)	**2,010,998,343**	447,646,526	391,403,559
Other current assets (Note 6)	**118,498,358**	73,316,117	49,513,260
Total Current Assets	**2,155,625,804**	538,130,667	473,582,763
Noncurrent Assets			
Noncurrent portion of receivables (Notes 5 and 20)	**209,417,570**	86,773,563	51,877,710
Investment properties (Note 7)	**8,188,049,035**	1,155,750,359	1,198,768,355
Property and equipment (Note 8)	**51,493**	115,655	139,116
Deferred tax assets - net (Note 18)	**24,693,950**	23,202,995	27,826,285
Other noncurrent assets (Note 6)	**1,001,815,948**	192,509,107	192,257,282
Total Noncurrent Assets	**9,424,027,996**	1,458,351,679	1,470,868,748
	₱11,579,653,800	₱1,996,482,346	₱1,944,451,511
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts and other payables (Notes 9 and 20)	**₱345,208,031**	₱54,085,373	₱81,719,481
Income tax payable	**58,587,947**	21,351,451	23,125,895
Current portion of deposits and other liabilities (Notes 11 and 20)	**30,521,231**	9,154,209	8,535,304
Construction bonds (Notes 10 and 20)	**2,738,439**	2,799,751	3,561,282
Total Current Liabilities	**437,055,648**	87,390,784	116,941,962
Noncurrent Liabilities			
Deposits and other liabilities - net of current portion (Notes 11 and 20)	**641,982,196**	248,215,008	230,913,756
Total Liabilities	**1,079,037,844**	335,605,792	347,855,718
Equity (Note 12)			
Paid-up capital	**10,451,224,050**	1,636,224,000	1,636,224,000
Treasury shares	**(673,299,700)**	(653,299,700)	(633,299,700)
Retained earnings	**722,691,606**	677,952,254	593,671,493
Total Equity	**10,500,615,956**	1,660,876,554	1,596,595,793
	₱11,579,653,800	₱1,996,482,346	₱1,944,451,511

See accompanying Notes to Financial Statements.

ONE DELA ROSA PROPERTY DEVELOPMENT, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
REVENUE			
Rental income (Notes 7, 13 and 17)	**₱696,017,710**	₱551,966,359	₱545,228,911
Dues (Notes 7 and 14)	**169,314,125**	146,235,433	138,185,934
	865,331,835	698,201,792	683,414,845
COSTS AND EXPENSES			
Direct operating expenses (Notes 7 and 16)	**181,014,314**	145,442,372	146,018,844
General and administrative expenses (Note 16)	**4,174,082**	5,714,070	12,768,414
	185,188,396	151,156,442	158,787,258
OTHER INCOME (CHARGES) - NET			
Interest income (Notes 4, 15 and 19)	**17,172,535**	10,055,681	7,294,569
Interest expense (Notes 11 and 16)	**(16,810,309)**	(4,015,867)	(3,182,437)
Other income (Note 15)	**357,743**	576,752	2,710,827
	719,969	6,616,566	6,822,959
INCOME BEFORE INCOME TAX	**680,863,408**	553,661,916	531,450,546
PROVISION FOR INCOME TAX (Note 18)	**143,772,034**	106,881,155	105,675,010
NET INCOME	**537,091,374**	446,780,761	425,775,536
OTHER COMPREHENSIVE INCOME	**–**	–	–
TOTAL COMPREHENSIVE INCOME	**₱537,091,374**	₱446,780,761	₱425,775,536
Basic/Diluted Earnings Per Share (Note 22)	**₱5.91**	₱307.39	₱291.14

See accompanying Notes to Financial Statements.

ONE DELA ROSA PROPERTY DEVELOPMENT, INC.
STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31		
	2018	2017	2016
PAID-UP CAPITAL (Note 12)			
Common Shares - ₱10 par value in 2018 and ₱1 par value in 2017 and 2016			
Balance at beginning and end of year	**₱12,924,300**	₱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	**10,451,224,050**	12,924,300	12,924,300
Preferred Shares - ₱1 par value			
Balance at beginning of year	**1,623,299,700**	1,623,299,700	633,299,700
Conversion to common shares	**(1,623,299,700)**		
Issuance of new shares	**–**	–	990,000,000
Balance at end of year	**–**	1,623,299,700	1,623,299,700
	10,451,224,050	1,636,224,000	1,636,224,000
DEPOSIT FOR FUTURE STOCK SUBSCRIPTIONS			
Balance at beginning of year	**–**	–	990,000,000
Issuance of new shares	**–**	–	(990,000,000)
Balance at end of year	**–**	–	–
TREASURY SHARES (Note 12)			
Balance at beginning of year	**(653,299,700)**	(633,299,700)	(633,299,700)
Redemption of shares	**(20,000,000)**	(20,000,000)	–
Balance at end of year	**(673,299,700)**	(653,299,700)	(633,299,700)
RETAINED EARNINGS (Note 12)			
Balance at beginning of year	**677,952,254**	593,671,493	534,395,957
Net income	**537,091,374**	446,780,761	425,775,536
Share issuance costs	**(108,352,022)**	–	–
Cash dividends	**(384,000,000)**	(362,500,000)	(366,500,000)
Balance at end of year	**722,691,606**	677,952,254	593,671,493
	₱10,500,615,956	₱1,660,876,554	₱1,596,595,793

See accompanying Notes to Financial Statements.

