May 24, 2018

**PHILIPPINE STOCK EXCHANGE**
9th Floor, Philippine Stock Exchange Tower
28th Street corner 5th Avenue, BGC Taguig City
Attention: Mr. Jose Valeriano B. Zuño III
OIC – Head, Disclosure Department

Subject: Starmalls, Inc.: **Definitive Information Statement**

Gentlemen:

Please see attached SEC Form 20-IS, Preliminary Information Statement, filed today for the Company's Annual Stockholders' Meeting on June 25, 2018.

Thank you.

Brian N. Edang
Officer-in-Charge

**COVER SHEET**

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|---|---|---|---|---|---|---|---|---|---|---|---|

S.E.C. Registration Number

**STARMALLS, INC.**

(Company's Full Name)

**LOWER GROUND FLOOR, BUILDING B, EVIA LIFESTYLE CENTER, VISTA CITY, DAANGHARI, ALMANZA II LAS PIÑAS CITY**

(Business Address: No. Street/City/Province)

| **Brian N. Edang** | **571-5948 / 871-4001** |
|---|---|
| Contact Person | Registrant Telephone Number |

| **1 2** | **3 1** | **20-IS Definitive Information Statement** | | |
|---|---|---|---|---|
| *Month* | *Day* | FORM TYPE | *Month* | *Day* |
| Calendar Year | | | Annual Meeting | |

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

| Total No. of Stockholders | Domestic | Foreign |
|---|---|---|
| | | |

-----------------------------------------------------------------------------------------------------

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

24 May 2018

**SECURITIES AND EXCHANGE COMMISSION**
Markets and Securities Regulation Department
SEC Building, EDSA, Greenhills
Mandaluyong City

Attention: **Mr. Vicente Graciano P. Felizmenio, Jr.**
Director

Re: **Information Statement of Starmalls, Inc.**

Dear Mr. Felizmenio;

In reply to your letter dated 09 May 2018, we submit herewith the Definitive Information Statement ("DIS") for the Annual Meeting of the Shareholders of Starmalls, Inc. (the "Company") to be held on 25 June 2018, for your consideration and clearance. As directed, we attached to the DIS the Company's Quarterly Report on SEC Form 17-Q for the quarter ended 31 March 2018 which was filed on 15 May 2018.

We also took note of the provisions and requirements of the Securities and Exchange Commission (SEC) Memorandum Circular No. 4, Series of 2017 regarding the term limit of Independent Directors for listed companies and the updated format of the Certificate of Qualification of Independent Directors which we already use in our previous filings.

On another matter, we would like to seek for your approval to allow us to distribute the Company's DIS in USB Format. In support of our request, we obtained Non-Commercial Replication Permit from the Optical Media Board, a copy of which is attached hereto for reference.

We are looking forward for your immediate clearance and approval of the Company's DIS and favorable action on our request to distribute the same in USB Format.

Thank you very much.

**MA. NALEN S.J. ROSERO**
Corporate Secretary

**Starmalls, Inc.**
Lower Ground Floor, Building B, Evia Lifestyle Center, Vista City, Daang Hari, Almanza II Las Piñas City
UGF Worldwide Corporate Center, Shaw Boulevard, Mandaluyong City
T: (+632) 532 0605 / (+632) 871 4001
Website: www.starmalls.com.ph

Republic of the Philippines
OFFICE OF THE PRESIDENT
OPTICAL MEDIA BOARD
No. 35 Scout Limbaga Street, Bgy. Laging Handa, Quezon City Zip Code 1103
Tel. Nos. 374-0217 / 374-1393 • Fax No. 374-0217
Website: www.omb.gov.ph

# NON-COMMERCIAL REPLICATION PERMIT

**NCRP 1805022**
May 22, 2018

**STARMALLS INC.**

With principal address at *Upper Ground Floor, Worldwide Corporate Center, Shaw Boulevard, Mandaluyong City,* has been granted permission by the Optical Media Board for the non-commercial reproduction and distribution within the territory of the Republic of the Philippines of the following copyrighted work:

| | | |
|---|---|---|
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| SOURCE OF RIGHTS | : | *Starmalls, Inc.* |
| CONTENT TYPE | : | Book on Disc / FLASH DRIVE |
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| REPLICATOR/ DUPLICATOR | : | Starmalls, Inc. |

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FOR **ATTY. ANSELMO B. ADRIANO**
Chair and Chief Executive Officer

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# CERTIFICATION

**STARMALLS, INC.** (the "Company") hereby certifies that none of the directors and officers of the Company named in the Information Statement for the Annual Meeting of its shareholders for the year 2018 works in the government as of the date hereof.

Issued this 7th day of May 2018.

**STARMALLS, INC.**

By:

**MA. NALEN S.J. ROSERO**
Corporate Secretary

## CERTIFICATION OF INDEPENDENT DIRECTORS

I, **Joel L. Bodegon**, Filipino, of legal age and a resident of **No. 118 Lipa Street, Ayala Alabang Village, Muntinlupa City**, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **Starmalls, Inc.** and have been its independent director since October 4, 2010.

2. I am affiliated with the following companies or organizations:

| Company/ Organization | Position/ Relationship | Period of Service |
|---|---|---|
| Bodegon Estorninos Guerzon & Gozos Law Offices | Managing Partner | 1 June 2010 – Present |

3. I possess all the qualification and none of the disqualifications to serve as an Independent Director of **Starmalls, Inc.**, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations and other SEC issuances.

4. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding

5. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

6. I shall inform the corporate secretary of **Starmalls, Inc.** of any changes in the abovementioned information within five days from its occurrence.

Done, this MAY 04 2017 at MANDALUYONG CITY.

**JOEL L. BODEGON**
Affiant

SUBSCRIBED AND SWORN to before me this MAY 04 2017 at MANDALUYONG CITY, affiant personally appeared before me and exhibited to me his valid ID No. Senior ID No. 3851, expiring on ________________, issued by____________.

Doc. No. 100
Page No. 21
Book No. V
Series of 2018.

ATTY. JO MARIE C. [illegible]
NOTARY PUBLIC
UNTIL DECEMBER 31, 2018
ROLL No. 48438
IBP Lifetime Member No. 018539
PTR No. 3405285 / 04 Jan. 2018 / Mandaluyong City
MCLE Compliance No. V-0025214, issued dated 31 May 2017
Notarial Commission Appointment No. 0254-17
Vista Corporate Center, Upper Ground Floor,
Worldwide Corporate Center, Shaw Blvd., Mandaluyong City

## CERTIFICATION OF INDEPENDENT DIRECTORS

I, **Raul Juan N. Esteban**, Filipino, of legal age and a resident of **223B Alexandra Condominium, 29 Meralco Avenue, Ortigas Center, Pasig City**, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **Starmalls, Inc.** and have been its independent director since June 30, 2014.

2. I am affiliated with the following companies or organizations:

| Company/ Organization | Position/ Relationship | Period of Service |
|---|---|---|
| Philippine Survey and Research Center | Managing Director | 1989-Present |

3. I possess all the qualification and none of the disqualifications to serve as an Independent Director of **Starmalls, Inc.**, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations and other SEC issuances.

4. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

5. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

6. I shall inform the corporate secretary of **Starmalls, Inc.** of any changes in the abovementioned information within five days from its occurrence.

Done, this MAY 04 2018 at MANDALUYONG CITY.

**RAUL JUAN N. ESTEBAN**
Affiant

SUBSCRIBED AND SWORN to before me this MAY 04 2018 at MANDALUYONG CITY, affiant personally appeared before me and exhibited to me his TIN 133-076-677.

Doc. No. 91
Page No. 21
Book No. V
Series of 2018.

ATTY. JOMARIE C. LAZARO-LIM
NOTARY PUBLIC
UNTIL DECEMBER 31, 2018
ROLL No. 48438
IBP Lifetime Member No. 018539
PTR No. 3405285 / 04 Jan. 2018 / Mandaluyong City
MCLE Compliance No. V-0025214, issued dated 31 May 2017
Notarial Commission Appointment No. 0254-17
Vista Corporate Center, Upper Ground Floor,
Worldwide Corporate Center, Shaw Blvd., Mandaluyong City

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## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the annual meeting of the stockholders of **STARMALLS, INC.** (the "Company") for the year 2018 will be held on 25 June 2018, Monday, at 9:00 in the morning, at the Colonial Ballroom, Palazzo Verde, Daang Reyna, Vista Alabang, Las Piñas City.

The order of business thereat as follows:

I. Call to order

II. Certification of service of notice and presence of quorum

III. President's Report

IV. Approval of the Audited Consolidated Financial Statements as of and for the year ended 31 December 2017 as contained in the Company's Annual Report

V. Election of the Directors and Independent Directors

VI. Appointment of External Directors

VII. General ratifications of the acts of the Board of Directors and the Management in line with the usual business of the Company for the year 2017 until the date of this meeting

VIII. Other Matters

IX. Adjournment

The Board of Directors has fixed 22 May 2018 as the record date for the determination of stockholders entitled to notice of, and to vote at, said Annual Stockholders' Meeting.

Please bring some form of identification, such as passport, driver's license, or company ID and certification from PCD participant (if applicable) to facilitate registration which will start at 8:30 a.m.

**MA. NALEN S.J. ROSERO**
Corporate Secretary

## EXPLANATION OF AGENDA ITEMS FOR STOCKHOLDERS' APPROVAL

1. **Call to Order**

   The Chairman of the Board of Directors of the Company, Mr. Manuel B. Villar, Jr., will call the meeting to order.

2. **Certification of service of notice and presence of quorum**

   The Corporate Secretary, Atty. Nalen S.J. Rosero, will certify that copies of this Notice were sent to the Stockholders of record as of 22 May 2018, and will certify the number of attendees, whether in person or by proxy, for purposes of determine/ng the presence of quorum.

3. **Approval of the President's Report and Audited Consolidated Financial Statements for the period ended 31 December 2017 as contained in the Company's Annual Report**

   The President of the Company, Ms. Benjamarie Therese N. Serrano, will present a report on the Operations and Financial Results of the Company and its subsidiaries for the year 2017. Thereafter, the Company's Audited Financial Statements for the period ended 31 December 2017 will be presented for approval by the stockholders. The Audited Consolidated Financial Statements were incorporated in the Information Statement of the Company accompanying this Notice to be sent to the shareholders twenty eight (28) days before the meeting.

   The vote of majority of the outstanding capital stock entitled to vote and represented in the meeting is required to approve these agenda items.

4. **Election of Directors and Independent Directors**

   The incumbent members of the Board of Directors were nominated for re-election for the current year. Background information about the nominees to the Board are contained in the Information Statement accompanying this Notice.

   For the election of directors, the candidates who received the highest number of votes shall be declared elected.

5. **Appointment of External Auditors**

   The auditing firm of Sycip Gorres Velayo & Company ("SGV & Company") is being recommended for appointment as external auditor for the current year. Brief information about SGV & Company and the aggregate fees paid for the professional services provided by SGV & Company are set out in the Information Statement accompanying this Notice.

The vote of majority of the outstanding capital stock entitled to vote and represented in the meeting is required to approve this agenda item.

6. **General ratifications of the acts of the Board of Directors and the Management in line with the usual business of the Company for the year 2017 until the date of the meeting**

Ratification by the stockholders will be sought for the acts of the Board of Director and the Management of the Company for the year 2017 until the date of the meeting, as set forth in the minutes of the meetings of the Board of Directors held during the same period and in the disclosures that have been duly filed with the Securities and Exchange Commission and the Philippine Stock Exchange. The acts of the Board and the Management are those taken in line with the usual business of the Company.

The vote of majority of the outstanding capital stock entitled to vote and represented in the meeting is required to approve this agenda item.

