

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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**COMPANY NAME**

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L	i	b	e	r	t	y		F	l	o	u	r		M	i	l	l	s	,		I	n	c	.	)			

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

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Form Type  
A A F S

Department requiring the report

Secondary License Type, If Applicable  
N / A

**COMPANY INFORMATION**

Company's Email Address <b>lfm_properties@pldtdsl.net</b>	Company's Telephone Number <b>893-7790</b>	Mobile Number -
No. of Stockholders <b>6</b>	Annual Meeting (Month / Day) <b>2<sup>nd</sup> Wednesday of May</b>	Fiscal Year (Month / Day) <b>12/31</b>

**CONTACT PERSON INFORMATION**

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

Name of Contact Person <b>Sergio G. Locsin, Jr.</b>	Email Address <b>sglsmiley@yahoo.com</b>	Telephone Number/s <b>893-7792</b>	Mobile Number -
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**CONTACT PERSON'S ADDRESS**

**4<sup>th</sup> Floor, Liberty Building, A. Arnaiz Avenue, Makati City**

**NOTE 1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.  
**2 :** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



Building a better  
working world

SyCip Gorres Velayo & Co.  
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ey.com/ph

BOA/PRC Reg. No. 0001,  
December 14, 2015, valid until December 31, 2018  
SEC Accreditation No. 0012-FR-4 (Group A),  
November 10, 2015, valid until November 9, 2018

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
LFM Properties Corporation  
4<sup>th</sup> Floor, Liberty Building  
A. Arnaiz Avenue  
Makati City



### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of LFM Properties Corporation (a wholly owned subsidiary of Liberty Flour Mills, Inc.) (the Company), which comprise the statements of financial position as at December 31, 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, 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



APR 10 2018



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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of LFM Properties Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Editha V. Estacio

Partner

CPA Certificate No. 91269

SEC Accreditation No. A-788-A (Group A),

January 16, 2018, valid until May 16, 2018

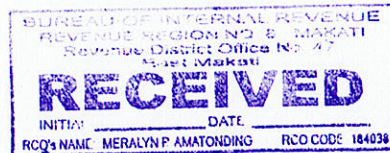
Tax Identification No. 178-486-845

BIR Accreditation No. 08-001998-94-2016,

January 3, 2017, valid until January 2, 2020

PTR No. 6621258, January 9, 2018, Makati City

March 21, 2018



APR 10 2018



**LFM PROPERTIES CORPORATION**  
**(A Wholly Owned Subsidiary of Liberty Flour Mills, Inc.)**

**STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 4)	P5,599,336	P9,663,254
Receivables (Notes 5 and 19)	45,331,513	61,151,571
Financial assets at fair value through profit or loss (Note 7)	151,989,664	35,577,409
Prepaid expenses and other current assets (Note 6)	35,022,258	45,460,295
<b>Total Current Assets</b>	<b>237,942,771</b>	<b>151,852,529</b>
<b>Noncurrent Assets</b>		
Investment properties (Notes 9 and 13)	481,835,673	251,502,027
Available-for-sale investments (Note 8)	215,174,616	221,450,542
Accrued rent - net of current portion (Note 13)	4,717,838	2,666,367
Property and equipment (Note 10)	394,215	865,199
Deferred income tax asset - net (Note 18)	-	353,149
Other noncurrent assets (Note 10)	687,261	4,728,598
<b>Total Noncurrent Assets</b>	<b>702,809,603</b>	<b>481,565,882</b>
<b>TOTAL ASSETS</b>	<b>P940,752,374</b>	<b>P633,418,411</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Notes payable (Note 12)	P670,459,530	P390,913,000
Accounts payable and other current liabilities (Note 11)	26,778,407	19,139,979
Current portion of deposits on long-term leases (Note 13)	9,789,559	6,951,877
Current portion of unearned rental income (Note 13)	3,646,696	3,122,992
Income tax payable	-	644,525
<b>Total Current Liabilities</b>	<b>710,674,192</b>	<b>420,772,373</b>
<b>Noncurrent Liabilities</b>		
Deposits on long-term leases - net of current portion (Note 13)	5,465,460	5,462,809
Net retirement plan liability (Note 17)	4,195,396	3,843,532
Deferred income tax liability - net (Note 18)	2,594,009	-
Unearned rental income - net of current portion (Note 13)	599,761	570,837
<b>Total Noncurrent Liabilities</b>	<b>12,854,626</b>	<b>9,877,178</b>
<b>Total Liabilities</b>	<b>723,528,818</b>	<b>430,649,551</b>
<b>Equity</b>		
Capital stock - P100 par value		
Authorized - 4,000,000 shares		
Issued - 2,500,000 shares	250,000,000	250,000,000
Other components of equity:		
Fair value changes on available-for-sale investments (Note 8)	(39,000,399)	(32,724,473)
Accumulated remeasurement losses on defined benefit plan, net of deferred tax (Note 17)	(1,761,429)	(1,948,395)
Retained earnings (deficit)	7,985,384	(12,558,272)
<b>Total Equity</b>	<b>217,223,556</b>	<b>202,768,860</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P940,752,374</b>	<b>P633,418,411</b>

See accompanying Notes to Financial Statements.



**LFM PROPERTIES CORPORATION**  
**(A Wholly Owned Subsidiary of Liberty Flour Mills, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31	
	2017	2016
<b>RENTAL INCOME</b> (Notes 9 and 13)	<b>₱84,045,557</b>	<b>₱75,286,934</b>
<b>DIRECT COSTS</b> (Notes 9 and 14)	<b>31,377,828</b>	<b>30,906,288</b>
<b>GROSS PROFIT</b>	<b>52,667,729</b>	<b>44,380,646</b>
<b>OPERATING EXPENSES</b> (Notes 10, 15, 16, 17 and 19)	<b>18,331,803</b>	<b>16,990,018</b>
<b>OTHER INCOME (CHARGES)</b>		
Impairment loss on available-for-sale investments (Note 8)	-	(29,600,000)
Loss on retirement of investment property (Note 9)	-	(10,197,731)
Interest expense (Notes 12 and 13)	<b>(11,427,038)</b>	<b>(8,174,876)</b>
Interest income (Notes 4 and 5)	<b>1,301,197</b>	<b>2,133,808</b>
Fair value changes of financial assets at fair value through profit or loss (Note 7)	<b>(5,149,396)</b>	<b>853,588</b>
Dividend income (Note 7)	<b>7,900,727</b>	<b>731,000</b>
Others	<b>1,204,718</b>	<b>1,035,124</b>
	<b>(6,169,792)</b>	<b>(43,219,087)</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>28,166,134</b>	<b>(15,828,459)</b>
<b>PROVISION FOR INCOME TAX</b> (Note 18)		
Current	<b>4,755,448</b>	<b>6,697,530</b>
Deferred	<b>2,867,030</b>	<b>15,885</b>
	<b>7,622,478</b>	<b>6,713,415</b>
<b>NET INCOME (LOSS)</b>	<b>20,543,656</b>	<b>(22,541,874)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Net fair value changes on available-for-sale investments (Note 8)	<b>(6,275,926)</b>	<b>19,724,340</b>
Income tax effect	-	-
	<b>(6,275,926)</b>	<b>19,724,340</b>
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on defined benefit plans (Note 17)	<b>267,094</b>	<b>(769,021)</b>
Income tax effect	<b>(80,128)</b>	<b>230,706</b>
	<b>186,966</b>	<b>(538,315)</b>
	<b>(6,088,960)</b>	<b>19,186,025</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>₱14,454,696</b>	<b>(₱3,355,849)</b>

See accompanying Notes to Financial Statements.