ONE DELA ROSA PROPERTY DEVELOPMENT, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱680,863,408**	₱553,661,916	₱531,450,546
Adjustments for:			
Depreciation (Notes 7, 8 and 16)	**76,009,715**	47,322,616	44,410,125
Interest expense (Notes 11 and 16)	**16,810,309**	4,015,867	3,182,437
Interest income (Notes 4, 15 and 19)	**(17,172,535)**	(10,055,681)	(7,294,569)
Operating income before working capital changes	**756,510,897**	594,944,718	571,748,539
Changes in operating assets and liabilities:			
Increase (decrease) in:			
Receivables	**(179,870,857)**	(41,003,877)	5,848,627
Other assets	**(777,176,724)**	(24,313,679)	(8,619,404)
Increase (decrease) in:			
Accounts and other payables	**128,423,600**	(27,634,109)	20,486,954
Deposits and other liabilities	**(9,990,616)**	13,904,290	5,836,466
Construction bonds	**(61,309)**	(761,531)	944,116
Net cash generated from (used in) operations	**(82,165,009)**	515,135,812	596,245,298
Interest received	**17,172,535**	10,055,681	7,294,569
Income tax paid	**(108,026,492)**	(104,032,309)	(94,634,972)
Net cash flows provided by (used in) operating activities	**(173,018,966)**	421,159,184	508,904,895
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in due from related parties	**(1,097,810,451)**	(49,875,945)	(130,000,000)
Payments for additions to:			
Investment properties (Notes 7 and 21)	**(7,022,857,532)**	(4,240,980)	(19,736,713)
Property and equipment (Note 8)	–	(40,179)	–
Cash flows used in investing activities	**(8,120,667,983)**	(54,157,104)	(149,736,713)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of shares	**8,706,648,028**	–	–
Redemption of shares (Note 12)	**(20,000,000)**	(20,000,000)	–
Payments of dividends (Notes 12 and 21)	**(384,000,000)**	(362,500,000)	(366,500,000)
Net cash provided by (used in) financing activities	**8,302,648,028**	(382,500,000)	(366,500,000)
NET INCREASE (DECREASE) IN CASH	**8,961,079**	(15,497,920)	(7,331,818)
CASH AT BEGINNING OF YEAR	**17,168,024**	32,665,944	39,997,762
CASH AT END OF YEAR (Note 4)	**₱26,129,103**	₱17,168,024	₱32,665,944

See accompanying Notes to Financial Statements.

ONE DELA ROSA PROPERTY DEVELOPMENT, INC.
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

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 develop, invest, own, acquire, lease, hold, mortgage, administer or otherwise deal with commercial, residential, industrial or agricultural lands, buildings, structures or apertures, or in any other profitable business enterprise, venture or establishment, alone or jointly with other persons, natural or artificial.

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). In 2017, 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 47.04% 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 deed of assignment (see Notes 7 and 19).

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 29, 2019.

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 (PFRS).

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, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

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

- PFRS 9, *Financial Instruments*

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

  The Company applied PFRS 9 prospectively, with an initial application date of January 1, 2018. The Company has not restated the comparative information, which continues to be reported under PAS 39.

  The effect of adopting PFRS 9 as at January 1, 2018 are as follows:

  a) Classification and measurement
     Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through other comprehensive income (OCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (SPPI criterion). The assessment of the Company's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

     The classification and measurement requirements of PFRS 9 did not have significant impact to the Company. The change in the classification of the Company's financial assets is on trade and other receivables classified as loans and receivables as at December 31, 2017 and 2016 which are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortized cost beginning January 1, 2018.

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

  b) Impairment
     The adoption of PFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss. The change in the accounting for impairment loss did not have significant impact on the Company's trade receivables and other receivables as at January 1, 2018.

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

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

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

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

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.

The Company assessed itself as agent on its arrangement with tenants for common area charges and utilities dues.

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 output method best represent the recognition pattern for revenue from utilities dues since this is recognized based on the actual consumption of the tenants.

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

On February 14, 2018, the PIC issued PIC Q&A 2018-12 which provides guidance on some implementation issues of PFRS 15 affecting real estate industry. 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. The Company has adopted PIC Q&A 2018-12 and will also adopt any subsequent amendments thereof retrospectively, or as the SEC will later prescribe, on January 1, 2021.

The Company assessed itself as an agent in their arrangement with tenants for common area and utilities dues.

If the Company opted to not avail of any of the relief from the deferral and will comply in full requirement of PIC Q&A 2018-12, the Company will be acting as a principal on service arrangements for common area charges.