**PROXY**

The undersigned stockholder of STARMALLS, INC. (the "Company") hereby appoints ______________________________ or in his absence, the Chairman of the meeting, as attorney-in-fact or proxy, with power of substitution, to represent and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Stockholders' Meeting of the Company to be held at Colonial Ballroom, Palazzo Verde, Daang Reyna, Vista Alabang, Las Piñas City on 25 June 2018 at 09:00 a.m. and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of the Audited Consolidated Financial Statements for the period ended 31 December 2017

   ☐ Yes ☐ No ☐ Abstain

2. Ratification of all acts and resolutions of the Board of Directors and Management for the year 2017 until date of the meeting

   ☐ Yes ☐ No ☐ Abstain

3. Election of the members of the Board of Directors, including the Independent Directors, for the year 2018

| **Name** | **No. of votes** |
|---|---|
| Manuel B. Villar Jr. | ________ |
| Benjamarie Therese N. Serrano | ________ |
| Manuel Paolo A. Villar | ________ |
| Camille A. Villar | ________ |
| Adisorn Thananan-Narapool | ________ |
| Joel L. Bodegon | ________ |
| Raul Juan N. Esteban | ________ |

4. Appointment of SGV & Company as external auditor

   ☐ Yes ☐ No ☐ Abstain

______________________________
Printed name of Stockholder

______________________________
Signature of Stockholder / Authorized representative

______________________________
Date

*This proxy should be received by the Corporate Secretary on or before 19 June 2018, the deadline for submission of proxies.*

*This proxy when properly executed will be voted in the manner as directed herein by the stockholder(s), If no direction is made, this proxy will be voted for the election of all nominees and for the approval of the matters stated above and for such other matters as may properly come before the meeting in the manner described in the Information Statement.*

*A stockholder giving a proxy has the power to revoke it at any time before the right granted is exercised. A proxy is also considered revoked if the stockholder attends the meeting in person and expressed his intention to vote in person.*

*Notarization of this proxy is not required.*

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 20-IS**

**INFORMATION STATEMENT PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

   [ ] Preliminary Information Statement
   [x] Definitive Information Statement

2. Name of Registrant as specified in its charter: **STARMALLS, INC.**

3. **Philippines**
   Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number **39587**

5. BIR Tax Identification Code **000-806-396-000**

6. **Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daanghari, Almanza II, Las Piñas City** — **1747**
   Address of principal office — Postal Code

7. Registrant's telephone number, including area code **(632) 571-5948 / (632) 871-4001**

8. Date, time and place of the meeting of security holders
   **25 June 2018, 9:00 a.m.**
   **Colonial Ballroom, Palazzo Verde, Daang Reyna, Vista Alabang, Las Piñas City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders
   **May 28, 2018**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:

| Title of Each Class | Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding |
|---|---|
| **Common stock** | **8,425,981,156 shares** |
| **Preferred stock** | **2,350,000,000 shares** |

11. Are any or all of registrant's securities listed in a Stock Exchange?

    Yes [ **x** ] No [ ]

    Name of Stock Exchange: **Philippine Stock Exchange**
    Class of securities listed: **Common Stocks**

## PART I

## INFORMATION STATEMENT

## GENERAL INFORMATION

**Date, time and place of meeting of security holders.**

Date: June 25, 2018
Time: 9:00 a.m.
Place: Colonial Ballroom, Palazzo Verde, Daang Reyna, Vista Alabang, Las Piñas City

The corporate mailing address of the principal office of the Registrant is Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daanghari, Almanza II, Las Piñas City, Philippines.

Notices of the meeting and copies of the Information Statement shall be sent to security holders as soon as practicable after the approval hereof by the Securities and Exchange Commission, but not later than **May 28, 2018**.

**Dissenters' Right of Appraisal**

There are no corporate matters or action that will entitle a shareholder to exercise a right of appraisal as provided under Section 81, Title X, of the Corporation Code of the Philippines ("Corporation Code").

Any stockholder of the Registrant shall have the right to dissent and demand payment of the fair value of his shares only in the following instances, as provided by the Corporation Code:

(1) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;
(2) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets;
(3) In case of merger or consolidation; and
(4) In case of investments in another corporation, business or purpose.

The appraisal right, when available, may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken, for payment of the fair value of his shares; Provided, That failure to make the demand within such period shall be deemed a waiver of the appraisal right. A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right. If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder upon surrender of his certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment; and Provided, Further, That upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

**Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

None of the officers or directors or any of their associates has any substantial interest, direct or indirect, in any of the matters to be acted upon in the stockholders' meeting.

No director has informed the Registrant in writing that he intends to oppose any action to be taken at the meeting.

## CONTROL AND COMPENSATION INFORMATION

**Voting Securities and Principal Holders Thereof**

(a) Number of shares outstanding as of 30 April 2018

Common: 8,425,981,156
Preferred: 2,350,000,000

(b) Record Date: 22 May 2018

Each common share of stock of the Registrant is entitled to one (1) vote. Pursuant to Article III, Section 3 of the Registrant's By-Laws, every holder of voting stock may vote during all meetings, including the Annual Stockholders' Meeting, either in person or by proxy executed in writing by the stockholder or his duly authorized attorney-in-fact.

Stockholders entitled to vote are also entitled to cumulative voting in the election of directors. Section 24 of the Corporation Code provides, in part, that: "….in stock corporations, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing, at the time fixed in the by-laws, in his own name on the stock books of the corporation, or where the by-laws are silent, at the time of the election; and said stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit…."

## Equity Ownership of Foreign and Local Shareholders

Foreign and local security ownership as of April 30, 2018:

| Class | Filipino | | Foreign | | Total Shares Outstanding |
|---|---|---|---|---|---|
| | Shares | Percent of Class | Shares | Percent of Class | |
| Common | 7,616,986,729 | 90.40% | 808,994,427 | 9.60% | 8,425,981,156 |
| Preferred | 2,350,000,000 | 100.00% | - | - | 2,350,000,000 |
| **Total** | **9,966,986,729** | | **808,994,427** | | **10,775,981,156** |

## Security Ownership of Certain Beneficial Owners and Management

Security ownership of certain record and beneficial owners of more than 5.0% of the Registrant's voting securities as of April 30, 2018:

| Title of Class of Securities | Name/Address of Record Owners and Relationship with Us | Name of Beneficial Owner /Relationship with Record Owner | Citizenship | No. of Shares Held | % of Ownership[1] |
|---|---|---|---|---|---|
| Common | Vista Land & Lifescapes, Inc. ("VLL")[2]<br>3rd Floor Starmall Las Piñas, CV Starr Avenue, Pamplona, Las Piñas City<br>Shareholder | Record Owner is also beneficial Owner | Filipino | 7,443,192,641 | 69.0721% |
| Common | Land & Houses Public Company Limited [3]<br>Q. House, Convent Building, 4th & 5th Floors, No. 38 Convent Road, Silom, Bangkok, Thailand<br>Shareholder | Record Owner is also beneficial Owner | Thai | 808,431,465 | 7.5022% |
| Preferred | Fine Properties, Inc. [4]<br>3rd Floor Starmall Las Piñas, CV Starr Avenue, Pamplona, Las Piñas City<br>Shareholder | Record Owner is also beneficial Owner | Filipino | 2,350,000,000 | 21.8078% |

[1] Based on the total issued and outstanding shares (common and preferred) of 10,775,981,156 as of April 30, 2018.

[2] *VLL, through a resolution passed by the Board of Directors, usually designate its President, Manuel Paolo A. Villar, to be its authorized representative with the power to vote its shares of stock in VLL's subsidiaries*

[3] *Land & Houses Public Company Limited (L&H) is a foreign corporation duly organized and existing by virtue of the laws of Thailand with office address at Reg. No. 57 Q. House Convent Bldg., 3rd to 5th Floor, 38 Convent Road, Silom, Bangkok 10500 Thailand. L&H usually acts through Mr. Anant Asavabhokhin or Mr. Adisorn Thananun-Narapool in matters relating to its shares of stock in the Company.*

[4] *Fine Properties, Inc. through a resolution passed by the Board of Directors, usually designate its President, Jerry M. Navarrete, to be its authorized representative with the power to vote its shares of stock in Starmalls, Inc.*

Security ownership of management as of April 30, 2018:

| Title of Class | Name of Beneficial Owner | Amount & Nature of Beneficial Ownership | Citizenship | Percent of Class |
|---|---|---|---|---|
| Common Shares | Manuel B. Villar Jr.[5]<br>C. Masibay Street, BF Resort Village, Las Piñas City | 1,000 - Direct | Filipino | .00001% |
| Preferred Shares | Manuel B. Villar Jr.[5]<br>C. Masibay Street, BF Resort Village, Las Piñas City | 2,350,000,000 - Indirect | Filipino | 21.80776% |
| Common Shares | Manuel Paolo A. Villar[6]<br>C. Masibay Street, BF Resort Village, Las Piñas City | 1,000 - Direct | Filipino | .00001% |
| Common Shares | Camille A. Villar<br>C. Masibay Street, BF Resort Village, Las Piñas City | 100 – Indirect | Filipino | .000001% |
| Common Shares | Benjamarie Therese N. Serrano<br>103 Parklane St. La Marea Subdivision, San Pedro, Laguna | 1,000 - Direct | Filipino | .00001% |
| Common Shares | Adisorn Thananan-Narapool<br>1 Q. House, Lumpini 38th Floor, South Saturn Road, Silom, Bangkok, Thailand | 1,000 – Indirect | Thai | .00001% |
| Common Shares | Joel L. Bodegon<br>118 Lipa Street, Ayala Alabang Village, Muntinlupa City | 1,000 – Direct | Filipino | .00001% |
| Common Shares | Raul Juan N. Esteban<br>223B Alexandra Condo. 29 Meralco Avenue, Ortigas Center, Pasig City | 1,000 – Indirect | Filipino | .00001% |
| Common Shares | Cynthia J. Javarez<br>B3A/L2 Vetta di Citta Italia Imus, Cavite | 1,000 - Direct | Filipino | .00001% |
| - | Ma. Nalen SJ. Rosero<br>Block 5 Lot 2A New Victorianne Row La Posada Subdivision, Sucat, Muntinlupa City | - | Filipino | .00000% |
| - | Jo Marie Lazaro-Lim<br>Block 3 Lot 13 Maia Alta Courtyards Subdivision, Antipolo City | - | Filipino | .00000% |
| **AGGREGATE SHAREHOLDINGS** | | **2,350,007,100** | | **21.80782%** |

[5] *Mr. Manuel B. Villar Jr. holds legal title to 1,000 common shares in Starmalls, Inc. by virtue of, and pursuant to, a Deed of Assignment and Declaration of Trust with VLL*

[6] *Mr. Manuel Paolo A. Villar holds legal title to 1,000 common shares in Starmalls, Inc. by virtue of, and pursuant to, a Deed of Assignment and Declaration of Trust with VLL*

Except as indicated in the above table, none of the above-listed officers and management indirectly own shares of the Registrant. Except as aforementioned, no other officers of the Registrant hold, directly or indirectly, shares in the Registrant.

## Changes in Control

The Registrant is not aware of any voting trust agreements or any other similar agreements which may result in a change in control of the Registrant. No change in control of the Registrant has occurred since the beginning of its last fiscal year.

## Directors and Executive Officers of the Registrant

### *Term of Office*

Each director holds office until the annual meeting of stockholders held next after his election and his successor shall have been elected and qualified, except in case of death, resignation, disqualification or removal from office. The term of office of the officers is coterminous with that of directors that elected or appointed them.

### *Background Information*

The following are the names, ages and citizenship of the incumbent directors/independent directors and officers of the Registrant:

| NAME | AGE | POSITION | CITIZENSHIP |
|---|---|---|---|
| Manuel B. Villar Jr. | 68 | Chairman | Filipino |
| Benjamarie Therese N. Serrano | 55 | Director and President | Filipino |
| Manuel Paolo A. Villar | 41 | Director | Filipino |
| Camille A. Villar | 32 | Director | Filipino |
| Adisorn Thananun-Narapool | 63 | Director | Thai |
| Joel L. Bodegon | 69 | Independent Director | Filipino |
| Raul Juan N. Esteban | 55 | Independent Director | Filipino |
| Cynthia J, Javarez | 54 | Chief Financial Officer & Treasurer | Filipino |
| Ma. Nalen S.J. Rosero | 46 | Chief Information Officer & Corporate Secretary | Filipino |
| Jo Marie Lazaro-Lim | 39 | Compliance Officer & Assistant Corporate Secretary | Filipino |

The following states the business experience of the incumbent directors and officers of the Registrant for the last five (5) years:

**MANUEL B. VILLAR JR.**, *Chairman*, was a Senator of the Philippines, having been elected in 2001 and re-elected in 2007. He served as Senate President from 2006 to 2008. He was a Congressman from 1992 to 2001 and served as Speaker of the House of Representatives from 1998 to 2000. A certified public accountant, Mr. Villar graduated from the University of the

Philippines in 1970 with the degree of Bachelor of Science in Business Administration and in 1973 with the degree of Masters in Business Administration. In the early 1970's he founded Camella Homes and successfully managed the company to become the largest homebuilder in the Philippines now known as the Vista Land Group. Mr. Villar has been a Director and Chairman of the Board of the Company since June 18, 2012. Mr. Villar is currently the Chairman of the Board of Vista Land.