**LFM PROPERTIES CORPORATION**  
**(A Wholly Owned Subsidiary of Liberty Flour Mills, Inc.)**

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

	Capital Stock (Note 21)	Other Components of Equity			Total
		Fair Value Changes on Available- for-sale Investments (Note 8)	Accumulated Remeasurement Losses on Defined Benefit Plan (Note 17)	Retained Earnings (Deficit) (Note 21)	
Balances at January 1, 2017	₱250,000,000	(₱32,724,473)	(₱1,948,395)	(₱12,558,272)	₱202,768,860
Total comprehensive income (loss)	-	(6,275,926)	186,966	20,543,656	14,454,696
Balances at December 31, 2017	₱250,000,000	(₱39,000,399)	(₱1,761,429)	₱7,985,384	₱217,223,556
Balances at January 1, 2016	₱212,563,900	(₱52,448,813)	(₱1,410,080)	₱147,606,883	₱306,311,890
Total comprehensive income (loss)	-	19,724,340	(538,315)	(22,541,874)	(3,355,849)
Cash dividend declared	-	-	-	(100,000,000)	(100,000,000)
Stock dividend declared	37,436,100	-	-	(37,436,100)	-
Stock issuance cost	-	-	-	(187,181)	(187,181)
Balances at December 31, 2016	₱250,000,000	(₱32,724,473)	(₱1,948,395)	(₱12,558,272)	₱202,768,860

See accompanying Notes to Financial Statements.



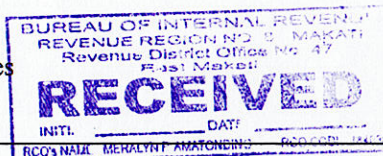
APR 10 2018



**LFM PROPERTIES CORPORATION**  
**(A Wholly Owned Subsidiary of Liberty Flour Mills, Inc.)**

**STATEMENTS OF CASH FLOWS**

	Years Ended December 31	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income tax	P28,166,134	(P15,828,459)
Adjustments to reconcile income (loss) before income tax to net cash flows:		
Depreciation and amortization (Notes 9 and 10)	14,327,132	15,128,086
Interest expense (Notes 12 and 13)	11,427,038	8,174,876
Dividend income (Note 7)	(7,900,727)	(731,000)
Fair value changes of financial assets at fair value through profit or loss	5,149,396	(853,588)
Interest income (Notes 4 and 5)	(1,301,197)	(2,133,808)
Movement in net retirement plan liability (Notes 16 and 17)	618,958	599,926
Impairment loss on available-for-sale investments (Note 8)	-	29,600,000
Loss on retirement of investment properties (Note 9)	-	10,197,731
Working capital changes		
Decrease (increase) in:		
Receivables	15,820,058	(14,984,979)
Accrued rent	(2,051,471)	1,397,421
Prepaid expenses and other current assets	10,438,037	(6,485,348)
Increase (decrease) in:		
Accounts payable and other current liabilities	7,638,428	16,447,624
Deposits on long-term leases	2,840,333	(572,283)
Unearned rental income	552,628	1,514,036
Net cash flows generated from operations	85,724,747	41,470,235
Income tax paid, including creditable withholding taxes	(5,399,973)	(7,761,106)
Interest received	1,301,197	2,133,808
Net cash generated from operating activities	81,625,971	35,842,937
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to:		
Investment properties (Note 9)	(243,949,259)	(84,688,912)
Other noncurrent assets	3,804,999	(316,996)
Property and equipment (Note 10)	(4,197)	(69,763)
Purchase of financial assets at fair value through profit or loss (Note 7)	(165,556,484)	(45,363,655)
Proceeds from sale of financial assets at fair value through profit or loss (Note 7)	43,994,833	42,926,112
Dividends received	7,900,727	731,000
Advances to contractors	-	(26,785,714)
Net cash used in investing activities	(353,809,381)	(113,567,928)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availment of bank loans (Note 12)	302,900,000	616,283,000
Loan payments (Note 12)	(23,353,470)	(422,147,778)
Interest paid	(11,427,038)	(9,052,978)
Dividends paid (Note 21)	-	(100,000,000)
Stock issuance costs (Note 21)	-	(187,181)
Net cash generated from financing activities	268,119,492	84,895,063
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(4,063,918)</b>	<b>7,170,072</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>9,663,254</b>	<b>2,493,182</b>
<b>CASH AT END OF THE YEAR</b>	<b>P5,599,336</b>	<b>P9,663,254</b>



See accompanying Notes to Financial Statements.



**LFM PROPERTIES CORPORATION**  
**(A Wholly Owned Subsidiary of Liberty Flour Mills, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

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**1. Corporate Information and Authorization for Issue of the Financial Statements**

Corporate Information

LFM Properties Corporation (the Company) is a wholly owned subsidiary of Liberty Flour Mills, Inc. (LFMI), a corporation duly organized and existing under the laws of the Republic of the Philippines. The Company was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 18, 1995. The Company is engaged in the business of leasing out real estate properties such as office spaces and condominium units. The Company's registered office address is 4th Floor, Liberty Building, A. Arnaiz Avenue, Makati City.

The accompanying financial statements were authorized and approved for issue by the Board of Directors (BOD) on March 21, 2018.

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**2. Significant Accounting and Financial Reporting Policies**

Basis of Preparation

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

The financial statements of the Company are prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that are measured at fair value. The financial statements are presented in Philippine peso (Peso), which is the Company's functional and presentation currency, and rounded to the nearest Peso, except when otherwise indicated.

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, 2017.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*) – The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Adoption of these amendments did not have any impact on the Company's financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative* – The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Company has provided the required information in Note 20 to the financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.



- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Company applied the amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

#### Standards 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, unless otherwise indicated.

#### *Effective beginning on or after January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions* – The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.
- PFRS 9, *Financial Instruments* – PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory.

The Company is still assessing potential impact of adopting PFRS 9 in 2018.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4* – The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard.
- PFRS 15, *Revenue from Contracts with Customers* – PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Company is still assessing potential impact of adopting PFRS 15 in 2018.



- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*) – The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property* – The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property.
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration* – The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration.

*Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation* – The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income.
- PFRS 16, *Leases* – PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company is still assessing potential impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures* – The amendments to PAS 28 clarify that entities should account for long-term interests in an associate



or joint venture to which the equity method is not applied using PFRS 9.

- 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 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.

#### *Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* – The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

#### Current versus noncurrent classification

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

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

All other assets are classified as noncurrent.

A liability is current when:

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

All other liabilities are classified as noncurrent.

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

#### Fair Value Measurement

The Company measures financial instruments, such as, financial assets at FVPL and AFS investments, at fair value at the end of reporting period.

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 asset 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.

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

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

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

The Company determines the policies and procedures for both recurring fair value measurement, such as quoted AFS financial assets, and for non-recurring measurement.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Company compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

#### Financial Instruments

*Date of Recognition.* Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the 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 trade date basis.



*Initial Recognition of Financial Instruments.* All financial assets and liabilities are recognized initially at fair value. The initial measurement of financial instruments includes transaction costs, except for financial instruments which are measured at fair value through profit or loss (FVPL).

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

The Company's financial assets and financial liabilities consist of: (a) financial assets at FVPL; (b) loans and receivables; (c) AFS investments; and (d) loans and borrowings. It has no held-to-maturity investments and financial liability at FVPL.

*Financial Assets at FVPL.* Financial assets are designated as at FVPL if they are acquired for the purpose of selling or repurchasing in the near term or if they are designated by management as at FVPL upon initial recognition.

Financial assets at FVPL are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on a different basis; or
- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets at FVPL are recorded at fair value. Changes in the fair value of such financial instruments are recognized in net income.

Investments in marketable equity securities were designated by management as financial assets at FVPL.

*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 classified as financial assets at FVPL and are not designated as AFS investments or HTM investments.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the effective interest rate (EIR). The amortization is included in the interest income in the company statement of comprehensive income. The losses arising from impairment are recognized as provision for doubtful accounts in the statement of comprehensive income.

As of December 31, 2017 and 2016, the Company's cash and receivables are classified under this category.



*AFS investments.* AFS investments are those non-derivative financial assets that are designated as AFS investments or are not classified as financial asset at FVPL or loans and receivables. These are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are presented as other comprehensive income (in the unrealized gain on AFS investments) until the investment is derecognized or determined to be impaired, at which time, the cumulative gain or loss previously reported in the other comprehensive income is included in the company statement of comprehensive income.

The Company evaluates whether the ability and intention to sell its AFS investments in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Company may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Company has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

As of December 31, 2017 and 2016, the Company's AFS investments consist of investments in equity securities.

*Loans and borrowings.* This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g., payables, accruals) or borrowings.

The liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

As of December 31, 2017 and 2016, the Company's notes payable, accounts payable and other current liabilities and deposits on long-term leases are classified under this category.

#### Impairment of Financial Assets

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for



which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at cost or amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in net income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### Derecognition of Financial Assets and Financial Liabilities

*Financial Assets.* A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is



not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

#### Cash

Cash includes cash on hand and in banks.

#### Investment Properties

Investment properties consist of properties (land or a building or part of a building or a combination) held to earn rentals or for capital appreciation or both, rather than for:

- a. use in the production or supply of goods or services or for administrative purposes; or
- b. sale in the ordinary course of business.

These assets, except for land, are stated at cost, including transaction costs, less accumulated depreciation and any accumulated impairment in value. Land is carried at cost (initial purchase price and other cost directly attributable to such property) less any accumulated impairment in value.

Depreciation of building and building equipment is computed on a straight-line basis over the estimated lives of the properties ranging from 10 to 25 years.

Investment properties are derecognized either when they have been disposed of or when the investment properties are 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 company statement of comprehensive income in the period of derecognition.

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, plant and equipment up to the date of change in use.

#### Value-added Tax (VAT)

Revenue, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of VAT recoverable from or payable to the taxation authority is included as part of "Prepaid expenses and other current assets" and "Accounts payable and other current liabilities" accounts, respectively, in the statement of financial position.

#### Property and Equipment

Property and equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation, amortization and any accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes the cost of replacing part of such property and equipment if the recognition criteria are met.



When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise when each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of comprehensive income as incurred.

Depreciation is computed using the straight-line method over the estimated useful life of two to three years for office furniture and equipment and three to five years for transportation equipment. Amortization of leasehold improvements is computed using the straight-line method based on the estimated useful life of the leased asset or the term of the lease, whichever is shorter.

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

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Fully-depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited to or charged against current operations. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

#### Impairment of Nonfinancial Assets

At each reporting date, the Company assesses 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 units (CGU) fair value less costs of disposal and its value in use. 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies, or other available fair value indicators.

Impairment losses are recognized in the statement of comprehensive income in the year in which it arises.

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 assumptions 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 or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

#### Equity

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax.

Retained earnings represent the Company's accumulated earnings reduced by dividends declared.

Other comprehensive income comprises items of income and expense, including reclassification adjustments, that are not recognized as part of profit or loss for the year in the statement of comprehensive income as required or permitted by other PFRSs.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

*Rental income.* Rental income arising from operating leases on investment properties is recognized on a straight-line basis over the lease terms. Excess of rental income recognized using the straight-line basis over the rental income based on the terms of lease contract is recognized as an asset in the balance sheet under the account "Accrued rent". Rentals collected but not yet earned are recognized as a liability in the balance sheet under the account "Unearned rental income". Deposits on long-term leases are initially recognized at fair value and subsequently measured at amortized cost where material. Any difference between the initial fair value and the nominal amount is included as a component of rental income and recognized on a straight-line basis over the lease term.

*Interest income.* Interest income is recognized as the interest accrues using the effective interest method.

*Dividend income.* Dividend income is recognized when the Company's right to receive the payment is established.

#### Direct Costs and Operating Expenses

*Direct costs.* Direct costs include expenses incurred by the Company for the generation of revenue from rental income. Direct costs are expensed as incurred.

*Operating expenses.* Operating expenses include the cost of administering the business and are not directly associated with the generation of revenue. Operating expenses are expensed as incurred.



#### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### Retirement Benefits Cost

The Company has a funded, noncontributory defined benefit plan covering all regular and permanent employees.

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

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

Defined benefit costs comprise the following:

- a. service cost
- b. net interest on the net defined benefit liability or asset
- c. remeasurements of net defined benefit liability or asset

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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



The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

#### Taxes

*Current Tax.* Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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

Deferred tax liabilities are recognized for all temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT and unused NOLCO can be utilized.

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

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

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

#### Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements but 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 Financial Reporting Period

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



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### 3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRSs requires management to make judgments and estimates that affect the application of policies and amounts reported in the financial statements.

In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the results for the periods presented. Actual results could differ from these estimates, and such estimates will be adjusted accordingly when the effects become determinable.