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

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

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

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, 2019

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

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

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

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets 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 be also 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 standard is applicable to lease arrangement of the Company with ALI and HLC Development Corp. (HLC). The Company is currently assessing the impact of adopting PFRS 16.

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

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

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

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

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

The amendments are not applicable to the Company since it has no employee.

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

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

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

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The amendments are not applicable to the Company since it has no associate or joint venture.

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

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

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

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

The Company is currently assessing the impact of this interpretation.

- *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*

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

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

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

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

    The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

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

    The amendments are not applicable to the Company.

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.

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

Current and Noncurrent Classification
The Company presents assets and liabilities in the statement 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 twelve months after the reporting period; or,
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- Is due to be settled within twelve months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve 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 before adoption of PFRS 9

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 and 2016, 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).

<u>Deposits and other liabilities</u>
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.

Significant accounting policy on adoption of PFRS 9

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 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 the transaction price determined under PFRS 15.

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 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, deposits and other liabilities including security deposits, advance rent and deferred credits, 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 the statement of comprehensive income. This category generally applies to trade 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 the statement of comprehensive income.

Impairment of Financial Assets
The Company recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original 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 receivables, 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 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 on 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 statement 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.

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 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 one million pesos. 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 the 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.

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 unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase. 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

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.

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. The excess of proceeds from issuance of shares over the par value of shares are credited to additional paid-in capital (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 debited to additional paid-up capital 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 before adoption of PFRS 15

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

Significant accounting policy on adoption of PFRS 15

Revenue from contracts with customers is recognized when control of the services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those 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 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.

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 since the Company acts as an agent for these service arrangements. 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 EIR method.

Other income
Other income is recognized when earned.

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
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 lessee
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.

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 operations is its segment. Financial information on business segment is presented in Note 23 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 PFRS 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 statement.

Operating lease commitments - Company as lessor
The Company has entered into commercial property leases on its investment property portfolio. 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 life of the assets.

Operating lease commitments - Company as lessee
The Company has entered into contract of lease for the land spaces that it occupies. The Company has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Company considered, among others, the significance of the lease term as compared with the EUL of the related asset. The Company accordingly accounted for these as operating leases.

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 receivables
The Company uses a provision matrix to calculate ECLs for 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. The Company considered inflation rate and gross domestic product as its forecast economic conditions. 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 of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The carrying value of the Company's receivables amounted to ₱2,220.42 million, ₱534.42 million and ₱443.28 million as of December 31, 2018, 2017 and 2016, respectively, net of allowance for doubtful accounts amounting to ₱7.66 million as of December 31, 2018 and 2017 and ₱8.03 million as of December 31, 2016 (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, 2018, 2017 and 2016. The carrying values of the Company's nonfinancial assets follow:

	2018	2017	2016
Input VAT (Note 6)	**₱291,247,064**	₱240,460,922	₱234,020,712
Deferred input VAT (Note 6)	**789,199,670**	2,766,914	1,949,652
Investment properties (Note 7)	**8,188,049,035**	1,155,750,359	1,198,768,355
	₱9,268,495,769	₱1,398,978,195	₱1,434,738,719

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 results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. See Note 7 for the related balances.

Fair value determination of investment properties
The Company discloses the fair value of its investment properties which are carried at cost. The Company determines the fair value of the Company's investment properties using the Income Approach which is a method where the appraiser derives an indication of value for income producing property by converting anticipated future benefits into current property value. See Note 7 for the related disclosures.

4. **Cash**

This account consists of:

	2018	2017	2016
Cash on hand	**₱22,500**	₱22,500	₱22,500
Cash in banks	**26,106,603**	17,145,524	32,643,444
	₱26,129,103	₱17,168,024	₱32,665,944

Cash in banks earn interest at the respective bank deposit rates which ranges from 0.35% to 0.45% in 2018, 2017 and 2016. Interest income earned from cash in banks amounted to ₱0.10 million, ₱0.08 million and ₱0.12 million in 2018, 2017 and 2016, respectively (see Note 15).

5. Receivables

This account consists of:

	2018	2017	2016
Due from related parties (Note 19)	**₱1,936,214,187**	₱405,415,332	₱349,381,214
Trade receivables			
Accrued rent	**232,395,231**	93,646,773	54,121,782
Billed	**59,384,931**	42,934,020	45,573,138
Other receivables	**86,481**	88,881	2,237,334
	2,228,080,830	542,085,006	451,313,468
Less allowance for doubtful accounts	**7,664,917**	7,664,917	8,032,199
	2,220,415,913	534,420,089	443,281,269
Less noncurrent portion of trade receivables	**209,417,570**	86,773,563	51,877,710
	₱2,010,998,343	₱447,646,526	₱391,403,559

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.

Other receivables pertain to advances to third party in the ordinary course of business. These are noninterest-bearing and are collectible.

Allowance for doubtful accounts pertain to collectively identified impaired trade receivables.