**BENJAMARIE THERESE N. SERRANO**, *Director and President,* graduated from the University of Philippines with a degree of Bachelor of Arts in Economics and from the Asian Institute of Management with a degree of Master of Business Management. She is presently the President and Chief Executive Officer of AllValue Holdings Corp. and its subsidiaries. She has been President of, and Chief Executive Officer of, Vista Land & Lifescapes, Inc. from 2007 to 2011 and was a director from 2007 to 2012. She is the Business Development Head of the Villar Group of Companies from 2012 to present. She has been a Director of the Company since June 30, 2014.

**MANUEL PAOLO A. VILLAR**, *Director*, graduated from the Wharton School of the University of Pennsylvania with a dual degree of Bachelor of Science in Economics and bachelor of Applied Science. He worked as a research analyst at Clemente Capital Inc. in New York City prior to his graduation. He was a fixed income analyst at Goldman Sachs in Hong Kong and a consultant for McKinsey & Co. in the United States for two years before joining the Vista Land Group in 2001. He is currently the President and Chief Executive Officer of Vista Land. Mr. Villar has been a Director of the Company since May 7, 2007. In addition, at present, he is the CEO and Chairman of St. Agustine Gold and Copper Limited from October 2012, President of Prime Asset Ventures, Inc. from 2013, and Chairman of TVI Resource Development Philippines, Inc. from December 2013.

**CAMIILE A. VILLAR**, *Managing Director*, Vista Land Commercial Division. Ms. Villar, graduated from the Ateneo de Manila University with a degree in Bachelor of Science in Management. She took Management in Business Administration, Global Executive MBA Program in Instituto de Estudios Superiores de la Empressa (IESE Business School) of the University of Navarra in Barcelona, Spain. She joined the Corporate Communications Group of Brittany in 2007 until she assumed the position of Managing Director of Vista Land Commercial. She is also a Director of AllValue Holdings Corp.

**ADISORN THANANUN-NARAPOOL**, *Director*, holds a Bachelor of Accounting from Thammasat University and M.B.A. from Thammasat University. Mr. Thananun-Narapool has been Managing Director of Land and Houses Public Company Limited since May 1, 2013 and serves as its Member of Executive Board. Mr. Thananun-Narapool served as Senior Executive Vice President of Support at Land and Houses Public Company Limited from 2002 to April 2013 and served as its Chief Financial Officer. Mr. Thananun-Narapool served as an Executive Vice President -Land and Houses Public Co., Ltd. from 1992 to 2001. He has been a Director of Land and Houses North Co Ltd., and Land and Houses Northeast Co Ltd., since 1995. Mr. Thananun-Narapool has been a Director of Siam Tanee Property Co., Ltd. since 1991, Siam Tanee Realestate Co., Ltd. since 1993, Safety Insurance Public Co., Ltd. since 1994, Cameron Global Limited since 1999, LH Muang Mai Co., Ltd. since 2001. Mr. Thananun-Narapool serves as a Director of Secondary Mortgage Corporation, Asset Plus Securities Public Co., Ltd., Land and Houses Property Fund. He has been a Director of Land and Houses Public Company Ltd. since 2002 and of the Company since June 24, 2013.

**JOEL L. BODEGON**, *Independent Director*, obtained his Bachelor of Arts degree and Bachelor of Laws, both from the University of the Philippines. He was admitted to the Bar in 1975. He worked in a private law firm and the Office of the Solicitor General before he joined Angara Abello Concepcion Regala and Cruz (ACCRA) in 1976, where he became a partner in 1982 until 1986. In 1987, he formed, together with some ACCRA partners, the Jardeleza Sobreviñas Diaz Hayudini & Bodegon Law Offices, where he was managing partner for 12 years until his retirement in 2008. In 2010, he formed the Bodegon Estorninos Guerzon Borie & Bongco Law Offices. Mr. Bodegon has been a Director of the Company since October 4, 2010. Atty. Bodegon possesses all the qualifications and none of the disqualifications of an Independent Director under SRC Rule 38 since his election as such.

**RAUL JUAN N. ESTEBAN**, *Independent Director*, graduated from the Ateneo de Manila University with a degree of Bachelor of Science in Management Engineering. He became a brand manager of Unilever Philippine from 1983 to 1986. He was the Country Representative of PPF (A Subsidiary of Unilever) from 1986 to 1988. He was Founding Partner of AGB-Nielsen Philippines and was Chairman until 2012. He held various positions in the Advertising Board of the Philippines, Advertising Congress, MORES (Marketing & Opinion Research Society of the Philippines) and ESOMAR (World Association of Marketing, Social, and Opinion Research) from 2000 to present. Currently, he is the Managing Director of Philippine Survey and Research Center Inc. Mr. Esteban has been a Director of the Company since June 30, 2014. Mr. Esteban possesses all the qualifications and none of the disqualifications of an Independent Director under SRC Rule 38 since his election as such.

**CYNTHIA J. JAVAREZ**, *Chief Financial Officer and Treasurer,* Ms. Javarez, graduated from the University of the East with a degree in Bachelor of Science in Business Administration major in Accounting. She is a Certified Public Accountant. She took a Management Development Program at the Asian Institute of Management. She is currently the Chief Financial Officer and Treasurer of Starmalls, Inc. She is also the Controller, Chief Financial Officer and Head of the Tax and Audit group of Vista Land after holding various other positions in the MB Villar Group of Companies since 1985.

**MA. NALEN SJ. ROSERO**, *Chief Information Officer and Corporate Secretary*, graduated salutatorian from the San Beda College of Law. She has been with Manuela since 2001. She was an associate of the Angara Abello Concepcion Regala & Cruz (ACCRA) Law Offices for three years. She has been a director of Masterpiece Asia Properties, Inc. from 2005 to 2013 and of Manuela Corporation from 2011 to 2013. She is also the Corporate Secretary of the subsidiaries of Vista Land.

**JO MARIE LAZARO-LIM**, *Compliance Officer and Assistant Corporate Secretary,* graduated from University of Sto. Tomas with a degree in Bachelor of Arts in Legal Management and she earned her law degree from San Beda College of Law. She joined Manuela Corporation in 2003. She is currently the Corporate Secretary of Manuela Corporation and Masterpiece Asia Properties, Inc., as well as the other affiliate companies of the group.

All the incumbent Directors above have one (1) year term of office.

All directors have been nominated for re-election to the Board of Directors. Mr. Joel L. Bodegon and Mr. Raul Juan N. Esteban have been nominated as independent director.

The By-Laws of the Registrant conforms with SRC Rule 38, as amended, with regard to the nomination of independent directors of the Registrant. Article IV, Sections 1-A and 2 of the Registrant's By-Laws provide as follows:

> Section 1A. Independent Directors – The corporation shall have at least two (2) independent directors or at least twenty (20%) of the entire Board membership, whichever is lesser.
>
> The independent directors shall have all the qualifications and none of the disqualifications set forth in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations, as the same may be amended from time to time. *(As amended on 04 October 2010)*
>
> Section 2. Election and term – The Board of Directors shall be elected during each regular meeting of stockholders and shall hold office for one (1) year and until their successors are elected and qualified.
>
> A Nomination Committee is hereby created which may be organized from time to time upon determination of the Board of Directors. The Nomination Committee shall be composed of at least three (3) members, one of whom shall be an independent director. The Nomination Committee shall have the following functions: (A) formulate screening policies to enable the committee to effectively review the qualification of the nominees for independent directors; and (B) conduct nominations for independent directors prior to the stockholders' meeting in accordance with the procedures set forth in Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code, as the same may be amended from time to time. *(As amended on 04 October 2010)*

On the other hand, SRC Rule 38, as amended, provide in part as follows:

> "8. Nomination and Election of Independent Director/s
>
> The following rules shall be applicable to all covered companies:
>
> A. The Nomination Committee (the "Committee") shall have at least three (3) members, one of whom is an independent director. It shall promulgate the guidelines or criteria to govern the conduct of the nomination. The same shall be properly disclosed in the Registrant's information or proxy statement or such other reports required to be submitted to the Commission.
>
> B. Nomination of independent director/s shall be conducted by the Committee prior to a stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.
>
> C. The Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent director/s.
>
> D. After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent

directors, as required under Part IV (A) and (C) of Annex "C" of SRC Rule 12, which list, shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in accordance with SRC Rule 20, or in such other reports the Registrant is required to submit to the Commission. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.

E. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director/s. No other nominations shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders'/memberships' meeting."

The Registrant has complied with the guidelines on the nomination and election of independent directors set forth in Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code. The nominated independent directors, namely, Mr. Raul Juan N. Esteban and Mr. Joel L. Bodegon were duly nominated by Ms. Editha Dolon, a registered shareholder of the Registrant who is not a director, officer or substantial shareholder of the Registrant and who is not related to either of the said nominees. The Nominations Committee of the Registrant is composed of Mr. Manuel B. Villar Jr., Chairman, and Mr. Raul Juan N. Esteban and Mr. Joel L. Bodegon, members.

***Attendance in Board Meetings***

Attendance of each director if the Corporation in Board meetings held during the year 2017 as follows:

| | ***Mar 20*** | ***Apr 17*** | ***May 2*** | ***May 15*** | ***Jun 19*** | ***Jul 3*** | ***Jul 17*** | ***Aug 14*** | ***Aug 31*** | ***Sep 27*** | ***Nov 10*** | ***Nov 20*** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Manuel B. Villar Jr. | P | - | P | P | P | P | P | P | P | P | P | P |
| Jerry M. Navarrete | P | P | P | P | P | P | P | P | P | - | - | - |
| Benjamarie Therese N. Serrano | P | P | P | P | P | P | P | P | P | P | P | P |
| Manuel Paolo A. Villar | P | P | P | P | P | P | P | P | P | P | P | P |
| Camille A. Villar | - | - | - | - | - | - | - | - | P | P | P | P |
| Adisorn Thananan-Narapool | P | P | P | - | P | - | - | - | - | - | - | - |
| Joel L. Bodegon | P | P | P | P | P | P | P | P | P | P | P | P |
| Raul Juan N. Esteban | P | P | P | P | P | P | P | P | P | P | P | P |

*Legend: (A) Absent, (P) Present, (-) Not Applicable*

***Term of Office***

Directors elected during the annual meeting of stockholders will hold office for one year until their successors are duly elected and qualified. A director who was elected to fill any vacancy holds office only for the unexpired term of his predecessor.

***Resignations/Declined Nominations***

Mr. Jerry M. Navarrette resigned as director of the Company in August 2017. Ms. Camille A. Villar was elected in his place.

To date, no Director has resigned or declined to stand for re-election to the Board of Directors since the date of the last annual stockholders' meeting due to disagreement with the Registrant on any matter relating to the Registrant's operations, policies or practices.

***Significant Employees***

The Registrant has no other significant employee other than its Executive Officers.

***Family Relationships***

Manuel B. Villar, Jr., is the father of Manuel Paolo A. Villar and Camille A. Villar. Except for said relationship, none of the aforementioned Directors or Executive Officers is related to the others by consanguinity or affinity within the fourth civil degree.

***Certain Relationships and Related Transactions***

Except as disclosed in the Annual Report of the Registrant (SEC Form 17-A) for the year ended December 31, 2017, the Registrant has not had any transaction during the last two (2) years in which any Director or Executive Officer or any of their immediate family members had a direct or indirect interest.

***Involvement in Certain Legal Proceedings***

None of the aforementioned Directors or Executive Officers is, or has been, involved in any criminal or bankruptcy proceeding, or is, or has been, subject to any judgment of a competent court barring or otherwise limiting his involvement in any type of business, or has been found to have violated any securities laws during the past five (5) years and up to the latest date.

## Compensation of Directors and Executive Officers

### *Executive Compensation*

The executive officers of the Registrant are currently receiving and will continue to receive fixed salaries on a monthly basis from the respective subsidiaries or businesses of the Registrant that they manage. The compensation for its executive officers for the year 2016 and 2017 (actual) and 2018 (projected) are as shown below:

| Names | Position | Year | Salary | Bonus |
|---|---|---|---|---|
| Benjamarie Therese N. Serrano | President | | | |
| Cynthia J. Javarez | Chief Financial Officer & Treasurer | | | |
| Ma. Nalen SJ. Rosero | Corporate Secretary & Chief Information Officer | | | |
| Florence R. Bernardo | Mall operations | | | |
| Shiela Joy L. Sanchez | BPO operations | | | |
| **Aggregate executive compensation for above named officers** | | **Actual 2016** | **₱ 8.0 M** | **₱ 0.6 M** |
| | | **Actual 2017** | **₱ 8.8 M** | **₱ 0.6 M** |
| | | **Projected 2018** | **₱ 9.3 M** | **₱ 0.6 M** |
| **Aggregate executive compensation for all other officers and directors, unnamed** | | **Actual 2016** | **₱ 4.5 M** | **₱ 0.4 M** |
| | | **Actual 2017** | **₱ 4.9 M** | **₱ 0.4 M** |
| | | **Projected 2018** | **₱ 5.1 M** | **₱ 0.4 M** |

*The total annual compensation paid to the above-named officers and directors was paid in cash. The annual compensation includes the basic salary, the mid-year and 13$^{th}$ month bonus.*

### *Standard arrangements*

Other than payment of reasonable per diem of ₱50,000 per non-executive director for every meeting, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly by the Company's subsidiaries, for any services provided as a director for 2016 and 2017.