#### Judgments

*Classification of lease - Company as lessor.* The Company entered into various commercial property leases on its parcels of land and buildings. The Company has determined that it retains all the significant risks and rewards of ownership of these properties. Accordingly, the lease agreements were accounted for as operating leases (see Note 13).

#### Estimates

*Impairment of AFS investments.* In determining the impairment of AFS investments, management evaluates the presence of significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' generally as greater than six months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Any indication of deterioration in these factors can have a negative impact on their fair value.

The carrying value of AFS investments amounted to ₱215,174,616 and ₱221,450,542 as of December 31, 2017 and 2016, respectively (see Note 8). The Company assessed that certain AFS investments were impaired as of December 31, 2016. Accordingly, impairment losses amounting to ₱29,600,000 was recognized in 2016.

*Estimation of useful lives of investment properties, property and equipment and computer software.* The Company reviews at each balance sheet date the estimated useful lives of investment properties, property and equipment and computer software based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of investment properties and property and equipment would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

There is no change in the estimated useful lives of investment properties, property and equipment and computer software in 2017 and 2016. The carrying values of depreciable investment properties, property and equipment and computer software amounted to ₱482,394,930 and ₱252,768,606 as of December 31, 2017 and 2016, respectively (see Notes 9 and 10).

*Impairment of nonfinancial assets.* The Company determines whether there are indications of impairment of the Company's nonfinancial assets such as investment properties, property and equipment and computer software. Indications of impairment include significant change in usage, decline in the asset's fair value or underperformance relative to expected historical or projected future results.



Determining the fair value of these nonfinancial assets requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. It requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations. The preparation of the estimated future cash flows involves significant judgment and estimations. While management believes that the assumptions made are appropriate and reasonable, significant changes in management assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges. Management assessed that there are no impairment indicators as of December 31, 2017 and 2016. The aggregate carrying values of these assets as of December 31 follow:

	2017	2016
Investment properties (see Note 9)	P481,835,673	P251,502,027
Property and equipment (see Note 10)	394,215	865,199
Computer software (see Note 10)	165,042	401,380
	<b>P482,394,930</b>	<b>P252,768,606</b>

*Estimation of retirement benefits cost.* The determination of the Company's retirement benefits costs and obligation is dependent on the selection by management of certain assumptions used by an actuary in calculating such amounts.

The assumptions for retirement benefits cost are described in Note 18 and include the discount rate and the average annual salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the Company's retirement benefits cost and obligations.

The discount rate is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled. Net retirement plan liability amounted to P4,195,396 and P3,843,532 as of December 31, 2017 and 2016, respectively (see Note 17).

*Recognition of deferred income tax assets.* The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. While future taxable profit can be estimated, the actual outcome may be different. Total recognized deferred income tax liabilities amounted to P2,594,009 as of December 31, 2017 and deferred income tax assets amounted to P353,149 as of December 31, 2016. Deferred income tax asset was not recognized on impairment loss on unquoted AFS investments as of December 31, 2016, as management assessed that the future taxable profit will not be available against which such deferred income tax asset can be utilized (see Note 18).

#### 4. Cash

	2017	2016
Cash on hand	P13,500	P13,500
Cash in banks	5,585,836	9,649,754
	<b>P5,599,336</b>	<b>P9,663,254</b>



Cash in banks earn interest at the respective bank deposit rates. Interest income earned on cash in banks amounted to ₱11,131 and ₱11,293 in 2017 and 2016, respectively.

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#### 5. Receivables

	2017	2016
Loan receivable	₱12,500,000	₱27,593,830
Receivables from broker	30,630,995	27,027,533
Rent receivable	2,105,223	2,317,218
Advances to officers and employees (see Note 19)	95,295	2,464,896
Due from affiliate (see Note 19)	—	1,748,094
	<b>₱45,331,513</b>	<b>₱61,151,571</b>

Loan receivable includes interest-bearing loan to a third party which are due and demandable. The loan receivable bears an interest rate equivalent to the prevailing bank rates. Interest income earned in 2017 and 2016 amounted to ₱1,290,066 and ₱2,122,515, respectively.

Receivables from broker represent the Company's deposit to its agent of marketable securities, which are liquidated through acquisition of additional investments for the Company.

Rent receivable arises from leasing the Company's investment properties. These are noninterest-bearing with average credit term of 30 days.

Advances to officers and employees are noninterest-bearing and are normally liquidated through salary deductions within one month from availment date.

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#### 6. Prepaid Expenses and Other Current Assets

	2017	2016
Advances to contractors (see Note 9)	₱9,487,498	₱36,669,607
Input VAT	22,522,680	6,884,770
Prepaid tax	522,294	—
Prepaid expenses	397,208	399,133
Others	2,092,578	1,506,785
	<b>₱35,022,258</b>	<b>₱45,460,295</b>

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#### 7. Financial Assets at Fair Value through Profit or Loss

This account consists of quoted equity securities held for trading with total fair value of ₱151,989,664 and ₱35,577,409 as of December 31, 2017 and 2016, respectively. Changes in fair value of financial assets at FVPL amounted to loss of ₱5,149,396 in 2017 and gain of ₱853,588 in 2016. Divided income earned from financial assets at FVPL amounted to ₱7,900,727 and ₱731,000 in 2017 and 2016, respectively.



## 8. Available-for-sale (AFS) Investments

The Company's AFS investments consist of the following equity securities:

	2017	2016
Quoted	₱215,174,616	₱221,450,542
Unquoted	29,600,000	29,600,000
	<b>244,774,616</b>	251,050,542
Less allowance for impairment - unquoted	29,600,000	29,600,000
<b>Total</b>	<b>₱215,174,616</b>	<b>₱221,450,542</b>

The fair value changes in AFS investments follow:

	2017	2016
Beginning balances	(₱32,724,473)	(₱52,448,813)
Fair value losses recognized as other comprehensive income	(6,275,926)	19,724,340
<b>Ending balances</b>	<b>(₱39,000,399)</b>	<b>(₱32,724,473)</b>

## 9. Investment Properties

	2017				
	Land	Building and Improvements	Condominium Units	Construction in Progress	Total
Costs:					
Beginning balances	₱9,737,800	₱353,383,053	₱10,399,120	₱115,499,384	₱489,019,357
Additions	-	1,133,929	-	242,815,330	243,949,259
Ending balances	9,737,800	354,516,982	10,399,120	358,314,714	732,968,616
Accumulated depreciation and amortization:					
Beginning balances	-	227,118,210	10,399,120	-	237,517,330
Depreciation and amortization (see Note 14)	-	13,615,613	-	-	13,615,613
Ending balances	-	240,733,823	10,399,120	-	251,132,943
<b>Net book values</b>	<b>₱9,737,800</b>	<b>₱113,783,159</b>	<b>₱-</b>	<b>₱358,314,714</b>	<b>₱481,835,673</b>
	2016				
	Land	Building and Improvements	Condominium Units	Construction in Progress	Total
Costs:					
Beginning balances	₱9,737,800	₱373,478,000	₱10,399,120	₱12,017,752	₱405,632,672
Additions	-	-	-	103,481,632	103,481,632
Retirement	-	(20,094,947)	-	-	(20,094,947)
Ending balances	9,737,800	353,383,053	10,399,120	115,499,384	489,019,357
Accumulated depreciation and amortization:					
Beginning balances	-	222,606,769	10,399,120	-	233,005,889
Depreciation and amortization (see Note 14)	-	14,408,657	-	-	14,408,657
Retirement	-	(9,897,216)	-	-	(9,897,216)
Ending balances	-	227,118,210	10,399,120	-	237,517,330
<b>Net book values</b>	<b>₱9,737,800</b>	<b>₱126,264,843</b>	<b>₱-</b>	<b>₱115,499,384</b>	<b>₱251,502,027</b>



The Company leases out spaces in its building and condominium units under various operating leases (see Note 13).