The movements in allowance for doubtful accounts follows:

	2018	2017	2016
Balance at beginning of year	**₱7,664,917**	₱8,032,199	₱1,625,057
Provisions (Note 16)	**–**	–	6,407,142
Reversals (Note 16)	**–**	(367,282)	–
Balance at end of year	**₱7,664,917**	₱7,664,917	₱8,032,199

6. Other Assets

<u>Other current assets</u>
This account consists of:

	2018	2017	2016
Input VAT	**₱78,630,786**	₱50,718,729	₱43,713,082
Creditable withholding taxes	**26,609,340**	3,886,389	4,495,834
Prepaid expenses	**8,083,759**	16,959,213	127,421
Advances to contractors	**5,174,473**	1,751,786	1,176,923
	₱118,498,358	₱73,316,117	₱49,513,260

Input VAT can be applied against output VAT in the succeeding periods. This includes input VAT claimed for refund or tax credit certificates which are awaiting approval from the BIR.

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

Prepaid expenses pertain to cost of obtaining a contract with a utility company. This is amortized over the 2.5 years.

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

Other noncurrent assets
This account consists of:

	2018	2017	2016
Deferred input VAT	**₱789,199,670**	₱2,766,914	₱1,949,652
Input VAT	**212,616,278**	189,742,193	190,307,630
	₱1,001,815,948	₱192,509,107	₱192,257,282

Deferred input VAT pertains to input tax on the Company's purchases of capital goods exceeding ₱1.00 million which is available for offset against the Company's future output VAT. The remaining balance is recoverable in future periods.

7. Investment Properties

	2018		
	Building and Improvements	**Construction-in-Progress**	**Total**
Cost			
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**
Accumulated Depreciation			
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**
Net Book Value	**₱5,468,026,043**	**₱2,720,149,866**	**₱8,188,049,035**

	2017	2016
Cost		
At January 1	₱1,742,414,335	₱1,722,677,622
Additions	4,240,980	19,736,713
At December 31	1,746,655,315	1,742,414,335
Accumulated Depreciation		
At January 1	543,645,980	499,295,477
Depreciation (Note 16)	47,258,976	44,350,503
At December 31	590,904,956	543,645,980
Net Book Value	₱1,155,750,359	₱1,198,768,355

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, retail and hotel spaces. The stand-alone building, Solaris One building, is located along Dela Rosa St. Legaspi Village, Makati City. The mixed-used property, ANE property, is still under construction and is composed of a business process outsourcing and headquarters towers, retail spaces and a hotel building, 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 located in various locations and are transferred to the related investment property account once construction is completed and is ready for service.

Additions include initial direct costs which comprise of broker's commission paid to various brokers amounting to ₱85.39 million in 2018 (nil in 2017 and 2016). These are amortized over the lease term on the same basis as the lease income.

The fair value of the investment properties were determined by independent and professionally qualified appraiser on March 26, 2019. The fair value of investment properties amounted to ₱24,737.66 million which is not materially different as of December 31, 2018.

The fair value of the Company's investment properties was arrived using Income Approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

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

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment properties	March 26, 2019	₱24,737,662,000	–	–	₱24,737,662,000

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

	Valuation technique	Significant unobservable inputs
Solaris	Income approach	Prospective economic benefits of ownership into the future and these benefits are capitalized into an indication of value
Citygate	Income approach	Prospective economic benefits of ownership into the future and these benefits are capitalized into an indication of value

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

	2018	2017	2016
Rental income (Note 13)	**₱696,017,710**	₱551,966,359	₱545,228,911
Dues (Note 14)	**169,314,125**	146,235,433	138,185,934
Direct operating expenses (Note 16)	**181,014,314**	145,442,372	146,018,844

8. Property and Equipment

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

	2018	2017	2016
Cost			
Balances at beginning of year	**₱1,888,872**	₱1,848,693	₱1,848,693
Additions	–	40,179	–
Balances at end of year	**1,888,872**	1,888,872	1,848,693
Accumulated Depreciation			
Balances at beginning of year	**1,773,217**	1,709,577	1,649,955
Depreciation (Note 16)	**64,162**	63,640	59,622
Balances at end of year	**1,837,379**	1,773,217	1,709,577
Net Book Value	**₱51,493**	₱115,655	₱139,116

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2018, 2017 and 2016.

There are no contractual purchase commitments for property and equipment as of December 31, 2018, 2017 and 2016.

Costs of fully depreciated electronic data processing equipment still in use amounted to ₱1.59 million as of December 31, 2018 and ₱1.55 million as of December 31, 2017 and 2016.

9. Accounts and Other Payables

This account consists of:

	2018	2017	2016
Taxes payable	**₱187,966,846**	₱3,699,385	₱390,416
Due to related parties (Note 19)	**113,352,349**	19,790,423	27,696,758
Accrued expenses			
Repairs and maintenance	**6,399,576**	4,081,959	4,059,375
Light and water	**4,537,697**	3,644,341	7,558,848
Rent	**3,318,735**	–	–
Others	**22,861,269**	13,085,743	35,960,509
Accounts payable	**6,179,359**	9,299,322	5,518,094
Retention payable	**592,200**	484,200	535,481
	₱345,208,031	₱54,085,373	₱81,719,481

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 ₱2.74 million, ₱2.80 million and ₱3.56 million as of December 31, 2018, 2017 and 2016, respectively.

