

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

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

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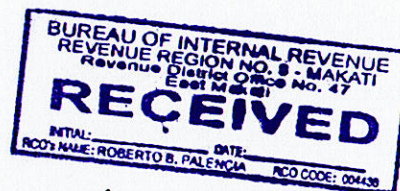
CONTACT PERSON'S ADDRESS

4th 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.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
LFM Properties Corporation
4th 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, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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



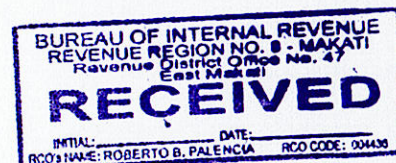
Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 11 2019



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 23 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.

Gaile A. Macapinlac

Gaile A. Macapinlac

Partner

CPA Certificate No. 98838

SEC Accreditation No. 1621-A (Group A),

March 21, 2017, valid until March 20, 2020

Tax Identification No. 205-947-572

BIR Accreditation No. 08-001998-126-2017,

February 9, 2017, valid until February 8, 2020

PTR No. 7332571, January 3, 2019, Makati City

March 20, 2019



APR 11 2019



LFM PROPERTIES CORPORATION
(A Wholly Owned Subsidiary of Liberty Flour Mills, Inc.)
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash (Note 4)	₱5,993,613	₱5,599,336
Receivables (Notes 5 and 19)	8,122,619	45,331,513
Financial assets at fair value through profit or loss (Note 6)	145,654,891	151,989,664
Prepaid expenses and other current assets (Note 7)	31,559,014	25,534,760
Total Current Assets	191,330,137	228,455,273
Noncurrent Assets		
Investment properties (Notes 9 and 13)	681,751,287	481,835,673
Financial assets at fair value through other comprehensive income (FVOCI) (Notes 2 and 8)	181,105,302	-
Available-for-sale (AFS) investments (Note 8)	-	215,174,616
Accrued rent - net of current portion (Note 13)	6,623,413	4,717,838
Property and equipment (Note 10)	48,195	394,215
Deferred tax assets - net (Note 18)	3,126,786	-
Other noncurrent assets (Note 9)	4,004,120	10,174,759
Total Noncurrent Assets	876,659,103	702,122,342
TOTAL ASSETS	₱1,067,989,240	₱940,752,374
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Note 11)	₱770,400,000	₱670,459,530
Accounts payable and other current liabilities (Note 11)	31,909,538	26,778,407
Current portion:		
Deposits on long-term leases (Note 13)	11,294,245	9,789,559
Unearned rental income (Note 13)	11,316,531	3,646,696
Income tax payable	6,412,134	-
Total Current Liabilities	831,332,448	710,674,192
Noncurrent Liabilities		
Deposits on long-term leases - net of current portion (Note 13)	15,021,340	5,465,460
Unearned rental income - net of current portion (Note 13)	12,693,876	599,761
Net retirement plan liability (Note 17)	5,958,934	4,195,396
Deferred tax liabilities - net (Note 18)	-	2,594,009
Total Noncurrent Liabilities	33,674,150	12,854,626
Total Liabilities	865,006,598	723,528,818
Equity		
Capital stock - ₱100 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 financial assets at FVOCI (Notes 2 and 8)	(73,069,713)	-
Fair value changes on AFS investments (Note 8)	-	(39,000,399)
Accumulated remeasurement losses on defined benefit plan (Note 17)	(2,504,295)	(1,761,429)
Retained earnings	28,556,650	7,985,384
Total Equity	202,982,642	217,223,556
TOTAL LIABILITIES AND EQUITY	₱1,067,989,240	₱940,752,374



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	
	2018	2017
RENTAL INCOME (Notes 9 and 13)	₱91,429,462	₱84,045,557
DIRECT COSTS (Notes 9 and 14)	30,734,524	31,377,828
GROSS PROFIT	60,694,938	52,667,729
OPERATING EXPENSES (Notes 10, 15, 16, 17 and 19)	23,736,009	18,331,803
OTHER INCOME (CHARGES)		
Dividend income (Note 6)	12,183,711	7,900,727
Interest expense (Notes 11 and 13)	(12,003,500)	(11,427,038)
Fair value changes of financial assets at fair value through profit or loss (Note 6)	(9,678,774)	(5,149,396)
Interest income (Notes 4 and 5)	339,028	1,301,197
Others	791,990	1,204,718
	(8,367,545)	(6,169,792)
INCOME BEFORE INCOME TAX	28,591,384	28,166,134
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)		
Current	13,422,542	4,755,448
Deferred	(5,402,424)	2,867,030
	8,020,118	7,622,478
NET INCOME	20,571,266	20,543,656
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods –		
Net fair value changes on AFS investments (Note 8)	–	(6,275,926)
	–	(6,275,926)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods –		
Net fair value changes on financial assets at FVOCI (Note 8)	(34,069,314)	–
Remeasurement gain (loss) on defined benefit plans (Note 17)	(1,061,237)	267,094
Income tax effect	318,371	(80,128)
	(34,812,180)	186,966
	(34,812,180)	(6,088,960)
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱14,240,914)	₱14,454,696