### *Other arrangements*

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly by the Company's subsidiaries, during 2016 or 2017 for any service provided as a director.

***Employment contract between the company and executive officers***

There are no special employment contracts between the Company and the named executive officers.

***Warrants and options held by the executive officers and directors***

There are no outstanding warrants or options held by the Company's named executive officers, and all officers and directors as a group.

***Significant employee***

While the Company values the contribution of each of its executive and non-executive employees, the Company believes there is no non-executive employee that the resignation or loss of whom would have a material adverse impact on the business of the Company. Other than standard employment contracts, there are no special arrangements with non-executive employees of the Company.

## Independent Public Accountants

The auditing firm of Sycip Gorres Velayo & Company ("SGV & Company") is being recommended for election as external auditor for the current year.

Representatives of the said firm are expected to be present at the annual stockholders' meeting and will have the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions. In 2017, the Registrant's auditors did not perform any substantial non-audit services for the Registrant.

## Changes in and Disagreement with Accountants on Accounting and Financial Disclosure

There was no instance where the Registrant's public accountants resigned or indicated that they decline to stand for re-election or were dismissed nor was there any instance where the Registrant had any disagreement with its public accountants on any accounting or financial disclosure issue.

The 2017 audit of the Registrant is in compliance with paragraph (3)(b)(iv) of SRC Rule 68, as amended, which provides that the external auditor should be rotated, or the handling partner changed, every five (5) years or earlier.

For Changes in Accounting Policies, refer to Note 3 - Changes in Accounting Policies discussion on the Consolidated Financial Statements as of and for the years ended December 31, 2017, 2016 and 2015 included in this report.

## Audit Committee's Approval Policies and Procedures

In relation to the audit of the Registrant's annual financial statements, the Registrant's Revised Corporate Governance Manual provides that the audit committee shall, among other activities, (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Registrant; (ii) ensure that other non-audit work provided by the external auditors are not in conflict with their functions as external auditors; and (iii) ensure the compliance of the Registrant with acceptable auditing and accounting standards and regulations.

The Audit Committee of the Registrant is composed of Mr. Raul Juan N. Esteban, Chairman, and Ms. Benjamarie Therese N. Serrano and Mr. Joel L. Bodegon, members.

**Audit and Audit-Related Fees**

The following table sets out the aggregate fees billed for each of the last two years for professional services rendered by SGV & Company.

| | 2017 | 2016 |
|---|---|---|
| | *(In ₱ Millions with VAT)* | |
| Audit and Audit-Related Fees: | | |
| Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements | ₱ 3.23 | ₱ 4.31 |
| All other fees | – | – |
| **Total** | **₱ 3.23** | **₱ 4.31** |

*SGV & Company does not have any direct or indirect interest in the Company.*

**Tax Fees**

Except as provided above, the Registrant did not pay any tax fees and other fees to its external auditors.

## OTHER MATTERS

**Action with Respect to Reports**

The following reports will be submitted for approval by the stockholders:

1. The President's Report; and

2. Audited Financial Statements for the year 2017.

**Other Proposed Actions**

1. Ratification of all acts and resolutions of the Board of Directors and Management for the year 2017 until the date of the meeting, as set forth in the minutes of the meetings of the Board of Directors held during the same period and in the disclosures that have been duly filed with the SEC and the PSE. These minutes cover the approval of the quarterly and annual reports of the Registrant filed with the SEC and the PSE; resignation/election of members of the Board of Directors; acting as surety for the loans of the subsidiaries and guarantee for the refinancing, additional and new issuance of dollar notes, corporate notes and Peso retail bond by its parent company and affiliates; appointment of authorized signatures for various transactions in the

normal course of business of the Company as well as opening and closure of various investment and/or deposit accounts.

2. Election of External Auditors

**<u>Voting Procedures</u>**

*Manner of voting*

In all items for approval, except in the election of directors, each share of stock entitles its registered owner to one vote.

For the purpose of electing directors, a stockholder may vote such number of his shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them in the same principle among as many candidates as he shall see fit. Unless required by law, or demanded by a stockholder present or represented at the meeting and entitled to vote thereat, voting need not be by ballot and will be done by show of hands.

*Voting requirements*

(a) With respect to the election of directors, candidates who received the highest number of votes shall be declared elected.

(b) With respect to the adoption of the Audited Financial Statements for the year ended 31 December 2017, as well as the approval or ratification of the other actions set forth under the heading "Other Proposed Actions" above, the vote of majority of the outstanding capital stock entitled to vote and represented in the meeting is required to approve such matters.

*Method of counting votes*

The Corporate Secretary will be responsible for counting votes based on the number of shares entitled to vote owned by the stockholders who are present or represented by proxies at the Annual Meeting of the stockholders.

## PART II

## MANAGEMENT REPORT

## I. FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Registrant as of and for the year ended December 31, 2017 are incorporated herein in the accompanying Index to Financial Statements and Supplementary Schedules.

## II. INFORMATION ON INDEPENDENT ACCOUNTANT

SGV & Company, independent certified public accountants, audited the Company's consolidated financial statements without qualification as of and for the years ended December 31, 2015, 2016 and 2017, included in this report. Cyril Jasmin B. Valencia is the current audit partner for the Company and its subsidiaries.

The Company has not had any disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period. SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. SGV & Co. will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto). The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

The following table sets out the aggregate fees billed for each of the last two years for professional services rendered by SGV & Company.

| | 2017 | 2016 |
|---|---|---|
| | *(In ₱ Millions* | *with VAT)* |
| Audit and Audit-Related Fees: | | |
| Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements | ₱ 3.23 | ₱ 3.41 |
| All other fees | – | – |
| **Total** | **₱ 3.23** | **₱ 3.41** |

*SGV & Company does not have any direct or indirect interest in the Company.*

## III. AUDIT COMMITTEE'S APPROVAL AND PROCEDURES FOR THE SERVICES OF THE EXTERNAL AUDITOR

The scope, extent and nature of the services to be referred to, and/or rendered by the appointed external auditor of the Company has been unanimously approved by the audit committee in a meeting duly called for the purpose, including the fees to be paid for the services thus rendered and/or referred. In relation to the audit of the Company's annual financial statements, the Company's Revised Corporate Governance Manual provides that the audit committee shall, among other activities (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the

Company; (ii) ensure that other non-audit work provided by the external auditors are not in conflict with their functions as external auditors; and (iii) ensure the compliance of the Company with acceptable auditing and accounting standards and regulations.

## IV. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**<u>REVIEW OF YEAR END 2017 VS YEAR END 2016</u>**

**RESULTS OF OPERATIONS**

**<u>Revenues</u>**

***Operating revenue***

Operating revenue increased from ₱4,479 million in the year ended December 31, 2016 to ₱5,297 million in the year ended December 31, 2017. The 18% increase in the account was primarily attributable to the following:

- Rental income increased from ₱4,078 million in the year ended December 31, 2016 to ₱4,799 million in the year ended December 31, 2017. The 18% increase was due to the primarily to the additional leasable space for the year, increase in occupancy of the existing malls and increase in the rental rate.

- Parking fee revenue increased from ₱106 million in the year ended December 31, 2016 to ₱117 million in the year ended December 31, 2017. The 11% increase was due to higher number of vehicles using the mall parking space and additional parking space from new malls opened during the year.

- Other operating income increased from ₱296 million in the year ended December 31, 2016 to
₱381 million in the year ended December 31, 2017. The 29% increase was due to increase in other fees charged to tenants such as billboards and other collaterals classified as other operating income.

**<u>Costs and Expenses</u>**

***Operating Expenses***

Cost and expenses increased from ₱1,948 million in the year ended December 31, 2016 to ₱2,332 million in the year ended December 31, 2017. The 20% increase in the account was primarily attributable to the following:

- Increase in depreciation and amortization by 32% from ₱718 million in the year ended December 31, 2016 to ₱950 million in the year ended December 31, 2017 due to additional depreciation from the newly opened malls and corporate building.

- Increase in light and power by 14% from ₱340 million in the year ended December 31, 2016 to ₱387 million in the year ended December 31, 2017 due to the increase in the consumption in light and power as a result of the additional mall openings during the year as well as increase the rate of utilities charged during the period.

- Increase in outside services by 11% from ₱251 million in the year ended December 31, 2016 to ₱279 million in the year ended December 31, 2017 due to the increase in manpower and agency fees for the operations of the malls and office buildings as a result of the new openings for the year.

- Increase in salaries and employee benefits by 10% from ₱169 million in the year ended December 31, 2016 to ₱186 million in the year ended December 31, 2017 due to the increase in manpower for the operations and management of the new and existing malls and office buildings.

- Increase in rentals by 19% from ₱112 million in the year ended December 31, 2016 to ₱134 million in the year ended December 31, 2017 due to the annual escalations of the rental rates of existing leased properties.

- Decrease in taxes and licenses by 9% from ₱144 million in the year ended December 31, 2016 to ₱131 million in the year ended December 31, 2017 due to lower taxes paid during the year.

- Increase in repairs and maintenance by 13% from ₱85 million in the year ended December 31, 2016 to ₱96 million in the year ended December 31, 2017 due to the various refurbishments of the company's older malls and office building.

- Increase in insurance by 37% from ₱21 million in the year ended December 31, 2016 to ₱28 million in the year ended December 31, 2017 due to the additional insurance obtained by the Company for its new malls and office buildings.

- Increase in professional fees by 88% from ₱12 million in the year ended December 31, 2016 to ₱22 million in the year ended December 31, 2017 as a result of increase professional fees paid in 2017.

- Increase in other operating expenses by 53% from ₱46 million in the year ended December 31, 2016 to ₱71 million in the year ended December 31, 2017 due to increase in transportation and travel, commission, and registration fees for the year.

***Interest Income***
Interest income increase from ₱12 million in the year ended December 31, 2016 to ₱25 million in the year ended December 31, 2016. The 113% increase resulted primarily from the higher level of cash and cash equivalents of the company for the year.

***Interest Expense***
Interest expense decrease by 85% from ₱301 million in the year ended December 31, 2016 to ₱45 million in the year ended December 31, 2017. This is due primarily to the higher capitalization for the year.

**Provision for Income Tax**

Tax expense for the year ended December 31, 2017 is ₱884 million an increase of 28% from ₱691 million for the year ended December 31, 2016. This is due primarily to the higher taxable income recorded for the year.

**Net Income**

As a result of the foregoing, the Company's net income increased by 33% from ₱1,551 million in the year ended December 31, 2016 to ₱2,061 million in the year ended December 31, 2017.

For the year ended December 31, 2017, there were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations. The Company is not aware of events that will cause a material change in the relationship between the costs and revenues.

## FINANCIAL CONDITION

***As of December 31, 2017 vs. December 31, 2016***

Total assets as of December 31, 2016 were ₱35,823 million compared to ₱45,330 million as of December 31, 2017, or a 27% increase. This was due to the following:

- Cash and cash equivalents including short term cash investments increased by 34% from ₱428 million as of December 31, 2016 to ₱572 million as of December 31, 2017 due to the higher collection and proceeds from advances from parent company.

- Available for sale financial assets, including non-current portion increased by 21% from ₱3,758 million as of December 31, 2016 to ₱4,544 million as of December 31, 2017 due to higher market value of the AFS held by the Group.

- Trade Receivables – net increased by 68% from ₱4,065 million as of December 31, 2016 to ₱6,825 million as of December 31, 2017 mainly due increase in rental revenue with the opening of the new malls and corporate building.

- Receivable from ultimate parent company, including non-current portion increased by 10% from ₱1,960 million as of December 31, 2016 to ₱2,154 million as of December 31, 2017 due to advances made during the year.