Construction in progress pertains to costs incurred for the construction of Liberty Plaza. The Company paid ₱27,182,109 in 2017 and ₱26,785,714 in 2016 to the contractors as advances for the said construction to be applied to future construction billings on a pro rata basis. Outstanding balance of the said advances amounted to ₱9,487,498 and ₱36,669,607 as of December 31, 2017 and 2016, respectively, (see Note 6).

The amount of general borrowing costs capitalized amounted to ₱8,124,258 million and ₱1,890,899 million in 2017 and 2016, respectively. The rate used to determine the amount of borrowing costs eligible for capitalization was 3.43% and 2.39% in 2017 and 2016, respectively, which were determined using the weighted effective interest rate of the general borrowings.

Rental income from investment properties, excluding construction in progress, recognized in profit or loss amounted to ₱84,045,557 and ₱75,286,934 in 2017 and 2016, respectively, while directly related costs amounted to ₱31,377,828 and ₱30,906,288, respectively (see Notes 13 and 14).

The aggregate fair value of investment properties, excluding construction in progress, amounted to ₱2,240,073,000 as of December 31, 2017 and 2016, determined based on valuation performed by a qualified and independent appraiser in 2016. The valuation undertaken considered the highest and best use of the properties and established estimated value by processes involving comparison (Level 3).

The following describes the valuation techniques used and key inputs to valuation of investment properties:

	Valuation technique	Significant unobservable input
Land	Sales Comparison Approach	Adjusted sales price of comparable properties
Buildings and building improvements, and building equipment	Cost Approach	Current market prices of similar materials, labor, contractors' overhead, manufactured equipment
Condominium unit	Sales Comparison Approach	Adjusted sales price of comparable properties

Significant increases (decreases) in estimated inputs above would result in a significantly higher (lower) fair value of the properties.

The Company's management assessed that the fair value of these investment properties as of December 31, 2016 approximates its current fair value as of December 31, 2017 and 2016 as no significant changes on the properties have taken place since the latest appraisal, or will take place in the near future, in the market, economic or legal environment in which the Company operates or in the market to which the investment property is dedicated.

The investment properties pertain to assets held by the Company for residential, commercial and parking space. The appraisers determined that the highest and best use of condominium unit is for residential use which is its current use. The highest and best use of land used as parking space at measurement date would be for multi-storey residential/office condominium development, while the highest and best use of buildings, including the improvements and equipment, used as commercial space at measurement date would be to convert the properties for residential use. For strategic reasons, the properties are not being used in this manner.



Land and building owned by the Company with an aggregate carrying value of ₱115.0 million as of December 31, 2017 served as collateral to secure the loans obtained from a loan bank (see Note 12).

## 10. Property and Equipment

	2017			Total
	Office Equipment	Transport Equipment	Leasehold Improvements	
<b>Costs:</b>				
Beginning balances	₱2,251,800	₱3,435,714	₱839,842	₱6,527,356
Additions	4,197	–	–	4,197
Disposals	–	(1,235,714)	–	(1,235,714)
Ending balances	2,255,997	2,200,000	839,842	5,295,839
<b>Accumulated depreciation and amortization:</b>				
Beginning balances	2,119,934	2,702,381	839,842	5,662,157
Depreciation and amortization (see Note 15)	75,181	400,000	–	475,181
Disposals	–	(1,235,714)	–	(1,235,714)
Ending balances	2,195,115	1,866,667	839,842	4,901,624
Net book values	₱60,882	₱333,333	₱–	₱394,215
	2016			Total
	Office Equipment	Transport Equipment	Leasehold Improvements	
<b>Costs:</b>				
Beginning balances	₱2,182,037	₱3,435,714	₱839,842	₱6,457,593
Additions	69,763	–	–	69,763
Ending balances	2,251,800	3,435,714	839,842	6,527,356
<b>Accumulated depreciation and amortization:</b>				
Beginning balances	2,036,842	2,302,381	839,842	5,179,065
Depreciation and amortization (see Note 15)	83,092	400,000	–	483,092
Ending balances	2,119,934	2,702,381	839,842	5,662,157
Net book values	₱131,866	₱733,333	₱–	₱865,199

The aggregate costs of fully depreciated property and equipment that are still being used in operations amounted to ₱3,568,850 and ₱3,444,066 as of December 31, 2017 and 2016, respectively.

Included under “Other noncurrent assets” are computer software with net book value of ₱165,042 and ₱401,380 as of December 31, 2017 and 2016, respectively. Amortization of computer software amounted ₱236,338 in 2017 and 2016, respectively.



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## 11. Accounts Payable and Other Current Liabilities

	2017	2016
Account payables	₱11,252,602	₱6,394,763
Retention payable	12,343,684	9,464,996
Construction bond	1,448,216	1,268,216
Accrued expenses	814,165	842,102
Withholding taxes payable	775,002	459,243
Due to a related party (see Note 19)	77,278	643,200
Others	67,460	67,459
	<u>₱26,778,407</u>	<u>₱19,139,979</u>

Accounts payable, accrued expenses and other current liabilities are non-interest bearing and are normally settled within the next financial year.

Retention payable are non-interest bearing and fully recoverable upon completion of the contractor's construction services.

Construction bond is a type of surety bond that is non-interest bearing which provides financial guarantee to the contractors that the payables on a construction project will be paid.

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## 12. Notes Payable

On various dates in 2017, the Company obtained short-term notes totaling ₱302,900,000 (with interest rate ranging from 3.00% to 4.13%), of which notes totaling ₱23,353,470 were paid during the same year. On various dates in 2016, the Company obtained short-term notes totaling ₱616,283,000 (with interest ranging from 2.92% to 3.50%), of which notes totaling ₱225,370,000 were fully paid in the same year.

All loans are secured by a real estate mortgage on certain land and building owned by the Company (see Note 9).

Total interest expense on notes charged to profit or loss for 2017 and 2016 amounted to ₱11,427,038 and ₱8,174,876, respectively.