APR 11 2019

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, 2018 AND 2017

	Other Components of Equity					Total
	Capital Stock (Note 21)	Fair Value Changes on Financial assets at FVOCI (Note 8)	Fair Value Changes on AFS Investments (Note 8)	Accumulated Remeasurement Losses on Defined Benefit Plan (Note 17)	Retained Earnings (Deficit) (Note 21)	
Balances at January 1, 2018	₱250,000,000	₱-	(₱39,000,399)	(₱1,761,429)	₱7,985,384	₱217,223,556
Effect of adoption of PFRS 9 (Note 2)	-	(39,000,399)	39,000,399	-	-	-
Balances at January 1, 2018, as restated	250,000,000	(39,000,399)	-	(1,761,429)	7,985,384	217,223,556
Net income for the year	-	-	-	-	20,571,266	20,571,266
Other comprehensive loss	-	(34,069,314)	-	(742,866)	-	(34,812,180)
Balances at December 31, 2018	₱250,000,000	(₱73,069,713)	₱-	(₱2,504,295)	₱28,556,650	₱202,982,642
Balances at January 1, 2017	₱250,000,000	₱-	(₱32,724,473)	(₱1,948,395)	(₱12,558,272)	₱202,768,860
Net income for the year	-	-	-	-	20,543,656	20,543,656
Other comprehensive income (loss)	-	-	(6,275,926)	186,966	-	(6,088,960)
Balances at December 31, 2017	₱250,000,000	-	(₱39,000,399)	(₱1,761,429)	₱7,985,384	₱217,223,556

See accompanying Notes to Financial Statements.



LFM PROPERTIES CORPORATION
(A Wholly Owned Subsidiary of Liberty Flour Mills, Inc.)
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱28,591,384	₱28,166,134
Adjustments to reconcile income (loss) before income tax to net cash flows:		
Depreciation and amortization (Notes 9 and 10)	14,379,034	14,327,132
Dividend income (Note 7)	(12,183,711)	(7,900,727)
Interest expense (Notes 11 and 13)	12,003,500	11,427,038
Fair value changes of financial assets at fair value through profit or loss	9,678,774	5,149,396
Movement in net retirement plan liability (Note 17)	702,301	618,958
Interest income (Notes 4 and 5)	(339,028)	(1,301,197)
Working capital changes		
Decrease (increase) in:		
Receivables	37,208,894	15,820,058
Accrued rent	(1,905,575)	(2,051,471)
Prepaid expenses and other current assets	(6,024,254)	19,925,535
Increase (decrease) in:		
Accounts payable and other current liabilities	(3,139,392)	7,666,366
Deposits on long-term leases	10,658,943	2,819,152
Unearned rental income	19,763,950	552,628
Net cash flows generated from operations	109,394,820	95,219,002
Income tax paid, including creditable withholding taxes	(7,010,408)	(5,399,973)
Interest received	339,028	1,301,197
Net cash provided by operating activities	102,723,440	91,120,226
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Investment properties (Note 9)	(206,628,737)	(243,949,259)
Property and equipment (Note 10)	(61,664)	(4,197)
Purchase of financial assets at fair value through profit or loss (Note 6)	(7,903,434)	(165,556,484)
Decrease (increase) in other noncurrent assets	5,953,055	(5,682,499)
Proceeds from sale of financial assets at fair value through profit or loss (Note 6)	4,559,433	43,994,833
Dividends received (Note 6)	12,183,711	7,900,727
Net cash used in investing activities	(191,897,636)	(363,296,879)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of bank loans (Note 11)	174,500,000	302,900,000
Loan payments (Note 11)	(74,559,530)	(23,353,470)
Interest paid (Notes 11 and 13)	(10,371,997)	(11,433,795)
Net cash provided by financing activities	89,568,473	268,112,735
NET INCREASE (DECREASE) IN CASH	394,277	(4,063,918)
CASH AT BEGINNING OF YEAR	5,599,336	9,663,254
CASH AT END OF THE YEAR (Note 4)	₱5,993,613	₱5,599,336

See accompanying Notes to Financial Statements.



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

NOTES TO FINANCIAL STATEMENTS

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 20, 2019.

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 (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) 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, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- PFRS 9, *Financial Instruments*

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

The Company applied PFRS 9 prospectively, with an initial application date of January 1, 2018. The Company has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other components of equity.