11. Deposits and Other Liabilities

This account consists of:

	2018	2017	2016
Advance rentals	**₱324,801,647**	₱120,974,132	₱121,372,602
Security deposits	**278,631,820**	106,325,664	89,834,688
Deferred credits	**69,069,960**	30,069,421	28,241,770
	672,503,427	257,369,217	239,449,060
Less current portion	**30,521,231**	9,154,209	8,535,304
	₱641,982,196	₱248,215,008	₱230,913,756

The current portion of this accounts follows:

	2018	2017	2016
Advance rentals	**₱6,318,693**	₱1,043,556	₱856,964
Security deposits	**23,379,284**	8,070,048	7,646,884
Deferred credits	**823,254**	40,605	31,456
	₱30,521,231	₱9,154,209	₱8,535,304

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

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:

	2018	2017	2016
Gross Amount			
Balance at beginning of year	**₱153,405,313**	₱134,652,518	₱48,184,647
Additions	**206,995,538**	18,752,795	86,467,871
Terminations	**(4,566,669)**	–	–
Balance at end of year	**355,834,182**	153,405,313	134,652,518
Unamortized Discount			
Balance at beginning of year	**47,079,649**	44,817,830	16,900,500
Additions	**46,933,022**	6,277,686	31,099,767
Accretion (Note 16)	**(16,810,309)**	(4,015,867)	(3,182,437)
Balance at end of year	**77,202,362**	47,079,649	44,817,830
Net Amount	**₱278,631,820**	₱106,325,664	₱89,834,688

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:

	2018	2017	2016
Balance at beginning of year	**₱30,069,421**	₱28,241,770	₱796,649
Additions	**46,933,022**	6,277,685	31,099,767
Amortization (Note 13)	**(7,932,483)**	(4,450,034)	(3,654,646)
Balance at end of year	**69,069,960**	30,069,421	28,241,770
Less current portion	**823,254**	40,605	31,456
	₱68,246,706	₱30,028,816	₱28,210,314

12. **Equity**

Capital stock
The details of the Company's capital stock as of December 31, 2018, 2017 and 2016 follow:

		2018	
		Preferred	
	Common	**A**	**B**
Authorized	**1,174,000,000**	**–**	**–**
Par value per share	**₱10.00**	**₱–**	**₱–**
Issued and outstanding shares	**977,792,435**	**–**	**–**

		2017	
		Preferred	
	Common	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

		2016	
		Preferred	
	Common	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	–	990,000,000

The changes in the number of shares follow:

	2018			2017			2016		
	Common	**Preferred**		Common	Preferred		Common	Preferred	
		A	**B**		A	B		A	B
Authorized number of shares									
Balance at beginning of year at ₱1 par value	**33,679,500**	**716,320,500**	**990,000,000**	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**	**–**	**–**	–	–	–	–	–	–
Balance at end of year	**1,174,000,000**	**–**	**–**	33,679,500	716,320,500	990,000,000	33,679,500	716,320,500	990,000,000
Issued shares									
Balance at beginning of year	**12,924,300**	**633,299,700**	**990,000,000**	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
Balance at end of year	**1,045,122,405**	**–**	**–**	12,924,300	633,299,700	990,000,000	12,924,300	633,299,700	990,000,000
Treasury shares									
Balance at beginning of year	**–**	**(633,299,700)**	**(20,000,000)**	–	(633,299,700)	–	–	(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**	**–**	**–**	–	–	–	–	–	–
Balance at end of year	**(67,329,970)**	**–**	**–**	–	(633,299,700)	(20,000,000)	–	(633,299,700)	–
Outstanding	**977,792,435**	**–**	**–**	12,924,300	–	970,000,000	12,924,300	–	990,000,000

a. On September 26, 2018, the Company's BOD approved the increase in authorized capital stock by ₱10 billion 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. ₱83,020,000 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. Also, the Company's BOD approved that the par value of the common shares be increased from ₱1 to ₱10 per share.

On December 13, 2018, 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
On February 18, 2016, SEC approved the Company's application for increase in authorized capital stock, creation of new shares named as Preferred B shares and renaming original preferred shares as Preferred A 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 are all converted to common shares.

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

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

Retained earnings
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 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 October 26, 2016, the Company's BOD approved the declaration of cash dividends of ₱24.54 per common share or an aggregate amount of ₱317.00 million and 5% coupon dividend amounting to ₱49.50 million to Preferred B stockholders of record as of December 31, 2015. These are paid in 2016.

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 capital as capital.

The Company's sources of capital as of December 31, 2018, 2017 and 2016 follow:

	2018	2017	2016
Paid-up capital	**₱10,451,224,050**	₱1,636,224,000	₱1,636,224,000
Treasury shares	**(673,299,700)**	(653,299,700)	(633,299,700)
Retained earnings	**722,691,606**	677,952,254	593,671,493
	₱10,500,615,956	₱1,660,876,554	₱1,596,595,793

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 2018, 2017 and 2016.