- Receivable from other related parties - net, including non-current portion increased by 236% from ₱761 million as of December 31, 2016 to ₱2,553 million as of December 31, 2017 due to advances made during the year.

- Prepayments and other current assets increased by 5% from ₱1,403 million as of December 31, 2016 to ₱1,473 million as of December 31, 2017 due to the increase in prepayments.

- Investment properties increased by 16% from ₱22,028 million as of December 31, 2016 to ₱25,581 million as of December 31, 2017. The increase was due to the construction and development of new malls and office building for rent for the year.

- Other non-current assets increased by 59% from ₱653 million as of December 31, 2016 to ₱1,039 million as of December 31, 2017 due to the increase in cash restricted for use.

Total liabilities as of December 31, 2016 were ₱17,738 million compared to ₱24,710 million as of December 31, 2017, or a 39% increase. This was due to the following:

- Payable to parent company, including non-current portion increased by 141% from ₱4,857 million as of December 31, 2016 to ₱11,700 million as of December 31, 2017 due to advances from parent company made during the year.

- Interest bearing loans and borrowings, including non-current portion decreased by 13% from ₱8,646 million as of December 31, 2016 to ₱7,530 million as of December 31, 2017 due to payments made during the year.

- Liability for purchased land increased by 172% from ₱302 million as of December 31, 2016 to ₱802 million as of December 31, 2017 due to new land acquisitions on account for the year.

- Dividends Payable decreased by 12% from ₱313 thousand as of December 31, 2016 to ₱275 thousand as of December 31, 2017 due to payments for the period.

- Refundable deposits increased by 36% from ₱128 million as of December 31, 2016 to ₱175 million as of December 31, 2017 due to the increase in deposits from tenants of both existing and new malls and corporate buildings of the Company.

- Pension liabilities increased by 26% from ₱40 million as of December 31, 2016 to ₱51 million as of December 31, 2017 due to actuarial adjustments.

- Deferred tax liabilities – net posted an increase of 79% from ₱853 million as of December 31, 2016 to ₱1,530 million as of December 31, 2017 due to the increase in temporary differences for the period that will eventually result to future tax liability.

- Other non-current liabilities increased by 19% from ₱615 million as of December 31, 2016 to ₱732 million as of December 31, 2017 due mainly to the increase in retention payable .

Total stockholder's equity increased by 14% from ₱18,085 million as of December 31, 2016 to ₱20,620 million as of December 31, 2017 to due to the earnings for the year.

Considered as the top five key performance indicators of the Company as shown below:

| Key Performance Indicators | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Current ratio [(a)] | 0.87:1 | 1.06:1 |
| Liability-to-equity ratio [(b)] | 1.20:1 | 0.98:1 |
| Interest coverage [(c)] | 8.91 | 5.05 |
| Return on assets [(d)] | 4.6% | 4.3% |
| Return on equity [(e)] | 10.0% | 8.6% |

*Notes:*

*a) Current Ratio: This ratio is obtained by dividing the Current Assets of the Company by its Current liabilities. This ratio is used as a test of the Company's liquidity.*

*b) Liability-to-equity ratio: This ratio is obtained by dividing the Company's Total Liabilities by its Total Equity. The ratio reveals the proportion of debt and equity a company is using to finance its business. It also measures a company's borrowing capacity.*

*c) Interest coverage: This ratio is obtained by dividing earnings before interest, taxes depreciation and amortization (EBITDA) by the total interest paid. This ratio shows whether a company is earning enough profits before interest to pay its interest cost comfortably.*

*d) Return on assets: This ratio is obtained by dividing the Company's net income (net of income from acquisition of subsidiary) by its total assets. This measures the Company's earnings in relation to all of the resources it had at its disposal.*

*e) Return on equity: This ratio is obtained by dividing the Company's net income (net of income from acquisition of subsidiary) by its total equity. This measures the rate of return on the ownership interest of the Company's stockholders.*

*Because there are various calculation methods for the performance indicators above, the Company's presentation of such may not be comparable to similarly titled measures used by other companies.*

Current ratio as of December 31, 2017 decreased from that of December 31, 2016 due increase in current liability from payable to parent company classified as current.

The increase in liability-to-equity ratio was due to the increase in liability for purchased land.

Interest coverage for the year ended December 31, 2017 increased because of the higher EBITDA and lower interest paid for the year.

Return on asset increased as of December 31, 2017 compared to that as of December 31, 2016 due to higher income in 2017.

Return on equity is increased as a result of higher income made in 2017.

**Material Changes to the Company's Balance Sheet as of December 31, 2017 compared to December 31, 2016 (increase/decrease of 5% or more)**

Cash and cash equivalents including short term cash investments increased by 34% from ₱428 million as of December 31, 2016 to ₱572 million as of December 31, 2017 due to the higher collection and proceeds from advances from parent company.

Available for sale financial assets, including non-current portion increased by 21% from ₱3,758 million as of December 31, 2016 to ₱4,544 million as of December 31, 2017 due to higher market value of the AFS held by the Group.

Trade Receivables – net increased by 68% from ₱4,065 million as of December 31, 2016 to ₱6,825 million as of December 31, 2017 mainly due increase in rental revenue with the opening of the new malls and corporate building.

Receivable from ultimate parent company, including non-current portion increased by 10% from ₱1,960 million as of December 31, 2016 to ₱2,154 million as of December 31, 2017 due to advances made during the year.

Receivable from other related parties - net, including non-current portion increased by 236% from ₱761 million as of December 31, 2016 to ₱2,553 million as of December 31, 2017 due to advances made during the year.

Prepayments and other current assets increased by 5% from ₱1,403 million as of December 31, 2016 to ₱1,473 million as of December 31, 2017 due to the increase in prepayments.

Investment properties increased by 16% from ₱22,028 million as of December 31, 2016 to ₱25,581 million as of December 31, 2017. The increase was due to the construction and development of new malls and office building for rent for the year.

Other non-current assets increased by 59% from ₱653 million as of December 31, 2016 to ₱1,039 million as of December 31, 2017 due to the increase in cash restricted for use.

Payable to parent company, including non-current portion increased by 141% from ₱4,857 million as of December 31, 2016 to ₱11,700 million as of December 31, 2017 due to advances from parent company made during the year.

Interest bearing loans and borrowings, including non-current portion decreased by 13% from ₱8,646 million as of December 31, 2016 to ₱7,530 million as of December 31, 2017 due to payments made during the year.

Liability for purchased land increased by 172% from ₱302 million as of December 31, 2016 to ₱802 million as of December 31, 2017 due to new land acquisitions on account for the year.

Dividends Payable decreased by 12% from ₱313 thousand as of December 31, 2016 to ₱275 thousand as of December 31, 2017 due to payments for the period.

Refundable deposits increased by 36% from ₱128 million as of December 31, 2016 to ₱175 million as of December 31, 2017 due to the increase in deposits from tenants of both existing and new malls and corporate buildings of the Company.

Pension liabilities increased by 26% from ₱40 million as of December 31, 2016 to ₱51 million as of December 31, 2017 due to actuarial adjustments.

Deferred tax liabilities – net posted an increase of 79% from ₱853 million as of December 31, 2016 to ₱1,530 million as of December 31, 2017 due to the increase in temporary differences for the period that will eventually result to future tax liability.

Other non-current liabilities increased by 19% from ₱615 million as of December 31, 2016 to ₱732 million as of December 31, 2017 due mainly to the increase in retention payable .

**Material Changes to the Company's Statement of income for the year ended December 31, 2017 compared to the year ended December 31, 2016 (increase/decrease of 5% or more)**

Rental income increased from ₱4,078 million in the year ended December 31, 2016 to ₱4,799 million in the year ended December 31, 2017. The 18% increase was due to the primarily to the additional leasable space for the year, increase in occupancy of the existing malls and increase in the rental rate.

Parking fee revenue increased from ₱106 million in the year ended December 31, 2016 to ₱117 million in the year ended December 31, 2017. The 11% increase was due to higher number of vehicles using the mall parking space and additional parking space from new malls opened during the year.

Other operating income increased from ₱296 million in the year ended December 31, 2016 to ₱381 million in the year ended December 31, 2017. The 29% increase was due to increase in other fees charged to tenants such as billboards and other collaterals classified as other operating income.

Increase in depreciation and amortization by 32% from ₱718 million in the year ended December 31, 2016 to ₱950 million in the year ended December 31, 2017 due to additional depreciation from the newly opened malls and corporate building.

Increase in light and power by 14% from ₱340 million in the year ended December 31, 2016 to ₱387 million in the year ended December 31, 2017 due to the increase in the consumption in light and power as a result of the additional mall openings during the year as well as increase the rate of utilities charged during the period.

Increase in outside services by 11% from ₱251 million in the year ended December 31, 2016 to ₱279 million in the year ended December 31, 2017 due to the increase in manpower and agency fees for the operations of the malls and office buildings as a result of the new openings for the year.

Increase in salaries and employee benefits by 10% from ₱169 million in the year ended December 31, 2016 to ₱186 million in the year ended December 31, 2017 due to the increase in manpower for the operations and management of the new and existing malls and office buildings.

Increase in rentals by 19% from ₱112 million in the year ended December 31, 2016 to ₱134 million in the year ended December 31, 2017 due to the annual escalations of the rental rates of existing leased properties.

Decrease in taxes and licenses by 9% from ₱144 million in the year ended December 31, 2016 to ₱131 million in the year ended December 31, 2017 due to lower taxes paid during the year.

Increase in repairs and maintenance by 13% from ₱85 million in the year ended December 31, 2016 to ₱96 million in the year ended December 31, 2017 due to the various refurbishments of the company's older malls and office building.

Increase in insurance by 37% from ₱21 million in the year ended December 31, 2016 to ₱28 million in the year ended December 31, 2017 due to the additional insurance obtained by the Company for its new malls and office buildings.

Increase in professional fees by 88% from ₱12 million in the year ended December 31, 2016 to ₱22 million in the year ended December 31, 2017 as a result of increase professional fees paid in 2017.

Increase in other operating expenses by 53% from ₱46 million in the year ended December 31, 2016 to ₱71 million in the year ended December 31, 2017 due to increase in transportation and travel, commission, and registration fees for the year.

Interest income increase from ₱12 million in the year ended December 31, 2016 to ₱25 million in the year ended December 31, 2016. The 113% increase resulted primarily from the higher level of cash and cash equivalents of the company for the year.

Interest expense decrease by 85% from ₱301 million in the year ended December 31, 2016 to ₱45 million in the year ended December 31, 2017. This is due primarily to the higher capitalization for the year.

Tax expense for the year ended December 31, 2017 is ₱884 million an increase of 28% from ₱691 million for the year ended December 31, 2016. This is due primarily to the higher taxable income recorded for the year.

There are no other material changes in the Company's financial position (changes of 5% or more) and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would impact or change reported financial information and condition on the Company.

## REVIEW OF YEAR END 2016 VS YEAR END 2015

## RESULTS OF OPERATIONS

### Revenues

#### *Operating revenue*

Operating revenue increased from ₱2,776 million in the year ended December 31, 2015 to ₱4,479 million in the year ended December 31, 2016. The 61% increase in the account was primarily attributable to the following:

- Rental income increased from ₱2,380 million in the year ended December 31, 2015 to ₱4,078 million in the year ended December 31, 2016. The 71% increase was due to the primarily to the additional leasable space for the year, increase in occupancy of the existing malls and increase in the rental rate.

- Parking fee revenue decreased from ₱122 million in the year ended December 31, 2015 to ₱106 million in the year ended December 31, 2016. The 13% decrease was due to lower number of vehicles using the mall parking space due to traffic situation, most shoppers are using the public transports in going to the malls.

- Other operating income increased from ₱274 million in the year ended December 31, 2015 to ₱296 million in the year ended December 31, 2016. The 8% increase was due to increase in other fees charged to tenants classified as other operating income.

**Costs and Expenses**

***Operating Expenses***

Cost and expenses increased from ₱1,439 million in the year ended December 31, 2015 to ₱1,948 million in the year ended December 31, 2016. The 35% increase in the account was primarily attributable to the following:

- Increase in depreciation and amortization by 50% from ₱480 million in the year ended December 31, 2015 to ₱718 million in the year ended December 31, 2016 due to additional depreciation from the newly opened malls and corporate building.

- Increase in light and power by 55% from ₱219 million in the year ended December 31, 2015 to ₱340 million in the year ended December 31, 2016 due to the increase in the consumption in light and power as a result of the additional mall openings during the year as well as increase the rate of utilities charged during the period.