Upon the adoption of PFRS 9, the Company had the following required reclassifications as at January 1, 2018:

PAS 39 measurement category	PFRS 9 measurement category			Amortised cost	
	FVTPL	FVOCI			
Financial Assets:					
Loans and receivables:					
Cash	i	₱5,599,336	₱-	₱-	₱5,599,336
Receivables	i	45,331,513	-	-	45,331,513
Financial assets at FVTPL		151,989,664	151,989,664	-	-
Available-for-sale (AFS) investments:					
Quoted equity instruments	ii	215,174,616	-	215,174,616	-
Unquoted equity instruments *	iii	29,600,000	29,600,000	-	-
Financial Liabilities:					
Loans and borrowings:					
Notes payable	iv	670,459,530	-	-	670,459,530
Accounts payable and other current liabilities	iv	26,778,407	-	-	26,778,407
Deposits on long-term leases	iv	15,255,019	-	-	15,255,019

*Fully impaired as at December 31, 2017

Below is the impact on equity:

		December 31, 2017, as previously presented	Adjustment	January 1, 2018, as adjusted
Equity:				
Other Comprehensive Income				
Fair value changes on financial assets at FVOCI	ii	₱-	(₱39,000,399)	(₱39,000,399)
Fair value changes on AFS investments	ii	(39,000,399)	39,000,399	-

The nature of these adjustments are described below:

(a) Classification and measurement

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

The assessment of the Company's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.



The classification and measurement requirements of PFRS 9 did not have a significant impact to the Company. The Company continued measuring at fair value all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Company's financial assets:

- i. Cash and receivables classified as loans and receivables as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortized cost beginning January 1, 2018.

The Company continued measuring at amortized cost all financial assets previously carried at amortized cost under PAS 39.

- ii. Quoted equity investments classified as AFS financial assets as at December 31, 2017 are classified and measured as financial assets designated at FVOCI beginning January 1, 2018. The Company elected to classify irrevocably its quoted and unquoted equity investments under this category at the date of initial application as it intends to hold these investments for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods.
- iii. Unquoted equity investments classified as AFS investments as at December 31, 2017 are classified and measured as financial assets at FVPL beginning January 1, 2018. The Company provided allowance on impairment loss of the said investments in prior periods in statements of comprehensive income.
- iv. The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities.

(b) Impairment

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of PFRS 9 the Company did not recognize additional impairment on the Company's receivables. The adjustment in the impairment of receivables as a result of the adoption of PFRS 9 does not significantly impact the financial statements as at December 31, 2018.

- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- PFRS 15, *Revenue from Contracts with Customers*
Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)



- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*

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

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

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

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

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

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



Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
 - Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

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 FVTPL, financial assets at FVOCI in 2018 and AFS investments in 2017, 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

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

a. Financial Assets

Initial Recognition, Subsequent Measurement and Impairment Upon Adoption of PFRS 9 starting January 1, 2018.

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI, and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15.

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

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

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

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

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL
- Financial assets at amortized cost (debt instruments). This category is the most relevant to the Company.

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and



- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Company's cash and receivables are included in this category as at December 31, 2018.

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

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of comprehensive income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to statement of comprehensive income.

The Company has no debt instruments at fair value through OCI as at December 31, 2018.

- Financial assets designated at FVOCI (equity instruments). Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to statement of comprehensive income. Dividends are recognized as other income in the statement of comprehensive income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Company has no non-listed equity investments under this category.

The Company's quoted investment is classified as equity instrument designated at FVOCI as at December 31, 2018.

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



Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income.

This category includes derivative instruments and listed and non-listed equity investments which the Company had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are also recognised as other income in the statement of comprehensive income when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristic and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVPL. Embedded derivatives are measured at fair value with changes in fair value recognized in statement of comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded with a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

The Company has no derivative asset as at December 31, 2018.

Impairment of financial assets. The Company recognizes an ECL for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

For cash, the Company applies a general approach in calculating ECLs. The Company recognizes a loss allowance based on either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk on its cash since initial recognition.

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

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.



Accounting Policies Prior to the Adoption of PFRS 9

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVTPL, transactions costs that are attributable to the acquisition of the financial asset.

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

Subsequent Measurement. For purposes of subsequent measurement, financial assets are defined as: financial assets at FVTPL; loans and receivables; and AFS investments. The Company does not have financial assets classified as HTM investments or derivatives designated as hedging instruments in an effective hedge.

- *Financial Assets at FVTPL.* Financial assets at FVTPL are financial assets that are purchased and held principally with the intention of selling or repurchasing them in the near term or are designated as financial assets at FVTPL at initial recognition. Financial assets are designated as at FVTPL by management on initial recognition when any of the following criteria are met:
 - i. The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on them on a different basis;
 - ii. The financial assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
 - iii. 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.

These financial assets are subsequently measured at fair market value, based primarily on quoted market prices. Realized and unrealized gains and losses arising from changes in fair market value of financial assets at FVTPL are recognized in profit or loss. Dividend income on equity securities is recognized according to the terms of the contract or when the right of payment has been established.

As of December 31, 2017, the Company's financial assets at FVTPL consist of equity securities that are held-for-trading.

- *Loans and Receivables.* Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest rate method, of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in profit or loss when the financial assets are derecognized or impaired or amortized. Loan and



receivables are classified as current assets when it is expected to be realized within 12 months after the balance sheet date or within the normal operating cycle, whichever is longer.

As at December 31, 2017, the Company's loans and receivables consist of cash and receivables.

- *AFS Investments.* AFS investments are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets may be designated at initial recognition as AFS investments if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS investments are subsequently measured at fair market value. Unrealized gains and losses arising from changes in fair market value of AFS investments are reported as other comprehensive income under "Fair value changes on available-for-sale financial assets" until the financial asset is derecognized or as the financial asset is determined to be impaired.