13. Rental Income

This account consists of:

	2018	2017	2016
Office and retail	**₱652,943,086**	₱517,367,851	₱518,269,298
Parking fees	**35,142,141**	30,148,474	23,304,967
Amortization of deferred credits (Note 11)	**7,932,483**	4,450,034	3,654,646
	₱696,017,710	₱551,966,359	₱545,228,911

Rental income from office and parking includes income from straight-line method of recognizing rental income amounting to ₱138.75 million, ₱39.52 million and ₱41.55 million in 2018, 2017 and 2016, respectively.

14. Dues

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

	2018	2017	2016
Dues	**₱306,666,900**	₱273,428,400	₱280,947,909
Direct operating expenses			
Utilities	**91,418,469**	88,738,906	88,743,247
Outside services	**20,282,707**	14,984,364	14,670,645
Repairs and maintenance	**23,682,165**	21,775,416	37,997,947
Miscellaneous	**1,969,434**	1,694,281	1,350,136
	137,352,775	127,192,967	142,761,975
	₱169,314,125	₱146,235,433	₱138,185,934

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

	2018	2017	2016
Dues:			
Common area charges	**₱160,714,250**	₱139,671,291	₱134,273,207
Utilities dues	**8,599,875**	6,564,142	3,912,727
	₱169,314,125	₱146,235,433	₱138,185,934

15. **Interest and Other Income**

Interest Income
This account consists of:

	2018	2017	2016
Interest income from intercompany loans (Note 19)	**₱17,077,503**	₱9,979,440	₱7,171,256
Interest income from cash in banks (Notes 4 and 19)	**95,032**	76,241	123,313
	₱17,172,535	₱10,055,681	₱7,294,569

Other Income
This account pertains to income earned from interest and penalties arising from late payments amounting to ₱0.36 million, ₱0.58 million and ₱2.71 million in 2018, 2017 and 2016, respectively.

16. **Costs and Expenses and Other Charges**

Direct Operating Expenses
This account consists of:

	2018	2017	2016
Depreciation (Note 7)	**₱75,945,553**	₱47,258,976	₱44,350,503
Land lease (Notes 17 and 19)	**39,641,491**	35,559,393	35,001,618
Taxes and licenses	**34,414,200**	33,365,168	33,366,598
Management fees (Note 19)	**27,273,745**	26,154,707	27,833,264
Insurance	**1,611,480**	1,033,065	3,467,915
Others	**2,127,845**	2,071,063	1,998,946
	₱181,014,314	₱145,442,372	₱146,018,844

General and Administrative Expenses
This account consists of:

	2018	2017	2016
Taxes and licenses	**₱1,955,099**	₱3,928,573	₱4,672,849
Professional fees	**361,920**	348,000	360,680
Systems costs (Note 19)	**154,950**	150,000	132,080
Depreciation (Note 8)	**64,162**	63,640	59,622
(Reversal of) provision for doubtful account (Note 5)	–	(367,282)	6,407,142
Others	**1,637,951**	1,591,139	1,136,041
	₱4,174,082	₱5,714,070	₱12,768,414

Interest Expense
This account pertains to accretion of security deposit amounting to ₱16.81 million, ₱4.02 million and ₱3.18 million in 2018, 2017 and 2016, respectively (see Note 11).

17. **Operating Lease Commitments**

Company as lessor
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:

	2018	2017	2016
Within one year	**₱1,043,809,274**	₱526,547,466	₱530,954,140
After one year but not more than five years	**4,599,357,333**	1,903,526,975	2,144,026,217
More than five years	**1,329,693,902**	698,460,155	1,115,442,202
	₱6,972,860,509	₱3,128,534,596	₱3,790,422,559

Rental income amounted to ₱696.02 million, ₱551.97 million and ₱545.23 million in 2018, 2017 and 2016, respectively (see Note 13).

Company as lessee
On October 5, 2018, ALI assigned to the Company the land lease agreement with HLC with a remaining 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 rental income.

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 ₱39.64 million, ₱35.56 million and ₱35.00 million in 2018, 2017 and 2016, respectively (see Note 16).

18. **Income Tax**

Provision for income tax consists of:

	2018	2017	2016
Current	**₱145,243,982**	₱101,290,488	₱99,739,879
Deferred	**(1,490,954)**	5,577,236	5,910,468
Final	**19,006**	13,431	24,663
	₱143,772,034	₱106,881,155	₱105,675,010

The current provision for income tax represents RCIT in 2018, 2017 and 2016.

The components of net deferred tax assets follow:

	2018	2017	2016
Deferred tax assets on:			
Advance rentals	**₱58,464,297**	₱34,932,664	₱35,004,389
Accrued expense	**6,681,109**	3,747,065	3,517,763
Allowance of doubtful accounts	**1,379,685**	1,379,685	–
	66,525,091	40,059,414	38,522,152
Deferred tax liabilities on excess of lease income over collections	**41,831,141**	16,856,419	10,695,867
	₱24,693,950	₱23,202,995	₱27,826,285

In 2018, 2017 and 2016, the Company availed of the optional standard deduction (OSD) and the tax rate of 18.00% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes.