- Increase in outside services by 24% from ₱203 in the year ended December 31, 2015 to ₱251 million in the year ended December 31, 2016 due to the increase in manpower and agency fees for the operations of the malls and office buildings as a result of the new openings for the year.

- Increase in salaries and employee benefits by 29% from ₱131 million in the year ended December 31, 2015 to ₱169 million in the year ended December 31, 2016 due to the increase in manpower for the operations and management of the new and existing malls and office buildings.

- Increase in taxes and licenses by 107% from ₱70 million in the year ended December 31, 2015 to ₱144 million in the year ended December 31, 2016 due to additional taxes paid as a result of the increase in the Group's investment properties.

- Increase in rentals by 5% from ₱107 million in the year ended December 31, 2015 to ₱112 million in the year ended December 31, 2016 due to the annual escalations of the rental rates of existing leased properties.

- Increase in repairs and maintenance by 47% from ₱58 million in the year ended December 31, 2015 to ₱85 million in the year ended December 31, 2016 due to the refurbishment of the older malls and one of our first office building.

- Increase in advertising and promotions by 63% from ₱30 million in the year ended December 31, 2015 to ₱49 million in the year ended December 31, 2016 due to increase in advertorials for the marketing and promotion of the malls and corporate buildings especially the newly opened ones.

- Increase in insurance by 36% from ₱15 million in the year ended December 31, 2015 to ₱21 million in the year ended December 31, 2016 due to the additional insurance obtained by the Company for its new malls and office buildings.

- Decrease in professional fees by 58% from ₱27 million in the year ended December 31, 2015 to ₱12 million in the year ended December 31, 2016 as a result of decrease in audit and other professional fees paid in 2016 as there were less interim review procedures required from the auditors.

- Decrease in other operating expenses by 54% from ₱99 million in the year ended December 31, 2015 to ₱46 million in the year ended December 31, 2016 due to the lower impairment losses recognized for the year.

***Interest Income***
Interest income decreased from ₱24 million in the year ended December 31, 2015 to ₱12 million in the year ended December 31, 2016. The 51% decrease resulted primarily from the decrease in cash and cash equivalents of the company.

***Interest Expense***
Interest expense increased by 496% from ₱51 million in the year ended December 31, 2015 to ₱301 million in the year ended December 31, 2016. This is due primarily to the increase in interest bearing liabilities of the Group to fund expansion.

**<u>Provision for Income Tax</u>**

Tax expense for the year ended December 31, 2016 is ₱691 million an increase of 70% from ₱405 million for the year ended December 31, 2015. This is due primarily to the higher deferred tax liabilities recorded for the year.

**<u>Net Income</u>**

As a result of the foregoing, the Company's net income increased by 72% from ₱904 million in the year ended December 31, 2015 to ₱1,551 million in the year ended December 31, 2016.

For the year ended December 31, 2016, there were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations. The Company is not aware of events that will cause a material change in the relationship between the costs and revenues.

## FINANCIAL CONDITION

***As of December 31, 2016 vs. December 31, 2015***

Total assets as of December 31, 2015 were ₱31,784 million compared to ₱35,823 million as of December 31, 2016, or a 13% increase. This was due to the following:

- Cash and cash equivalents including short term cash investments decreased by 58% from ₱1,008 million as of December 31, 2015 to ₱428 million as of December 31, 2016 due to the higher disbursements made for the construction of new malls and corporate building.

- Trade Receivables – net increased by 166% from ₱1,527 million as of December 31, 2015 to ₱4,065 million as of December 31, 2016 mainly due increase in rental revenue with the opening of the new malls and corporate building.

- Receivable from other related parties – net, including parent and ultimate parent company decreased by 17% from ₱3,743 million as of December 31, 2015 to ₱3,113 million as of December 31, 2016 primarily due to settlements made by affiliates during the year.

- Available for sale financial assets decreased by 5% from ₱3,937 million as of December 31, 2015 to ₱3,758 million as of December 31, 2016 due to lower market value of the AFS held by the Group.

- Property and equipment decreased by 15% from ₱61 million as of December 31, 2015 to ₱52 million as of December 31, 2016 due to reclassification made for various equipment to investment property account and retirement of old equipment.

- Investment properties increased by 15% from ₱19,154 million as of December 31, 2015 to ₱22,028 million as of December 31, 2016. The increase was due to the construction and development of new malls and office building for rent.

- Other non-current assets increased by 305% from ₱161 million as of December 31, 2015 to ₱653 million as of December 31, 2016 due to the increase in refundable deposits.

Total liabilities as of December 31, 2015 were ₱14,874 million compared to ₱17,738 million as of December 31, 2016, or a 19% increase. This was due to the following:

- Liability for purchased land decreased by 45% from ₱552 million as of December 31, 2015 to ₱302 million as of December 31, 2016 due to settlements for the year.

- Interest bearing loans and borrowings decreased by 20% from ₱10,748 million as of December 31, 2015 to ₱8,646 million as of December 31, 2016 due to payments made during the year.

- Trade and other payables increased by 7% from ₱1,736 million as of December 31, 2015 to ₱1,864 million as of December 31, 2016 due mainly to the increase in estimated liability for property development and payable to suppliers and contractors for the construction and development of new projects.

- Payable to related parties – net, including parent and ultimate parent company increased by 629% from ₱720 million as of December 31, 2015 to ₱5,249 million as of December 31, 2016 due to advances made from affiliates in 2016 as borrowings.

- Pension liabilities decreased by 33% from ₱61 million as of December 31, 2015 to ₱40 million as of December 31, 2016 due to actuarial adjustments.

- Deferred tax liabilities posted an increase of 149% from ₱343 million as of December 31, 2015 to ₱853 million as of December 31, 2016 due to the increase in temporary differences for the period that will eventually result to future tax liability.

- Refundable deposits increased by 36% from ₱95 million as of December 31, 2015 to ₱129 million as of December 31, 2016 due to the increase in deposits from tenants of both existing and new malls and corporate buildings of the Company.

- Other non-current liabilities increased by 6% from ₱582 million as of December 31, 2015 to ₱615 million as of December 31, 2016 due mainly to the increase in security deposits.

Total stockholder's equity increased from ₱16,910 million as of December 31, 2015 to ₱18,085 million as of December 31, 2016 to due to the earnings for the year.

Considered as the top five key performance indicators of the Company as shown below:

| Key Performance Indicators | 12/31/2016 | 12/31/2015 |
|---|---|---|
| Current ratio [(a)] | 1.06:1 | 1.43:1 |
| Liability-to-equity ratio [(b)] | 0.98:1 | 0.88:1 |
| Interest coverage [(c)] | 5.05 | 9.04 |
| Return on assets [(d)] | 4.3% | 2.8% |
| Return on equity [(e)] | 8.6% | 5.3% |

*Notes:*

a) *Current Ratio: This ratio is obtained by dividing the Current Assets of the Company by its Current liabilities. This ratio is used as a test of the Company's liquidity.*

b) *Liability-to-equity ratio: This ratio is obtained by dividing the Company's Total Liabilities by its Total Equity. The ratio reveals the proportion of debt and equity a company is using to finance its business. It also measures a company's borrowing capacity.*

c) *Interest coverage: This ratio is obtained by dividing earnings before interest, taxes depreciation and amortization (EBITDA) by the total interest paid. This ratio shows whether a company is earning enough profits before interest to pay its interest cost comfortably.*

d) *Return on assets: This ratio is obtained by dividing the Company's net income (net of income from acquisition of subsidiary) by its total assets. This measures the Company's earnings in relation to all of the resources it had at its disposal.*

e) *Return on equity: This ratio is obtained by dividing the Company's net income (net of income from acquisition of subsidiary) by its total equity. This measures the rate of return on the ownership interest of the Company's stockholders.*

*Because there are various calculation methods for the performance indicators above, the Company's presentation of such may not be comparable to similarly titled measures used by other companies.*

Current ratio as of December 31, 2016 decreased from that of December 31, 2015 due higher current liabilities brought about by the increase in interest-bearing loans and borrowings.

The increase in liability-to-equity ratio was due to the increase in payable to parent company.

Interest coverage for the year ended December 31, 2016 decreased because of the higher interest paid for the year.

Return on asset increased as of December 31, 2016 compared to that as of December 31, 2015 due to higher income in 2016.

Return on equity is increased as a result of higher income made in 2016.

**Material Changes to the Company's Balance Sheet as of December 31, 2016 compared to December 31, 2015 (increase/decrease of 5% or more)**

Cash and cash equivalents including short term cash investments decreased by 58% from ₱1,008 million as of December 31, 2015 to ₱428 million as of December 31, 2016 due to the higher disbursements made for the construction of new malls and corporate building.

Trade Receivables – net increased by 166% from ₱1,527 million as of December 31, 2015 to ₱4,065 million as of December 31, 2016 mainly due increase in rental revenue with the opening of the new malls and corporate building.

Receivable from other related parties – net, including parent and ultimate parent company decreased by 17% from P3,743 million as of December 31, 2015 to P3,113 million as of December 31, 2016 primarily due to settlements made by affiliates during the year.

Available for sale financial assets decreased by 5% from P3,937 million as of December 31, 2015 to P3,758 million as of December 31, 2016 due to lower market value of the AFS held by the Group.

Property and equipment decreased by 15% from P61 million as of December 31, 2015 to P52 million as of December 31, 2016 due to reclassification made for various equipment to investment property account and retirement of old equipment.

Investment properties increased by 15% from P19,154 million as of December 31, 2015 to P22,028 million as of December 31, 2016. The increase was due to the construction and development of new malls and office building for rent.

Other non-current assets increased by 305% from ₱161 million as of December 31, 2015 to ₱653 million as of December 31, 2016 due to the increase in refundable deposits.

Liability for purchased land decreased by 45% from P552 million as of December 31, 2015 to P302 million as of December 31, 2016 due to settlements for the year.

Interest bearing loans and borrowings decreased by 20% from P10,748 million as of December 31, 2015 to P8,646 million as of December 31, 2016 due to payments made during the year.

Trade and other payables increased by 7% from ₱1,736 million as of December 31, 2015 to ₱1,864 million as of December 31, 2016 due mainly to the increase in estimated liability for property development and payable to suppliers and contractors for the construction and development of new projects.

Payable to related parties – net, including parent and ultimate parent company increased by 629% from ₱720 million as of December 31, 2015 to ₱5,249 million as of December 31, 2016 due to advances made from affiliates in 2016 as borrowings.

Pension liabilities decreased by 33% from ₱61 million as of December 31, 2015 to ₱40 million as of December 31, 2016 due to actuarial adjustments.

Deferred tax liabilities posted an increase of 149% from ₱343 million as of December 31, 2015 to ₱853 million as of December 31, 2016 due to the increase in temporary differences for the period that will eventually result to future tax liability.

Refundable deposits increased by 36% from ₱95 million as of December 31, 2015 to ₱129 million as of December 31, 2016 due to the increase in deposits from tenants of both existing and new malls and corporate buildings of the Company.

Other non-current liabilities increased by 6% from ₱582 million as of December 31, 2015 to ₱615 million as of December 31, 2016 due mainly to the increase in security deposits.

**Material Changes to the Company's Statement of income for the year ended December 31, 2016 compared to the year ended December 31, 2015 (increase/decrease of 5% or more)**

Rental income increased from ₱2,380 million in the year ended December 31, 2015 to ₱4,078 million in the year ended December 31, 2016. The 71% increase was due to the primarily to the additional leasable space for the year, increase in occupancy of the existing malls and increase in the rental rate.

Parking fee revenue decreased from ₱122 million in the year ended December 31, 2015 to ₱106 million in the year ended December 31, 2016. The 13% decrease was due to lower number of vehicles using the mall parking space due to traffic situation, most shoppers are using the public transports in going to the malls.

Other operating income increased from ₱274 million in the year ended December 31, 2015 to ₱296 million in the year ended December 31, 2016. The 8% increase was due to increase in other fees charged to tenants classified as other operating income.

Increase in depreciation and amortization by 50% from ₱480 million in the year ended December 31, 2015 to ₱718 million in the year ended December 31, 2016 due to additional depreciation from the newly opened malls and corporate building.

Increase in light and power by 55% from ₱219 million in the year ended December 31, 2015 to ₱340 million in the year ended December 31, 2016 due to the increase in the consumption in light and power as a result of the additional mall openings during the year as well as increase the rate of utilities charged during the period.

Increase in outside services by 24% from ₱203 in the year ended December 31, 2015 to ₱251 million in the year ended December 31, 2016 due to the increase in manpower and agency fees for the operations of the malls and office buildings as a result of the new openings for the year.