As of December 31, 2017, the Company's AFS investments consist of quoted and unquoted equity securities and debt securities.

Impairment of Financial Assets. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliability estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- *Financial Assets Carried at Amortized Cost.* The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually and collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization. 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, such as customer type, payment history, past-due status and term, and that group of financial assets is collectively assessed for impairment. Financial 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 amortized cost has been incurred, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows 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. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. The amount of the loss shall be recognized in profit or loss.



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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

- *AFS Investments.* In the case of equity investments classified as AFS investments, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value have been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Company evaluates, among other factors, the deviation or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS investments, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the parent company statement of comprehensive income.

Accounting Policies Applicable to All Periods Presented

Classification of Financial Instruments Between Liability and Equity

A financial instrument is classified as a liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity; or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

"Day 1" Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statement of comprehensive income, unless it qualifies for recognition as some other type of asset. In cases where use is made of data



which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference amount.

Financial Liabilities

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

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

The Company’s financial liabilities consist only of loans and borrowings. As at December 31, 2018 and 2017, the Company’s loans and borrowings consist of accounts payable and other current liabilities. The Company has no financial liabilities at FVTPL or derivatives designated as hedging instruments in an effective hedge and no freestanding embedded derivatives as at December 31, 2018 and 2017.

Subsequent Measurement. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the financial liabilities are derecognized as well as through the effective interest rate amortization process. Amortized cost is calculated by taking into account any discount or premium or acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is recognized in profit or loss.

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

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) shall be recognized in profit or loss.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is extinguished, i.e., when discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of



the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

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

Cash

Cash includes cash on hand and in banks.

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 statements of financial position.

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 statements 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 and equipment up to the date of change in use.

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 from Contracts with Customers

Under PFRS 15, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties. Revenue is recognized when the Company satisfies a performance obligation by transferring a promised goods or service to the customer, which is when the customer obtains control of the goods or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. The Company's contracts with customers consist of only one performance obligation which is satisfied over time (straight-line basis over the lease terms). The Company has concluded that it is acting as principal in all of its revenue arrangements.

Prior to the adoption of PFRS 15, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the 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 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 to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow 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 financial position at the financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. **Significant Accounting Judgments and Estimates**

The preparation of the financial statements 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 financial assets at FVOCI. Upon adoption of PFRS 9, the Company recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

In the case of equity investments classified as financial assets at FVOCI, these financial assets are not subject to impairment assessment.

Management assessed that debt instruments classified as financial assets at FVOCI are not impaired. The carrying value of financial assets at FVOCI amounted to ₱181,105,302 as at December 31, 2018 (see Note 8).

Impairment of AFS Investments. Prior to adoption of PFRS 9, in the case of equity investments classified as 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 Group treats "significant" generally as a fair value decline of 20% or more below its cost and "prolonged" generally as greater than six months against the period in which the fair value has been below its original cost. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from OCI and recognized in profit or loss. Impairment



losses on AFS financial assets are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The carrying value of AFS investments amounted to ₱215,174,616 as at December 31, 2017 (see Note 8).

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 2018 and 2017. The carrying values of depreciable investment properties, property and equipment and computer software follows:

	2018	2017
Investment properties (see Note 9)	₱681,751,287	₱481,835,673
Property and equipment (see Note 10)	48,195	394,215
Computer software (see Note 10)	656,139	165,042
	<u>₱682,455,621</u>	<u>₱482,394,930</u>

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 at December 31, 2018 and 2017. The aggregate carrying values of these assets as at December 31 amounted to ₱682,455,621 and ₱482,394,930 as at December 31, 2018 and 2017, respectively (see Notes 9 and 10).



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 17 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 ₱5,958,934 and ₱4,195,396 as at December 31, 2018 and 2017, respectively (see Note 17).

Recognition of deferred tax assets. The Company reviews the carrying amounts of deferred income tax assets at each reporting 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 tax assets to be utilized. While future taxable profit can be estimated, the actual outcome may be different. Total deferred tax assets recognized amounted to ₱5,113,810 and ₱1,258,619 as at December 31, 2018 and 2017, respectively (see Note 18).

4. Cash

	2018	2017
Cash on hand	₱13,500	₱13,500
Cash in banks	5,980,113	5,585,836
	₱5,993,613	₱5,599,336

Cash in banks earn interest at the respective bank deposit rates. Interest income earned on cash in banks amounted to ₱18,936 in 2018 and ₱11,131 in 2017.

5. Receivables

	2018	2017
Receivables from broker	₱4,433,308	₱30,630,995
Rent receivable (see Note 13)	3,608,073	2,105,223
Advances to officers and employees (see Note 19)	75,833	95,295
Due from a related party (see Note 19)	5,405	-
Loan receivable	-	12,500,000
	₱8,122,619	₱45,331,513

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.

In 2017, 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 amounted to ₱320,092 in 2018 and ₱1,290,066 in 2017.