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## 13. Operating Leases

The Company entered into various noncancellable lease contracts on its investment properties with various lessees.

The lease contracts provide for the payment by the lessee of a security deposit. These are shown under "Deposits on long-term leases" account in the balance sheets, and are recorded at their present values which amounted to ₱15,255,019 and ₱12,414,686 as of December 31, 2017 and 2016, respectively. Accretion of interest, included in "Interest expense" in the statements of comprehensive income, amounted to ₱31,501 and ₱498,012 in 2017 and 2016, respectively.

Advance rental shown as "Unearned rental income" in the balance sheets amounted to ₱4,246,457 and ₱3,693,829 as of December 31, 2017 and 2016, respectively.



Accrued rent, which represents the excess of rental income recognized using the straight-line method over the rental income based on the terms of the lease agreements, amounted to ₱4,717,838 and ₱2,666,367 as of December 31, 2017 and 2016, respectively.

The future minimum lease receivables under noncancellable leases of investment properties follow:

	2017	2016
Within one year	₱67,075,359	₱40,648,763
After one year but not more than five years	148,102,171	72,711,089
More than five years	-	764,606
	<b>₱215,177,530</b>	<b>₱114,124,458</b>

#### 14. Direct Costs

	2017	2016
Depreciation and amortization (see Note 9)	₱13,615,613	₱14,408,657
Real estate tax	6,924,466	6,924,466
Outside services	3,982,680	4,002,173
Communication, light and water	2,331,009	2,248,830
Repairs and maintenance	3,924,376	2,660,669
Insurance and others	599,684	661,493
	<b>₱31,377,828</b>	<b>₱30,906,288</b>

#### 15. Operating Expenses

	2017	2016
Taxes and licenses	₱3,835,279	₱2,435,797
Rent (see Note 19)	2,113,053	2,091,538
Professional fees	1,048,800	1,235,000
Depreciation and amortization (see Note 10)	711,519	719,430
Association dues	613,667	613,667
Entertainment, amusement and recreation	329,363	417,193
Commission	300,000	373,182
Communication, light and water	173,637	180,913
Miscellaneous	545,011	611,467
	<b>₱9,670,329</b>	<b>₱8,678,187</b>

#### 16. Personnel Costs

	2017	2016
Salaries and wages	₱7,531,927	₱7,081,930
Retirement benefits cost (see Note 17)	618,958	599,926
Others	510,589	629,975
	<b>₱8,661,474</b>	<b>₱8,311,831</b>



### 17. Retirement Benefits Cost

The Company established a defined benefit noncontributory retirement plan (the Retirement Plan) in 2011 covering all its regular employees.

The following tables summarize the components of the net benefit expense recognized in the statement of comprehensive income and the funded status and amounts recognized in the statements of financial position for the plan.

Changes in net pension liability as at December 31, 2017 and 2016 are as follows:

	Net Retirement Cost in Statement of comprehensive income				Remeasurements in Other Comprehensive Income				Balance at End of Year	
	Balance at Beginning of Year	Current Service Cost	Net Interest	Subtotal	Actuarial Loss Excluding Amount included in Net Interest	Actuarial Changes from Changes in Financial Assumptions	Actuarial Changes Arising from Experience	Actuarial Changes Arising from Demographic Assumptions		Subtotal
<b>December 31, 2017</b>										
Present value of defined benefit obligation	₱8,536,313	₱427,166	₱425,962	₱853,128	₱-	(₱1,625,725)	₱90,519	-	(₱1,535,206)	₱7,854,235
Fair value of plan assets	4,692,781	-	234,170	234,170	(1,268,112)	-	-	-	(1,268,112)	3,658,839
Net defined benefit liability (asset)	₱3,843,532	₱427,166	₱191,792	₱618,958	₱1,268,112	(₱1,625,725)	₱90,519	-	(₱267,094)	₱4,195,396
<b>December 31, 2016</b>										
Present value of defined benefit obligation	₱7,427,684	₱476,939	₱369,156	₱846,095	₱-	(₱10,980)	₱273,514	₱-	₱262,534	₱8,536,313
Fair value of plan assets	4,953,099	-	246,169	246,169	(506,487)	-	-	-	(506,487)	4,692,781
Net defined benefit liability (asset)	₱2,474,585	₱476,939	₱122,987	599,926	₱506,487	(₱10,980)	₱273,514	₱-	₱769,021	₱3,843,532



The Retirement Plan Trustee, as appointed by the Company, is responsible for the general admission of the Retirement Plan and the management of the retirement fund. The Retirement Plan Trustee may seek the advice of counsel and appoint an investment manager or managers to the retirement fund, an independent accountant to audit the fund and an actuary to value the fund.

Major categories of plan assets follow:

	2017	2016
Cash in banks	P288,874	P128,215
Investments in equity securities	3,369,965	4,564,566
	<b>P3,658,839</b>	<b>P4,692,781</b>

The carrying amount of the plan assets represents their fair values as of December 31, 2017 and 2016.

Investments in equity securities can be transacted through the Philippine Stock Exchange. The Company has no material transactions with the retirement plan nor does the plan have investments in the Company's shares.

Movements in accumulated remeasurement losses on retirement benefits, net of deferred tax, for the years ended December 31 are as follows:

	2017	2016
Beginning balance	P1,948,395	P1,410,080
Remeasurement in other comprehensive income:		
Actuarial loss (gain) on		
defined benefit obligation	(1,535,206)	262,534
Remeasurement loss on plan assets	1,268,112	506,487
	(267,094)	769,021
Income tax effect	80,128	(230,706)
	(186,966)	538,315
Ending balance	P1,761,429	P1,948,395

The latest actuarial valuation of the plan is as of December 31, 2017. The principal actuarial assumptions used to determine retirement benefits cost at the beginning of the year were as follows:

	2017	2016
Discount rate	5.87%	4.97%
Salary increase rate	5.00%	8.00%

Movements in the principal actuarial assumptions may result to an increase or decrease in the year-end defined benefit obligation (DBO). As such, the following sensitivity analysis shows the effects of 100 basis points (bps) movement in the discount and salary increase rates:

		2017	
		Increase (decrease) in DBO	
		in %	in P
Discount rate	+100 bps	(4.6%)	(P361,533)
	-100 bps	5.2%	409,510
Salary increase rate	+100 bps	4.2%	331,342
	-100 bps	(3.8%)	(295,986)



		2016	
		Increase (decrease) in DBO	
		in %	in ₱
Discount rate	+100 bps	(5.9%)	(₱499,970)
	-100 bps	7.0%	584,325
Salary increase rate	+100 bps	6.1%	497,922
	-100 bps	(5.4%)	(436,355)

The average duration of the defined benefit obligation at the end of the period is 4.9 years in 2017 and 7.4 years in 2016.