Increase in salaries and employee benefits by 29% from ₱131 million in the year ended December 31, 2015 to ₱169 million in the year ended December 31, 2016 due to the increase in manpower for the operations and management of the new and existing malls and office buildings.

Increase in taxes and licenses by 107% from ₱70 million in the year ended December 31, 2015 to ₱144 million in the year ended December 31, 2016 due to additional taxes paid as a result of the increase in the Group's investment properties.

Increase in rentals by 5% from ₱107 million in the year ended December 31, 2015 to ₱112 million in the year ended December 31, 2016 due to the annual escalations of the rental rates of existing leased properties.

Increase in repairs and maintenance by 47% from ₱58 million in the year ended December 31, 2015 to ₱85 million in the year ended December 31, 2016 due to the refurbishment of the older malls and one of our first office building.

Increase in advertising and promotions by 63% from ₱30 million in the year ended December 31, 2015 to ₱49 million in the year ended December 31, 2016 due to increase in advertorials for the marketing and promotion of the malls and corporate buildings especially the newly opened ones.

Increase in insurance by 36% from ₱15 million in the year ended December 31, 2015 to ₱21 million in the year ended December 31, 2016 due to the additional insurance obtained by the Company for its new malls and office buildings.

Decrease in professional fees by 58% from ₱27 million in the year ended December 31, 2015 to ₱12 million in the year ended December 31, 2016 as a result of decrease in audit and other professional fees paid in 2016 as there were less interim review procedures required from the auditors.

Decrease in other operating expenses by 54% from ₱99 million in the year ended December 31, 2015 to ₱46 million in the year ended December 31, 2016 due to the lower impairment losses recognized for the year.

Interest income decreased from ₱24 million in the year ended December 31, 2015 to ₱12 million in the year ended December 31, 2016. The 51% decrease resulted primarily from the decrease in cash and cash equivalents of the company.

Interest expense increased by 496% from ₱51 million in the year ended December 31, 2015 to ₱301 million in the year ended December 31, 2016. This is due primarily to the increase in interest bearing liabilities of the Group to fund expansion.

Tax expense for the year ended December 31, 2016 is ₱691 million an increase of 70% from ₱405 million for the year ended December 31, 2015. This is due primarily to the higher deferred tax liabilities recorded for the year

There are no other material changes in the Company's financial position (changes of 5% or more) and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would impact or change reported financial information and condition on the Company.

## <u>REVIEW OF YEAR END 2015 VS YEAR END 2014</u>

## RESULTS OF OPERATIONS

### <u>Revenues</u>

***Operating revenue***

Operating revenue increased from ₱2,052 million in the year ended December 31, 2014 to ₱2,776 million in the year ended December 31, 2015. The 36% increase in the account was primarily attributable to the following:

- Rental income increased from ₱1,615 million in the year ended December 31, 2014 to ₱2,380 million in the year ended December 31, 2015. The 47% increase was due to the increase in occupancy of Starmall Las Piñas Annex, Starmall EDSA-Shaw, Starmall Alabang, Starmall San Jose del Monte, Starmall Prima Taguig and Starmall Talisay and Worldwide Corporate Center as well as the opening of Starmall Prima Daang Hari, Starmall Prima Sta. Rosa, Starmall Imus and Optimum Bank Building.

- Parking fee revenue increased from ₱41 million in the year ended December 31, 2014 to ₱122 million in the year ended December 31, 2015. The 199% increase was due to the increase in parking rates and increase occupancy in the existing malls and corporate buildings as well as the opening of the multi-level parking in the Starmall Las Pinas complex.

- Real estate sales decreased from ₱85 million in the year ended December 31, 2014 to nil in the year ended December 31, 2015. The 100% decrease was due to none recognition of real estate sales with the deconsolidation of BEC.

- Other operating income decreased from ₱311 million in the year ended December 31, 2014 to ₱274 million in the year ended December 31, 2015. The 12% decrease was due to decrease in other operating income such as realized gross profit on real estate sales, gain on derecognition of liabilities and penalties and other fees charged to tenants.

## Costs and Expenses

### *Operating Expenses*

Cost and expenses increased from ₱1,249 million in the year ended December 31, 2014 to ₱1,439 million in the year ended December 31, 2015. The 15% increase in the account was primarily attributable to the following:

- Increase in depreciation and amortization by 12% from ₱427 million in the year ended December 31, 2014 to ₱480 million in the year ended December 31, 2015 due to additional depreciation from the newly opened malls and corporate building.

- Increase in outside services by 26% from ₱161 in the year ended December 31, 2014 to ₱203 million in the year ended December 31, 2015 due to the increase in manpower and agency fees for the operations of the malls and office buildings.

- Increase in rentals by 2% from ₱105 million in the year ended December 31, 2013 to ₱107 million in the year ended December 31, 2015 due to the increase in rental payments for the parcels of land in which the Worldwide Corporate Center, Starmall Taguig, and Starmall Talisay are located.

- Increase in salaries and employee benefits by 26% from ₱104 million in the year ended December 31, 2014 to ₱131 million in the year ended December 31, 2015 due to the increase in manpower for the operations and management of the new and existing malls and office buildings.

- Increase in taxes and licenses by 28% from ₱54 million in the year ended December 31, 2014 to ₱70 million in the year ended December 31, 2015 due to additional taxes with the increase of the Group's investment portfolio.

- Increase in light and power by 29% from ₱170 million in the year ended December 31, 2014 to ₱219 million in the year ended December 31, 2015 due to the increase in consumption and rate of utilities as well as due to the newly opened malls and corporate buildings.

- Increase in repairs and maintenance by 23% from ₱47 million in the year ended December 31, 2014 to ₱58 million in the year ended December 31, 2015 due to the refurbishment of the older malls and WCC building.

- Increase in advertising and promotion by 29% from ₱23 million in the year ended December 31, 2014 to ₱30 million in the year ended December 31, 2015 due to increase in advertorials for the marketing and promotion of the malls and corporate buildings.

- Increase in professional fees by 61% from ₱17 million in the year ended December 31, 2014 to ₱27 million in the year ended December 31, 2015 as a result of increase in audit and other professional fees paid in 2015.

- Decrease in cost of real estate sales by 100% from ₱66 million in the year ended December 31, 2014 to nil in the year ended December 31, 2015 due to the non-recognition of real estate sales with the deconsolidation of BEC in 2014.

- Increase in other operating expenses by 69% from ₱59 million in the year ended December 31, 2014 to ₱99 million in the year ended December 31, 2015 primarily due to the recognition of impairment losses on accounts receivables in 2015.

***Interest Income***
Interest income decreased from ₱36 million in the year ended December 31, 2014 to ₱24 million in the year ended December 31, 2015. The 33% decrease resulted primarily from the decrease in available-for-sale financial assets of the Group.

***Interest and Financing Charges***
Interest and financing charges decreased by 22% from ₱65 million in the year ended December 31, 2014 to ₱51 million in the year ended December 31, 2015. This was decrease in interest on borrowings due to capitalization of the borrowing cost for the year.

***Loss from Sale of AFS Financial Asset***
The company incurred a loss amounting to ₱0.22 million with the disposal of its available-for-sale financial assets in 2015.

**Provision for Income Tax**

Tax expense for the year ended December 31, 2015 is ₱405 million and increased by 138% from ₱170 million for the year ended December 31, 2014. This is due to the primarily to the deferred tax liabilities on rental income and capitalized interest.

## Net Income

As a result of the foregoing, the Company's net income increased by 57% from ₱576 million for the year ended December 31, 2014 to ₱904 million for the year ended December 31, 2015.

For the year ended December 31, 2015, there were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations. The Company is not aware of events that will cause a material change in the relationship between the costs and revenues.

## FINANCIAL CONDITION

### *As of December 31, 2015 vs. December 31, 2014*

Total assets as of December 31, 2014 were ₱19,567 million compared to ₱31,783 million as of December 31, 2015, or a 62% increase. This was due to the following:

- Cash and cash equivalents including short term cash investments decreased by 48% from ₱1,860 million as of December 31, 2014 to ₱1,008 million as of December 31, 2015 as disbursements made for the construction of new malls and corporate building as well as purchase of land to be used for future project sites.

- Trade Receivables – net increased by 151% from ₱608 million as of December 31, 2014 to ₱1,527 million as of December 31, 2015 mainly due increase in rental revenue with the opening of the new malls and corporate building.

- Due from related parties decreased by 8% from ₱4,050 million as of December 31, 2014 to ₱3,743 million as of December 31, 2015 primarily due to settlements from affiliates.

- Available for sale financial assets increased by 1,045% from ₱344 million as of December 31, 2014 to ₱3,937 million as of December 31, 2015 due acquisition of VLL shares by MC after its disposal of its investment in STR shares.

- Prepayments and other current assets increased by 36% from ₱1,373 million as of December 31, 2014 to ₱1,869 million as of December 31, 2015 due mainly to the increase in increase in input taxes resulting from purchases made for the construction of new malls and office buildings as well as creditable withholding taxes.

- Property and equipment decreased by 69% from ₱202 million as of December 31, 2014 to ₱61 million as of December 31, 2015 due to reclassification made for various equipment to investment property account and retirement of aged equipment.

- Investment properties increased by 81% from ₱10,556 million as of December 31, 2014 to ₱19,154 million as of December 31, 2015. The increase was due to the construction and development of new projects and purchase of various properties to be used for commercial development. .

- Other non-current assets increased by 7% from ₱150 million as of December 31, 2014 to ₱161 million as of December 31, 2014 due to the increase in refundable deposits.

Total liabilities as of December 31, 2014 were ₱7,589 million compared to ₱14,874 million as of December 31, 2015, or a 96% increase. This was due to the following:

- Liability for land acquisition increased by 104% from ₱270 million as of December 31, 2014 from ₱552 million as of December 31, 2015 due to the land acquired on account during the year for new project sites.

- Interest bearing loans and borrowings increased by 119% from ₱4,901 million as of December 31, 2014 to ₱10,757 million as of December 31, 2015 due to the additional interest bearing loans obtained from various banks in 2015 for the development of new projects.
- Accounts and other payables increased by 15% from ₱1,507 million as of December 31, 2014 to ₱1,736 million as of December 31, 2015 due mainly to the increase in estimated liability for property development and payable to suppliers and contractors for the construction and development of new projects.

- Due to related parties increased by 298% from ₱181 million as of December 31, 2014 to ₱720 million as of December 31, 2015 to advances made from affiliates in 2015.

- Income tax payable decreased by 33% from ₱56 million as of December 31, 2014 to ₱37 million as of December 31, 2015 to due to settlement for the year.

- Retirement benefit obligation increased by 19% from ₱51 million as of December 31, 2014 to ₱61 million as of December 31, 2015 due to increased headcount and actuarial adjustments.

- Deferred tax liabilities posted an increase of 358% from ₱74 million as of December 31, 2014 to ₱337 million as of December 31, 2015. The difference is due to the increase in temporary tax differences of MAPI and MC.

- Other non-current liabilities and refundable deposits increased by 23% from ₱548 million as of December 31, 2014 to ₱676 million as of December 31, 2015 due to the increase in security deposits from tenants of the existing malls and corporate buildings.

Total stockholder's equity increased from ₱11,978 million as of December 31, 2014 to ₱16,910 million as of December 31, 2015 to due to the earnings for the year.

Considered as the top five key performance indicators of the Company as shown below:

| Key Performance Indicators | 12/31/2015 | 12/31/2014 |
|---|---|---|
| Current ratio [(a)] | 1.43:1 | 1.70:1 |
| Debt-to-equity ratio [(b)] | 1.24:1 | 0.63:1 |
| Interest coverage [(c)] | 9.04 | 8.47 |
| Return on assets [(d)] | 2.4% | 2.9% |
| Return on equity [(e)] | 5.3% | 4.8% |

*Notes:*

a) *Current Ratio: This ratio is obtained by dividing the Current Assets of the Company by its Current liabilities. This ratio is used as a test of the Company's liquidity.*

b) *Liability-to-equity ratio: This ratio is obtained by dividing the Company's Total Liabilities by its Total Equity. The ratio reveals the proportion of debt and equity a company is using to finance its business. It also measures a company's borrowing capacity.*

c) *Interest coverage: This ratio is obtained by dividing earnings before interest, taxes depreciation and amortization (EBITDA) by the total interest paid. This ratio shows whether a company is earning enough profits before interest to pay its interest cost comfortably.*

d) *Return on assets: This ratio is obtained by dividing the Company's net income (net of income from acquisition of subsidiary) by its total assets. This measures the Company's earnings in relation to all of the resources it had at its disposal.*

e) *Return on equity: This ratio is obtained by dividing the Company's net income (net of income from acquisition of subsidiary) by its total equity. This measures the rate of return on the ownership interest of the Company's stockholders.*

*Because there are various calculation methods for the performance indicators above, the Company's presentation of such may not be comparable to similarly titled measures used by other companies.*

Current ratio as of December 31, 2015 decreased from that of December 31, 2014 due to the increased loans and borrowings.