6. Financial Assets at Fair Value through Profit or Loss

On the date of initial adoption of PFRS 9, the Company reclassified its unquoted AFS investment to financial assets investment at FVTPL (Notes 2 and 8).

Financial assets at FVTPL pertain to quoted equity securities held for trading purposes and are composed of the following:

	2018	2017
Balance at beginning of the year	₱151,989,664	₱ 35,577,409
Acquisitions during the year	7,903,434	165,556,484
Disposal during the year	(4,559,433)	(43,994,834)
Changes in fair value of financial assets at FVTPL	(9,678,774)	(5,149,396)
	₱145,654,891	₱151,989,663

Divided income earned from financial assets at FVTPL amounted to ₱12,183,711 and ₱7,900,727 in 2018 and 2017, respectively.

7. Prepaid Expenses and Other Current Assets

	2018	2017
Input VAT	₱29,130,922	₱22,522,680
Prepaid expenses	820,949	397,208
Prepaid tax	—	522,294
Others	1,607,143	2,092,578
	₱31,559,014	₱25,534,760

8. Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) and Available-for-sale (AFS) Investments

On the date of initial adoption of PFRS 9, the Company reclassified its quoted and unquoted AFS investment to financial assets at FVOCI and financial assets at FVTPL, respectively. (Notes 2 and 8).



The Company's financial assets at FVOCI (2018) and AFS investments (2017) consist of the following equity securities:

	2018	2017
Quoted	₱181,105,302	₱215,174,616
Unquoted (Note 6)	-	29,600,000
	181,105,302	244,774,616
Less allowance for impairment – unquoted	-	29,600,000
Total	₱181,105,302	₱215,174,616

Fair value changes on financial assets at FVOCI (2018) and AFS investments (2017) follow:

	2018	2017
Beginning balance	(₱39,000,399)	(₱32,724,473)
Fair value losses recognized as other comprehensive income	(34,069,314)	(6,275,926)
Ending balance	(₱73,069,713)	(₱39,000,399)

9. Investment Properties

	2018				
	Land	Building and Improvements	Condominium Units	Construction in Progress	Total
Costs:					
Beginning balances	₱9,737,800	₱354,516,982	₱10,399,120	₱358,314,714	₱732,968,616
Additions	-		520,536	213,148,844	213,669,380
Ending balances	9,737,800	354,516,982	10,919,656	571,463,558	946,637,996
Accumulated depreciation and amortization:					
Beginning balances	-	240,733,823	10,399,120	-	251,132,943
Depreciation and amortization (Note 14)	-	13,736,053	17,713	-	13,753,766
Ending balances	-	254,469,876	10,416,833	-	264,886,709
Net book values	₱9,737,800	₱100,047,106	₱502,823	₱571,463,558	₱681,751,287
	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 (Note 14)	-	13,615,613	-	-	13,615,613
Ending balances	-	240,733,823	10,399,120	-	251,132,943
Net book values	₱9,737,800	₱113,783,159	₱-	₱358,314,714	₱481,835,673

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



Construction in progress pertains to costs incurred for the construction of Liberty Plaza. The Company paid ₱27,182,109 in 2017 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 as at December 31, 2017 is included under “Other noncurrent assets” in the statements of financial position.

Capitalized general borrowing costs amount to ₱20,412,141 and ₱8,124,258 in 2018 and 2017, respectively. The rate used to determine the amount of borrowing costs eligible for capitalization was 4.40% and 3.43% in 2018 and 2017, respectively, which were determined using the weighted effective interest rate of the general borrowings (see Note 11).

Rental income from investment properties, excluding construction in progress, recognized in statement of comprehensive income amounted to ₱91,429,462 in 2018 and ₱84,045,557 in 2017, while directly related costs amounted to ₱30,734,524 and ₱31,377,828, respectively (Notes 13 and 14).

The aggregate fair value of investment properties, excluding construction in progress, amounted to ₱2,240,073,000 as at December 31, 2018 and 2017, 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 at December 31, 2016 approximates its current fair value as at December 31, 2018 and 2017 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 at December 31, 2018 served as collateral to secure the loans obtained from a loan bank (Note 11).

10. Property and Equipment

	2018			Total
	Office Equipment	Transport Equipment	Leasehold Improvements	
Costs:				
Beginning balances	₱2,255,997	2,200,000	₱839,842	₱5,295,839
Additions	61,664	–	–	61,664
Ending balances	2,317,661	2,200,000	839,842	5,357,503
Accumulated depreciation and amortization:				
Beginning balances	2,195,115	1,866,667	839,842	4,901,624
Depreciation and amortization (Note 15)	74,351	333,333	–	407,684
Ending balances	2,269,466	2,200,000	839,842	5,309,308
Net book values	₱48,195	₱–	₱–	₱48,195
	2017			Total
	Office Equipment	Transport Equipment	Leasehold Improvements	
Costs:				
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
Accumulated depreciation and amortization:				
Beginning balances	2,119,934	2,702,381	839,842	5,662,157
Depreciation and amortization (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

The aggregate costs of fully depreciated property and equipment that are still being used in operations amounted to ₱5,124,011 and ₱3,568,850 as at December 31, 2018 and 2017, respectively.