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

	2018	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%
Add (deduct) tax effect of:			
Nondeductible expenses	**3.01**	0.64	0.00
Nontaxable income	**(0.35)**	(0.25)	(0.21)
Deductible expenses due to option to use OSD	**(11.54)**	(11.06)	(9.87)
Effective income tax rate	**21.12%**	19.33%	19.92%

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:

	2018			
Category	**Volume**	**Outstanding Balance**	**Terms**	**Conditions**
Due from related parties				
Parent Company				
Ayala Land, Inc. (a)	**₱927,700,000**	**₱439,682,401**	Noninterest-bearing, due and demandable	Unsecured, no impairment
Other related parties				
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
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
Other Related Parties				
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
		₱113,352,349		

	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
Other related parties				
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

(Forward)

Category	Volume	Outstanding Balance	Terms	Conditions
	2017			
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
Other Related Parties				
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		
Due from related parties				
Parent Company				
Ayala Land, Inc. (a)	₱3,375,953	₱3,375,953	Noninterest-bearing, due and demandable	Unsecured; no impairment
Other related parties				
Avida Land Corp. (b)	226,700,000	226,700,000	Interest-bearing; On demand	Unsecured; No impairment
Amaia Land Corp. (b)	84,300,000	84,300,000	Interest-bearing; On demand	Unsecured; No impairment
Sunnyfield E-Office Corp. (b)	10,000,000	35,000,000	Interest-bearing; On demand	Unsecured; No impairment
Alveo Land Corp. (g)	–	5,261	Noninterest-bearing; On demand	Secured; No impairment
		₱349,381,214		
Due to related parties				
Parent Company				
Ayala Land, Inc. (a)	₱67,282,777	₱17,913,330	Noninterest-bearing; On demand	Unsecured
Other Related Parties				
Direct Power Services, Inc. (d)	88,743,247	7,763,969	Noninterest-bearing; On demand	Unsecured
Makati Development, Inc. (e)	–	2,019,459	Noninterest-bearing; On demand	Unsecured
Ayala Property Management, Corp. (f)	7,833,264	–	Noninterest-bearing; On demand	Unsecured
		₱27,696,758		

The following describes the nature of the material transactions of the Company with related parties in 2018, 2017 and 2016:

(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, 2018 and payment of operating expenses for and on behalf of ALI amounting to ₱1.74 million, ₱6.69 million and ₱3.38 million as of December 31, 2018, 2017 and 2016, 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 2018, 2017 and 2016 (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 ₱36.32 million, ₱35.56 million and ₱35.00 million in 2018, 2017 and 2016, respectively (see Note 16).

ALI allocated system costs amounting to ₱0.15 million, ₱0.15 million and ₱0.13 million in 2018, 2017 and 2016, respectively (see Note 16).

ALI paid operating expenses for and in behalf of the Company amounting to ₱0.27 million, ₱0.01 million and ₱6.74 million in 2018, 2017 and 2016, respectively.

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 ₱77.31 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 2.19% to 2.36%, 2.36% to 2.98% and 2.19% to 2.55% per annum in 2018, 2017 and 2016, respectively.

The Company recognized interest income amounting to ₱17.08 million, ₱9.98 million and ₱7.17 million in 2018, 2017 and 2016, 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 ₱3.32 million in 2018 and nil in 2017 and 2016 of which the same amount remains unpaid in 2018 (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 ₱47.26 million in 2018 and ₱88.74 million in 2017 and 2016, of which the remaining payable amounted to ₱4.52 million, ₱5.89 million and ₱7.76 million as of December 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016.

(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 ₱7.27 million, ₱6.15 million and ₱7.83 million in 2018, 2017 and 2016, 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 ₱2.68 million, ₱3.54 million and ₱3.50 million in 2018, 2017 and 2016, respectively, of which the remaining receivable amounted to ₱2.85 million as of December 31, 2018 and 2017 and ₱0.01 million as of December 31, 2016.

(h) The Company's intercompany payable to ALOI pertains to outstanding balance of accounting shared services billed on behalf of the Company amounting to ₱0.37 million, ₱0.15 million and nil in 2018, 2017 and 2016, respectively. The Company recognized accounting shared services in "Others" under "Direct operating expenses" in the statements of comprehensive income amounting to ₱0.70 million, ₱0.90 million and nil in 2018, 2017 and 2016, respectively.

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 ₱4.39 million, ₱1.94 million and ₱5.52million in 2018, 2017 and 2016, respectively (see Note 4). Interest income earned from these deposits amounted to ₱34,038, ₱25,936 and ₱4,746 in 2018, 2017 and 2016, respectively (see Note 15).