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

	2017	2016
Year 1	<b>₱4,495,538</b>	₱3,655,750
Year 2	<b>49,196</b>	-
Year 3	<b>1,356,519</b>	-
Year 4	<b>42,230</b>	-
Year 5	<b>51,679</b>	1,542,794
Year 6 - 10	<b>3,590,381</b>	4,504,008

## 18. Income Taxes

- a. The provision for current income tax represents regular corporate income tax in 2017 and 2016.

The reconciliation of income tax computed at the statutory income tax rate with the provision for income tax follows:

	2017	2016
Income tax at 30%	<b>₱8,449,840</b>	(₱4,748,538)
Additions to (reductions in) income tax resulting from:		
Unrecognized deferred income tax asset	-	8,880,000
Fair value changes of financial assets at FVPL	<b>1,544,819</b>	(256,076)
Dividend income exempt from tax	<b>(2,370,218)</b>	(219,300)
Interest income subjected to final tax	<b>(3,339)</b>	(3,388)
Nondeductible expenses	<b>1,376</b>	3,060,717
Provision for income tax	<b>₱7,622,478</b>	₱6,713,415

- b. The net deferred income tax asset (liability) consists of the income tax effects arising from the following:

	2017	2016
Deferred income tax assets on -		
Net retirement plan liability	<b>₱1,258,619</b>	₱1,153,059
Deferred income tax liabilities on -		
Capitalized interest	<b>(2,437,277)</b>	-
Accrued rent	<b>(1,415,351)</b>	(799,910)
Net deferred income tax asset (liability)	<b>(₱2,594,009)</b>	₱353,149



As of December 31, 2017 and 2016, the Company did not recognize deferred income tax asset on impairment loss on AFS unquoted equity securities amounting to ₱29.60 million, as management assessed that there is no capital gain against which the impairment loss can be offset to realize the benefit of such deferred income tax asset (see Note 8).

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

## 19. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Company, including holding companies, and fellow subsidiaries are related entities of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related entities.

Receivables from and payables to related parties are normally settled in cash.

The transactions with its related parties for each of the years and their account balances as of December 31 follow:

	Amount/Volume		Outstanding Balance Receivable (Payable)		Terms and Conditions
	2017	2016	2017	2016	
<b>Parent</b>					
<b>Liberty Flour Mills, Inc.</b>					
Rent expense	₱505,910	₱484,395	(₱77,278)	(₱643,200)	On demand; Unsecured
<b>Entity under common control</b>					
<b>Liberty Engineering Corporation</b>					
Advances for expenses	–	423,043	–	1,748,094	On demand; Unsecured
<b>Stockholder</b>					
<b>Parity Values, Inc.</b>					
Rent expense	1,607,143	1,607,143	–	–	30 days; Unsecured
<b>Officers and Employees</b>					
Advances	203,988	20,926,436	95,295	2,464,896	30 days; Unsecured
<b>Total:</b>					
Due from Affiliate (see Note 5)	2017	₱–			
	2016	₱1,748,094			
Advances to officers and employees (see Note 5)	2017	95,295			
	2016	2,464,896			
Due to a related party (see Note 11)	2017	77,278			
	2016	643,200			



Rental expense

Rental expense covers a period of one to three years and is automatically renewable unless terminated by the parties concerned.

Advances for expenses

Advances for expenses are amounts paid to support the administrative expenses of the related party.

The key management personnel compensation are as follows:

	2017	2016
Short-term employee benefits	₱3,323,730	₱3,110,171
Post-employment benefits (see Note 17)	326,727	316,010
	<b>₱3,650,457</b>	<b>₱3,426,181</b>

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## 20. Financial Risk Management Objectives and Policies

The Company's financial instruments consist mainly of cash in banks, investments in equity securities and trade receivables/payables and borrowings. The main risks arising from the use of these financial instruments are credit risk, interest rate risk and liquidity risk.

Credit Risk

Credit risk represents the loss that the Company would incur if the counterparty failed to perform under its contractual obligations. The Company has established controls and procedures in its credit policy to determine and monitor the credit worthiness of lessees and counterparties. The Company requires its lessees to pay at least three months security deposit to cover unpaid obligations and liabilities at the termination of the lease. It is also the Company's policy to require its lessees to pay their accounts on or before due date without the need of demand.

The maximum credit exposure of the Company is the carrying amount of the receivables as disclosed in Note 5. There are no significant concentrations of credit risk within the Company. With respect to credit risk arising from the other financial assets of the Company, which comprise cash in banks, financial assets at FVPL, and available-for-sale financial assets, the Company's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amount of these instruments. There are no collaterals or other credit enhancements held over these assets.

Financial assets classified as "high grade" are those transacted with reputable local banks, customers and institutions with no history of default on the agreed contract terms. Financial assets classified as "standard grade" are those receivables with little history of default on the agreed terms of the contract. "Past due but not impaired" are items with history of frequent defaults, nevertheless, the amounts are still collectible.

The following tables summarize the credit quality of the Company's financial assets per category as of December 31, 2017 and 2016.



December 31, 2017				
	Neither Past Due nor Impaired			Total
	High Grade	Standard Grade	Past Due but Not Impaired	
Loans and receivables:				
Cash in banks	P5,559,336	P-	P-	P5,559,336
Loan receivable	12,500,000	-	-	12,500,000
Rent receivable	2,105,223	-	-	2,105,223
Receivable from broker	30,630,995	-	-	30,630,995
Advances to officers and employees	95,295		-	95,295
Financial assets at FVPL	151,989,664	-	-	151,989,664
AFS investments	215,174,616	-	-	215,174,616
<b>Total</b>	<b>P418,095,129</b>	<b>P</b>	<b>P</b>	<b>P418,095,129</b>

December 31, 2016				
	Neither Past Due nor Impaired			Total
	High Grade	Standard Grade	Past Due but Not Impaired	
Loans and receivables:				
Cash in banks	P9,649,754	P-	P-	P9,649,754
Loan receivable	27,593,830	-	-	27,593,830
Rent receivable	2,316,016	905	297	2,317,218
Due from affiliate	1,748,094	-	-	1,748,094
Receivable from broker	27,027,533	-	-	27,027,533
Advances to officers and employees	-	2,464,896	-	2,464,896
Financial assets at FVPL	35,577,409	-	-	35,577,409
AFS investments	221,450,542	-	-	221,450,542
<b>Total</b>	<b>P325,363,178</b>	<b>P2,465,801</b>	<b>P297</b>	<b>P327,829,276</b>

“Past due but not impaired” amount pertaining to rent receivable as of December 31, 2017 is 60 to 90 days past due.

#### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to pay its obligations when they fall due under normal and stress circumstances. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Company’s future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The tables below summarize the maturity profile of the Company’s financial assets and liabilities as of December 31, 2017 and 2016 based on contractual undiscounted payments:

	2017				Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	
Financial Assets					
Cash in banks	P5,599,336	P-	P-	P-	P5,599,336
Receivables	45,331,513	-	-	-	45,331,513

(Forward)



	2017				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets at FVPL	151,989,664	-	-	-	151,989,664
AFS investments	215,174,616	-	-	-	215,174,616
	<b>₱418,055,129</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱418,055,129</b>
<b>Financial Liabilities</b>					
Notes payable, including interest	₱-	₱-	₱672,408,846	₱-	₱672,408,846
Accounts payable and other current liabilities*	13,592,261	-	-	12,343,684	25,935,945
Deposits on long-term leases	-	-	9,822,182	6,090,523	15,912,705
	<b>₱13,592,261</b>	<b>₱-</b>	<b>₱682,231,028</b>	<b>₱18,434,207</b>	<b>₱714,257,496</b>

\*Excluding nonfinancial liabilities amounting to ₱842,462.

	2016				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
<b>Financial Assets</b>					
Cash in banks	₱9,663,254	₱-	₱-	₱-	₱9,663,254
Receivables	61,151,572	-	-	-	61,151,572
Financial assets at FVPL	35,577,409	-	-	-	35,577,409
AFS investments	221,450,542	-	-	-	221,450,542
	<b>₱327,842,777</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱327,842,777</b>
<b>Financial Liabilities</b>					
Notes payable, including interest	₱-	₱391,696,302	₱-	₱-	₱391,696,302
Accounts payable and other current liabilities*	8,364,979	-	9,464,996	-	17,829,975
Deposits on long-term leases	-	-	6,994,302	6,046,569	13,040,871
	<b>₱8,364,979</b>	<b>₱391,696,302</b>	<b>₱16,459,298</b>	<b>₱6,046,569</b>	<b>₱422,567,148</b>

\*Excluding nonfinancial liabilities amounting to ₱526,702.

### Changes in liabilities arising from financing activities

	January 1, 2017	Cash flows	December 31, 2017
Notes Payable	<b>₱390,913,000</b>	<b>₱279,546,530</b>	<b>₱670,459,530</b>

### Fair Value

The following are the Company's financial instruments whose carrying amounts are measured at fair value:

	Carrying Value		Fair Value	
	2017	2016	2017	2016
<b>Financial Assets</b>				
Financial assets at FVPL	<b>₱151,989,664</b>	₱35,577,409	<b>₱151,989,664</b>	₱35,577,409
AFS investments - quoted shares	<b>215,174,616</b>	221,450,542	<b>215,174,616</b>	221,450,542

The carrying values of cash in banks, receivables, accounts payable and other current liabilities approximate their fair values due to their short-term nature.

The fair value of deposits on long-term leases is estimated by discounting future cash flows using rates currently available for debt on similar terms and remaining maturities. As of



December 31, 2017 and 2016, the carrying values deposits on long-term leases were not materially different from their calculated fair values.

The unquoted available-for-sale financial assets are carried at cost less any impairment, since fair value cannot be reliably estimated due to lack of reliable estimate of future cash flows and discount rates necessary to calculate fair value. There is currently no market for these investments.

#### Fair Value Hierarchy

Below table presents the fair value measurement hierarchy of the Company's financial assets carried at fair value and financial liabilities whose fair values are disclosed as of December 31:

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
<b>Financial assets measured at fair value:</b>				
Financial assets at FVPL	P151,989,664	P151,989,664	P-	P-
AFS investments - quoted shares	215,174,616	215,174,616	-	-
	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<b>Financial assets measured at fair value:</b>				
Financial assets at FVPL	P35,577,409	P35,577,409	P-	P-
AFS investments - quoted shares	221,450,542	221,450,542	-	-

Financial assets at FVPL and quoted AFS investments are carried at their fair values based on quoted market prices as of December 31, 2017 and 2016.

Long-term loans carry interest rates that approximate the interest rates for comparable instruments in the market.

The disclosures on the fair value measurement hierarchy for investment property carried at cost are presented in Note 9.

In 2017 and 2016, there were no reclassifications of financial instruments from and into levels 1, 2 and 3.

## 21. Capital Management Policies

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end December 31, 2017 and 2016.

The Company monitors capital by having a daily monitoring of receipts and collections, regular release of disbursements to suppliers, monthly cash flow report preparation and monthly review of capital expenditure requirements. The Company at this point, with its healthy cash flow, is not looking for additional bank loans to finance its operations and renovations. The Company strives to earn a minimum return double the annual inflation rate. The Company is not subject to any externally imposed capital requirements.



The following are considered by the Company as capital as of December 31, 2017 and 2016:

	2017	2016
Capital stock	P250,000,000	P250,000,000
Retained earnings (deficit)	7,985,384	(12,558,272)
	<b>P257,985,384</b>	<b>P237,441,728</b>

On February 22, 2016, the BOD declared cash dividends in the aggregate amount of P100,000,000 to shareholders of record as of March 4, 2016 payable on March 15, 2016. On the same date, the BOD authorized the declaration of 374,361 shares as stock dividends at par value or an aggregate amount of P37,436,100 to be taken from the Company's authorized but unissued capital stock. On March 31, 2016 the Company paid P187,181 documentary stamp tax for the stocks dividends declared.

## 22. Supplementary Information Required Under Revenue Regulations 15-2010

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

### a. Value-added tax (VAT)

The Company's rental income is subject to output value added tax (VAT) while its purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12%.

- Net Sales/Receipts and Output VAT declared in the Company's VAT returns

	Net Sales/Receipts	Output VAT
Vatable net sales/receipts:		
Rental income	P70,172,534	P8,420,704
Common area service income	336,868	40,424
Others	2,839,100	340,692
Zero-rated rental income	11,790,050	-
	<b>P85,138,552</b>	<b>P8,801,820</b>

Zero-rated rental income pertains to those rendered to persons or entities whose exemptions are provided under special laws or international agreements to which the Philippines is a signatory.

- Input VAT

Balance at January 1	P6,884,770
Current year's domestic purchases/payments or importations for:	
Capital goods subject to amortization	136,575
Services lodged under cost of goods sold	740,746
Services lodged under construction in progress	23,562,409
	31,324,500
Application against output VAT	8,801,820
Balance at December 31	<b>P22,522,680</b>



b. Other Taxes and Licenses

Included in direct costs -	
Real estate taxes	₱6,924,466
Included in operating expenses:	
Documentary stamp tax	2,965,689
License and permits fees	869,590
	<hr/>
	₱10,759,745
	<hr/>

c. Withholding Taxes

	Paid	Accrued	Total
Withholding tax on compensation and benefits	₱1,445,378	₱170,210	₱1,615,588
Expanded withholding taxes	3,969,263	605,114	4,574,377
			<hr/>
			₱6,189,965
			<hr/>

d. Tax Assessments and cases

As at December 31, 2017, the Company has no ongoing tax assessment and no outstanding tax cases with the BIR or any other court or bodies outside of the BIR.