Included under “Other noncurrent assets” are computer software with net book value of ₱656,139 and ₱165,042 as at December 31, 2018 and 2017, respectively. Amortization of computer software ₱217,584 amounted ₱236,338 in 2018 and 2017, respectively.

11. Notes Payable

On various dates in 2018, the Company rolled over certain short-term notes payable and obtained short-term notes totaling ₱174,500,000 (with interest rate ranging from 3.50 % to 6.50%), of which notes totaling ₱74,559,430 were paid during the same year. 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



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

Capitalized general borrowing costs amount to ₱20,412,141 and ₱8,124,258 in 2018 and 2017, respectively. The rate used to determine the amount of borrowing costs eligible for capitalization was 4.40% and 3.43% in 2018 and 2017, respectively, which were determined using the weighted effective interest rate of the general borrowings (see Note 9).

Total interest expense on notes charged to statement of comprehensive income amounted to ₱11,601,877 in 2018 and ₱11,405,857 in 2017.

12. Accounts Payable and Other Current Liabilities

	2018	2017
Retention payable	₱15,000,000	₱12,343,684
Account payables	11,757,770	11,252,602
Accrued expenses	2,274,045	814,165
Construction bond	1,668,216	1,448,216
Withholding taxes payable	1,142,049	775,002
Due to a related party (Note 19)	-	77,278
Others	67,458	67,460
	₱31,909,538	₱26,778,407

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

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

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.

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 statement of financial position, and are recorded at their present values which amounted to ₱26,315,585 and ₱15,255,019 as at December 31, 2018 and 2017, respectively. Accretion of interest, included in "Interest expense" in the statements of comprehensive income, amounted to ₱401,623 and ₱21,181 in 2018 and 2017, respectively.

Advance rental shown as "Unearned rental income" in the statements of financial position amounted to ₱24,010,407 and ₱4,246,457 as of December 31, 2018 and 2017, 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 ₱6,623,413 and ₱4,717,838 as at December 31, 2018 and 2017, respectively.



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

	2018	2017
Within one year	₱68,574,884	₱67,075,359
After one year but not more than five years	113,638,921	148,102,171
	₱182,213,805	₱215,177,530

14. Direct Costs

	2018	2017
Depreciation and amortization (Note 9)	₱13,753,766	₱13,615,613
Real estate tax	6,924,466	6,924,466
Outside services	4,411,851	3,982,680
Communication, light and water	3,493,880	2,331,009
Repairs and maintenance	1,433,068	3,924,376
Insurance and others	717,493	599,684
	₱30,734,524	₱31,377,828

15. Operating Expenses

	2018	2017
Personnel Costs (Note 16)	₱9,855,198	₱8,661,474
Taxes and licenses	6,560,720	3,835,279
Rent (see Note 19)	1,532,966	2,113,053
Professional fees	1,099,277	1,048,800
Association dues	662,722	613,667
Depreciation and amortization (Note 10)	625,268	711,519
Entertainment, amusement and recreation	444,267	329,363
Communication, light and water	380,543	173,637
Commission	321,200	300,000
Miscellaneous	2,253,848	545,011
	₱23,736,009	₱18,331,803

16. Personnel Costs

	2018	2017
Salaries and wages	₱8,641,871	₱7,531,927
Retirement benefits cost (Note 17)	702,301	618,958
Others	511,026	510,589
	₱9,855,198	₱8,661,474



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 statement of financial position for the plan.

Changes in net pension liability as at December 31, 2018 and 2017 are as follows:

	Net Retirement Cost in the Statement of Comprehensive Income				Remeasurements in Other Comprehensive Income				
	Balance at Beginning of Year	Current Service Cost	Net Interest	Subtotal	Actuarial Loss Excluding Amount included in Net Interest	Actuarial Changes Arising from Changes in Financial Assumptions	Actuarial Changes Arising from Experience	Subtotal	Balance at End of Year
December 31, 2018									
Present value of defined benefit obligation	₱7,854,235	₱456,031	₱461,044	₱917,075	₱—	(₱504,539)	₱579,739	(₱75,200)	₱8,846,510
Fair value of plan assets	3,658,839	—	214,774	214,774	(986,037)	—	—	(986,037)	(2,887,576)
Net defined benefit liability (asset)	₱4,195,396	₱456,031	₱246,270	₱702,301	₱986,037	(₱504,539)	₱579,739	₱1,061,237	₱5,958,934
December 31, 2017									
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



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:

	2018	2017
Cash in banks	₱369,277	₱288,874
Investments in equity securities	2,518,299	3,369,965
	₱2,887,576	₱3,658,839

The carrying amount of the plan assets represents their fair values as at December 31, 2018 and 2017.