Compensation of Key Management Personnel
The key management personnel of the Company are employees of ALI. The compensation of the said employees is paid by ALI and as such, the disclosures required by PAS 24, *Related Party Disclosures,* are included in ALI's financial statements.

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.

	2018		2017		2016	
	Carrying value	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
Security deposits	**₱278,631,820**	**₱267,898,715**	₱106,325,664	₱85,260,224	₱89,834,688	₱70,402,627

Fair Value Hierarchy
As of December 31, 2018, 2017 and 2016, the Company has no financial instrument measured at fair value. In 2018, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value 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, 2018, 2017 and 2016 are shown below:

	Valuation technique	**Significant unobservable inputs**	**Range**	**Sensitivity of the input to fair value**
Security deposits	DCF Method	Discount rate	2018: 0.39%-9.98% 2017: 1.89%-4.79% 2016: 3.15%-3.59%	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, 2018, the ECL relating to cash in banks is minimal as these are considered as low credit risk.

The Company does 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, 2018, 2017 and 2016, 64.55%, 62.42% and 70.62% 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 ₱232.40 million, ₱93.65 million and ₱54.12 million as of December 31, 2018, 2017 and 2016, 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, 2018 and 2017 and ₱8.03 million as of December 31, 2016 pertains to receivables aged over 360 days.

The Company's maximum exposure to credit risk as of December 31, 2018, 2017 and 2016 is equal to the carrying values of its financial assets, except for "Trade receivables" under "Receivables" in the statements of financial position. Details follow:

	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

	2016			
	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	Financial effect of collateral or credit enhancement
Cash in banks	₱32,643,444	₱–	₱32,643,444	₱–
Receivables				
Due from related parties	349,381,214	–	349,381,214	–
Trade receivables	99,694,920	70,402,627	29,292,293	70,402,627
Other receivables	2,237,334	–	2,237,334	–
	₱483,956,912	₱70,402,627	₱413,554,285	₱70,402,627

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:

	2018		
	< 1 year	**1 to < 5 years**	**Total**
Financial assets			
Cash in banks	**₱26,106,603**	**₱–**	**₱26,106,603**
Receivables			
Due from related parties	**1,936,214,187**	**–**	**1,936,214,187**
Trade receivables*	**284,115,245**	**–**	**284,115,245**
Other receivables	**86,481**	**–**	**86,481**
	₱2,246,522,516	**₱–**	**₱2,246,522,516**
Financial liabilities			
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**
	₱183,358,908	**₱255,252,536**	**₱438,611,444**

**net of allowance for doubtful accounts*

	2017		
	< 1 year	1 to < 5 years	Total
Financial assets			
Cash in banks	₱17,145,524	₱–	₱17,145,524
Receivables			
Due from related parties	405,415,332	–	405,415,332
Trade receivables*	128,915,876	–	128,915,876
Other receivables	88,881	–	88,881
	₱551,565,613	₱–	₱551,565,613
Financial liabilities			
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
	₱61,255,787	₱98,255,616	₱159,511,403

**net of allowance for doubtful accounts*

	2016		
	< 1 year	1 to < 5 years	Total
Financial assets			
Cash in banks	₱32,643,444	₱–	₱32,643,444
Receivables:			
Due from related parties	349,381,214	–	349,381,214
Trade receivables*	91,662,721	–	91,662,721
Other receivables	2,237,334	–	2,237,334
	₱475,924,713	₱–	₱475,924,713
Financial liabilities			
Accounts and other payables:			
Accrued expenses	₱47,578,732	₱–	₱47,578,732
Due to related parties	27,696,758	–	27,696,758
Accounts payable	5,518,094	–	5,518,094
Retention payable	535,481	–	535,481
Construction bonds	3,561,282	–	3,561,282
Security deposits	7,646,884	82,187,804	89,834,688
	₱92,537,231	₱82,187,804	₱174,725,035

**net of allowance for doubtful accounts*

21. Notes to Statements of Cash Flow

The Company's noncash investing activity pertains to additions to investment properties which remains unpaid amounting to ₱85.39 million as of December 31, 2018 (nil as of December 31 2017 and 2016).

The Company's financing activity pertains to the dividend payments made amounting to ₱384.00 million, ₱362.50 million and ₱366.50 million in 2018, 2017 and 2016, respectively.

22. Earnings Per Share

The Company's earnings per share for the years ended December 31, 2018, 2017 and 2016 were computed as follow:

	2018	2017	2016
Net income	**₱537,091,374**	₱446,780,761	₱425,775,536
Less preferred dividends	**48,500,000**	49,500,000	49,500,000
Net income attributable to the equity holders of the Company	**₱488,591,374**	₱397,280,761	₱376,275,536
Weighted average number of common shares	**82,667,430**	1,292,430	1,292,430
Basic/Diluted earnings per share	**₱5.91**	₱307.39	₱291.14

The Company also assessed that there were no potential dilutive common shares as of December 31, 2018, 2017 and 2016.

23. 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 lease operations is its only income generating activity and such is the measure used by the Chief Operating Decision Maker in allocating resources. The Company does not report its results based on geographical segments.