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 rereasurement losses on retirement benefits, net of deferred tax, for the years ended December 31 are as follows:

	2018	2017
Beginning balance	₱1,761,429	₱1,948,395
Remeasurement in other comprehensive income:		
Actuarial loss (gain) on defined benefit obligation	75,200	(1,535,206)
Remeasurement loss on plan assets	986,037	1,268,112
	1,061,237	(267,094)
Income tax effect	318,371	80,128
	742,866	(186,966)
Ending balance	₱2,504,295	₱1,761,429

The latest actuarial valuation of the plan is as at December 31, 2018. The principal actuarial assumptions used to determine retirement benefits cost at the beginning of the year were as follows:

	2018	2017
Discount rate	7.18%	5.87%
Salary increase rate	5.00%	5.00%

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:

		2018	
		Increase (decrease) in DBO	
		in %	in ₱
Discount rate	+100 bps	(3.8%)	(₱334,103)
	-100 bps	4.3%	377,509
Salary increase rate	+100 bps	4.3%	381,982
	-100 bps	(3.9%)	(343,708)



		2017	
		Increase (decrease) in DBO	
		in %	in ₱
Discount rate	+100 bps	(4.6%)	(₱361,533)
	-100 bps	5.2%	409,510
Salary increase rate	+100 bps	4.2%	331,342
	-100 bps	(3.8%)	(295,986)

The average duration of the defined benefit obligation at the end of the period is 4 years and 4.9 years in 2018 and 2017, respectively.

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

	2018	2017
Year 1	₱4,810,227	₱4,495,538
Year 2	62,792	49,196
Year 3	1,490,505	1,356,519
Year 4	56,793	42,230
Year 5	68,928	51,679
Year 6 - 10	3,789,931	3,590,381

18. Income Taxes

The provision for current income tax represents regular corporate income tax in 2018 and 2017.

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

	2018	2017
Provision for income tax at statutory tax rate	₱8,577,415	₱8,449,840
Additions to (reductions in) income tax resulting from:		
Dividend income exempt from tax	(3,655,113)	(2,370,218)
Fair value changes of financial assets at FVPL	2,903,632	1,544,819
Nondeductible expenses	199,864	1,376
Interest income subjected to final tax	(5,680)	(3,339)
	₱8,020,118	₱7,622,478

The net deferred tax assets (liabilities) consists of the income tax effects arising from the following:

	2018	2017
Deferred tax assets:		
Advance rental	₱3,326,130	₱-
Net retirement plan liability	1,787,680	1,258,619
Deferred tax liabilities:		
Accrued rent	(1,987,024)	(1,415,351)
Capitalized interest	-	(2,437,277)
Net deferred tax assets (liabilities)	₱3,126,786	(₱2,594,009)



As at December 31, 2018 and 2017, the Company did not recognize deferred tax asset on impairment loss on AFS-unquoted equity securities amounting to ₱29.60 million, as management believes that that there is no capital gain against which the impairment loss can be offset to realize the benefit of such deferred tax asset (Notes 7 and 8).

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 at December 31 follow:

	Amount/Volume		Outstanding Balance Receivable (Payable)		Terms and Conditions
	2018	2017	2018	2017	
Parent					
Liberty Flour Mills, Inc.					
Rent expense	₱523,676	₱505,910	₱5,405	(₱77,278)	On demand; Unsecured
Stockholder					
Parity Values, Inc.					
Rent expense	1,009,290	1,607,143	-	-	30 days; Unsecured
Officers and Employees					
Advances	252,363	203,988	75,833	95,295	30 days; Unsecured
Total:					
Due from a related party (Note 5)	2018 2017	₱5,405 ₱-			
Advances to officers and employees (Note 5)	2018 2017	75,833 95,295			
Due to a related party (Note 11)	2018 2017	- 77,278			

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:

	2018	2017
Short-term employee benefits	₱3,520,488	₱3,323,730
Post-employment benefits (see Note 17)	–	326,727
	₱3,520,488	₱3,650,457

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, financial assets at FVOCI and AFS 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 table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral and other credit enhancements as at December 31:

	2018	2017
Cash	₱5,993,613	₱5,599,336
Receivables	8,122,619	45,331,513
Financial assets at FVTPL	145,654,891	151,989,664
Financial assets at FVOCI	181,105,302	–
AFS investments	–	215,174,616
Total credit risk exposure	₱340,876,425	₱418,095,129



The following tables summarize the credit quality of the Company's financial assets per category as of December 31:

	2018			
	Neither Past Due nor Impaired			Total
	High Grade	Standard Grade	Past Due but Not Impaired	
Financial assets at amortized cost:				
Cash in banks	P5,993,613	P-	P-	P5,993,613
Rent receivable	3,608,073	-	-	3,608,073
Receivable from broker	4,433,308	-	-	4,433,308
Advances to officers and employees	75,833	-	-	75,833
Due from a related party	5,405	-	-	5,405
Financial assets at FVPL	145,654,891	-	-	145,654,891
Financial assets at FVOCI	181,105,302	-	-	181,105,302
Total	P340,876,425	P-	P-	P340,876,425

	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
Total	P418,055,129	P-	P-	P418,055,129

"Past due but not impaired" amount pertaining to rent receivable as at December 31, 2018 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, 2018 and 2017 based on contractual undiscounted payments:

	2018				Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	
Financial assets at amortized cost:					
Cash in banks	₱5,993,613	₱-	₱-	₱-	₱5,993,613
Receivables	8,122,619	-	-	-	8,122,619
Financial assets at FVTPL	₱145,654,891	₱-	₱-	₱-	₱145,654,891
Financial assets at FVOCI	181,105,302	-	-	-	181,105,302
	₱340,876,425	₱-	₱-	₱-	₱340,876,425
Financial Liabilities					
Notes payable, including interest	₱-	₱-	₱770,400,00	₱-	₱770,400,00
Accounts payable and other current liabilities*					
Retention payable	-	-	-	15,000,000	15,000,000
Accounts payable	11,757,770	-	-	-	11,757,770
Accrued expense	2,274,045	-	-	-	2,274,045
Construction bond	1,668,216	-	-	-	1,668,216
Deposits on long-term leases	-	-	11,294,245	15,021,340	26,315,585
Financial assets at FVTPL	₱15,700,031	₱-	₱781,694,245	₱30,021,340	₱827,415,616

	2017				Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	
Financial Assets					
Cash in banks	₱5,599,336	₱-	₱-	₱-	₱5,599,336
Receivables	45,331,513	-	-	-	45,331,513
Financial assets at FVTPL	151,989,664	-	-	-	151,989,664
AFS investments	215,174,616	-	-	-	215,174,616
	₱418,095,129	₱-	₱-	₱-	₱418,095,129
Financial Liabilities					
Notes payable, including interest	₱-	₱-	₱672,408,846	₱-	₱672,408,846
Accounts payable and other current liabilities					
Retention payable	-	-	-	12,343,684	12,343,684
Accounts payable	11,252,602	-	-	-	11,252,602
Accrued expense	814,165	-	-	-	814,165
Construction bond	1,448,216	-	-	-	1,448,216
Due to a related party	77,278	-	-	-	77,278
Deposits on long-term leases	-	-	9,822,182	6,090,523	15,912,705
	₱13,592,261	₱-	₱682,231,028	₱18,434,207	₱714,257,496

Changes in liabilities arising from financing activities

	January 1, 2018	Cash flows	December 31, 2018
Notes Payable	₱670,459,530	₱99,940,470	₱770,400,000



Fair Value

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

	Carrying Value		Fair Value	
	2018	2017	2018	2017
Financial Assets				
Financial assets at FVTPL	₱145,654,891	₱151,989,664	₱145,654,891	₱151,989,664
Financial assets at FVOCI	181,105,302	–	181,105,302	–
AFS investments - quoted shares	–	215,174,616	–	215,174,616

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 at December 31, 2018 and 2017, the carrying values deposits on long-term leases were not materially different from their calculated fair values.

As at December 31, 2017, 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 at December 31:

	2018			
	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value:				
Financial assets at FVTPL	₱145,654,891	₱145,654,891	₱–	₱–
Financial assets at FVOCI	181,105,302	181,105,302	–	–
	2017			
	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value:				
Financial assets at FVTPL	₱151,989,664	₱151,989,664	₱–	₱–
AFS investments - quoted shares	215,174,616	215,174,616	–	–

Financial assets at FVTPL and financial assets at FVOCI are carried at their fair values based on quoted market prices as at December 31, 2018.

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

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 2018 and 2017, 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 in 2018 and 2017.

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 at December 31, 2018 and 2017:

	2018	2017
Capital stock	₱250,000,000	₱250,000,000
Retained earnings	28,556,650	7,985,384
	₱278,556,650	₱257,985,384

22. Notes to Statements of Cash Flows

For the year ended December 31, 2018, the Company's noncash investing activity pertains to purchase of investment properties on account amounting to ₱7,040,643.

23. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following types of taxes in 2018:

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	₱75,931,145	₱9,111,737
Common area service income	413,520	49,622
Others	8,260,896	991,307
Zero-rated rental income	13,345,646	-
	<u>₱97,951,207</u>	<u>₱10,152,666</u>

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	₱19,837,481
Current year's domestic purchases/payments or importations for:	
Capital goods subject to amortization	154,906
Services lodged under cost of goods sold	1,143,391
Services lodged under construction in progress	18,147,810
	<u>39,283,588</u>
Application against output VAT	10,152,666
Balance at December 31	<u>₱29,130,922</u>

- b. Other Taxes and Licenses

Real estate taxes	₱6,924,466
Documentary stamp tax	5,622,115
License and permits fees	938,605
	<u>₱13,485,186</u>

- c. Withholding Taxes

	Paid	Accrued	Total
Withholding tax on compensation and benefits	₱741,903	₱462,962	₱1,204,865
Expanded withholding taxes	3,473,905	679,087	4,152,992
			<u>₱5,357,857</u>

- d. Tax Assessments and cases

As at December 31, 2018, the Company has no ongoing tax assessment and nor outstanding tax cases with the BIR or any other court or bodies outside of the BIR.