The increase in debt-to-equity ratio was due to the increase in interest-bearing loans and accounts payable.

Interest coverage for the year ended December 31, 2015 increased because of the increase in EBITDA for the year 2015.

Return on asset increased as of December 31, 2015 compared to that as of December 31, 2014 due to higher income in 2015.

Return on equity is increased as a result of higher income made in 2015.

**Material Changes to the Company's Balance Sheet as of December 31, 2015 compared to December 31, 2014 (increase/decrease of 5% or more)**

Cash and cash equivalents including short term cash investments decreased by 48% from ₱1,860 million as of December 31, 2014 to ₱1,008 million as of December 31, 2015 as disbursements made for the construction of new malls and corporate building as well as purchase of land to be used for future project sites.

Trade Receivables – net increased by 151% from ₱608 million as of December 31, 2014 to ₱1,527 million as of December 31, 2015 mainly due increase in rental revenue with the opening of the new malls and corporate building.

Due from related parties decreased by 8% from ₱4,050 million as of December 31, 2014 to ₱3,743 million as of December 31, 2015 primarily due to settlements from affiliates.

Available for sale financial assets increased by 1,045% from ₱344 million as of December 31, 2014 to ₱3,937 million as of December 31, 2015 due acquisition of VLL shares by MC after its disposal of its investment in STR shares.

Prepayments and other current assets increased by 36% from ₱1,373 million as of December 31, 2014 to ₱1,869 million as of December 31, 2015 due mainly to the increase in increase in input taxes resulting from purchases made for the construction of new malls and office buildings as well as creditable withholding taxes.

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Interest bearing loans and borrowings increased by 119% from ₱4,901 million as of December 31, 2014 to ₱10,757 million as of December 31, 2015 due to the additional interest bearing loans obtained from various banks in 2015 for the development of new projects.

Accounts and other payables increased by 15% from ₱1,507 million as of December 31, 2014 to ₱1,736 million as of December 31, 2015 due mainly to the increase in estimated liability for property development and payable to suppliers and contractors for the construction and development of new projects.

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Retirement benefit obligation increased by 19% from ₱51 million as of December 31, 2014 to ₱61 million as of December 31, 2015 due to increased headcount and actuarial adjustments.

Deferred tax liabilities posted an increase of 358% from ₱74 million as of December 31, 2014 to ₱337 million as of December 31, 2015. The difference is due to the increase in temporary tax differences of MAPI and MC.

Other non-current liabilities and refundable deposits increased by 23% from ₱548 million as of December 31, 2014 to ₱676 million as of December 31, 2015 due to the increase in security deposits from tenants of the existing malls and corporate buildings.

**Material Changes to the Company's Statement of income for the year ended December 31, 2015 compared to the year ended December 31, 2014 (increase/decrease of 5% or more)**

Rental income increased from ₱1,615 million in the year ended December 31, 2014 to ₱2,380 million in the year ended December 31, 2015. The 47% increase was due to the increase in occupancy of Starmall Las Piñas Annex, Starmall EDSA-Shaw, Starmall Alabang, Starmall San Jose del Monte, Starmall Prima Taguig and Starmall Talisay and Worldwide Corporate Center as well as the opening of Starmall Prima Daang Hari, Starmall Prima Sta. Rosa, Starmall Imus and Optimum Bank Building.

Parking fee revenue increased from ₱41 million in the year ended December 31, 2014 to ₱122 million in the year ended December 31, 2015. The 199% increase was due to the increase in parking rates and increase occupancy in the existing malls and corporate buildings as well as the opening of the multi-level parking in the Starmall Las Pinas complex.

Real estate sales decreased from ₱85 million in the year ended December 31, 2014 to nil in the year ended December 31, 2015. The 100% decrease was due to none recognition of real estate sales with the deconsolidation of BEC.

Other operating income decreased from ₱311 million in the year ended December 31, 2014 to ₱274 million in the year ended December 31, 2015. The 12% decrease was due to decrease in other operating income such as realized gross profit on real estate sales, gain on derecognition of liabilities and penalties and other fees charged to tenants.

Increase in depreciation and amortization by 12% from ₱427 million in the year ended December 31, 2014 to ₱480 million in the year ended December 31, 2015 due to additional depreciation from the newly opened malls and corporate building.

Increase in outside services by 26% from ₱161 in the year ended December 31, 2014 to ₱203 million in the year ended December 31, 2015 due to the increase in manpower and agency fees for the operations of the malls and office buildings.

Increase in salaries and employee benefits by 26% from ₱104 million in the year ended December 31, 2014 to ₱131 million in the year ended December 31, 2015 due to the increase in manpower for the operations and management of the new and existing malls and office buildings.

Increase in taxes and licenses by 28% from ₱54 million in the year ended December 31, 2014 to ₱70 million in the year ended December 31, 2015 due to additional taxes with the increase of the Group's investment portfolio.

Increase in light and power by 29% from ₱170 million in the year ended December 31, 2014 to ₱219 million in the year ended December 31, 2015 due to the increase in consumption and rate of utilities as well as due to the newly opened malls and corporate buildings.

Increase in repairs and maintenance by 23% from ₱47 million in the year ended December 31, 2014 to ₱58 million in the year ended December 31, 2015 due to the refurbishment of the older malls and WCC building.

Increase in advertising and promotion by 29% from ₱23 million in the year ended December 31, 2014 to ₱30 million in the year ended December 31, 2015 due to increase in advertorials for the marketing and promotion of the malls and corporate buildings.

Increase in professional fees by 61% from ₱17 million in the year ended December 31, 2014 to ₱27 million in the year ended December 31, 2015 as a result of increase in audit and other professional fees paid in 2015.

Decrease in cost of real estate sales by 100% from ₱66 million in the year ended December 31, 2014 to nil in the year ended December 31, 2015 due to the non-recognition of real estate sales with the deconsolidation of BEC in 2014.

Increase in other operating expenses by 69% from ₱59 million in the year ended December 31, 2014 to ₱99 million in the year ended December 31, 2015 primarily due to the recognition of impairment losses on accounts receivables in 2015.

Interest income decreased from ₱36 million in the year ended December 31, 2014 to ₱24 million in the year ended December 31, 2015. The 33% decrease resulted primarily from the decrease in available-for-sale financial assets of the Group.

Interest and financing charges decreased by 22% from ₱65 million in the year ended December 31, 2014 to ₱51 million in the year ended December 31, 2015. This was decrease in interest on borrowings due to capitalization of the borrowing cost for the year.

The company incurred a loss amounting to ₱0.22 million with the disposal of its available-for-sale financial assets in 2015.

Tax expense for the year ended December 31, 2015 is ₱405 million and increased by 138% from ₱170 million for the year ended December 31, 2014. This is due to the primarily to the deferred tax liabilities on rental income and capitalized interest.

There are no other material changes in the Company's financial position (changes of 5% or more) and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would impact or change reported financial information and condition on the Company.

## COMMITMENTS AND CONTINGENCIES

The Parent Company's subsidiaries are contingently liable for guarantees arising in the ordinary course of business, including surety bonds, letters of guarantee for performance and bonds for its entire real estate project.

The Company is contingently liable with respect to certain lawsuits and other claims which are being contested by the subsidiaries and their legal counsels. Management and their legal counsels believe that the final resolution of these claims will not have a material effect on the consolidated financial statements.

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Company's liquidity in any material way. The Company sourced its capital requirements through a mix of internally generated cash, sale of liquid assets like installment contracts receivables, pre-selling and joint venture undertakings. The Company does not expect any material cash requirements beyond the normal course of the business. The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation except for those items disclosed in the Audited Consolidated Financial Statements as of and for the years ended December 31, 2014, 2015 and 2016.

There are no material off-balance sheet transactions, arrangements, obligation (including contingent obligations), or other relationships of the Company with unconsolidated entities or other persons created during the reporting period except those disclosed in the Audited Consolidated Financial Statements as of and for the years ended December 31, 2014, 2015 and 2016.

There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonably expected to have a material impact on the continuing operations of the Company.

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. There are no explanatory comments on the seasonality of the operations. There are no material events subsequent to the end of the fiscal period that have not been reflected in the financial statements.

There are no material amounts affecting assets, liabilities, equity, net income or cash flows that are unusual in nature; neither are there changes in estimates of amounts reported in a prior period of the current financial year.

## IV. NATURE AND SCOPE OF BUSINESS

***Starmalls Inc. (the "Company"), formerly Polar Property Holdings Corp,*** was incorporated in Metro Manila, Philippines, on October 16, 1969 originally to pursue mineral exploration. After obtaining SEC approval in 2004, the Company changed its primary business and is now presently engaged in investment and real estate business.

On May 14, 2012, the Company's BOD authorized the change in name of the Company from Polar Property Holdings Corp. to Starmalls, Inc. The SEC approved the Company's application for the change in corporate name on June 22, 2012.

The Company's subsidiaries include the following:

- ***Masterpiece Asia Properties Inc. (MAPI)***. MAPI is currently in the operations and development of commercial properties for lease.

- ***Manuela Corporation (MC)***. MC is currently in the operations and development of commercial properties for lease.

The Company and its subsidiaries are hereinafter collectively referred to as the Group. All subsidiaries were incorporated in the Philippines. Brittany Estates Corporation (BEC) was deconsolidated from the Group in December 2014.

The Company's principal place of business is at the 7. Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daanghari, Almanza II, Las Piñas City.

## V. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

**Market Information**

Registrant's common shares are listed with the Philippine Stock Exchange. The high and low sales prices for each quarter within the last three fiscal years as traded on the Philippine Stock Exchange are as follows:

| Quarter | 2018 | | | 2017 | | | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | High | Low | Close | High | Low | Close | High | Low | Close | High | Low | Close |
| 1st | 25.85 | 8.10 | 15.88 | 7.00 | 6.79 | 7.00 | 8.00 | 4.08 | 7.06 | 7.46 | 6.81 | 7.35 |
| 2nd | | | | 7.44 | 6.23 | 7.28 | 7.14 | 6.20 | 7.00 | 7.70 | 6.56 | 6.60 |
| 3rd | | | | 7.52 | 6.51 | 7.52 | 7.15 | 6.53 | 7.14 | 8.40 | 6.98 | 7.84 |
| 4th | | | | 12.30 | 6.68 | 8.81 | 7.30 | 6.95 | 6.95 | 8.49 | 3.89 | 7.00 |

The market capitalization of STR as of December 31, 2017, based on the closing price of ₱8.81 per share, was approximately ₱74.23 billion.

As of May 4, 2018, STR's market capitalization stood at ₱90.16 billion based on the ₱10.70 per share closing price.

**Price Information as of the Latest Practicable Trading Date**

| Trading Date | High | Low | Close |
|---|---|---|---|
| 04 May 2018 | 10.70 | 10.18 | 10.70 |

## Stockholders

*Common Shares*

There are approximately 440 holders of common equity security of the Company as of April 30, 2018 (based on the number of accounts registered with the Stock Transfer Agent). As of 30 April 2018, the following are the top 20 holders of the common securities of the Company:

| | Stockholders Name | No. of Common Shares | Percentage (of Common Shares)[7] |
|---|---|---|---|
| 1. | VISTA LAND & LIFESCAPES, INC.[8] | 7,443,192,641 | 88.34% |
| 2. | LAND AND HOUSES PUBLIC COMPANY LIMITED | 808,431,465 | 9.59% |
| 3. | FINE PROPERTIES, INC.[7] | 114,877,955 | 1.36% |
| 4. | PCD NOMINEE CORPORATION (FILIPINO) | 53,391,071 | 0.63% |
| 5. | PETER O. TAN | 1,798,000 | 0.02% |
| 6. | PETER TAN &/OR MARILOU TAN | 1,524,000 | 0.02% |
| 7. | PCD NOMINEE CORPORATION (FOREIGN) | 430,404 | 0.01% |
| 8. | ORION-SQUIRE CAPITAL, INC. | 82,000 | 0.00% |
| 9. | ORION-SQUIRE SEC., INC. | 77,900 | 0.00% |
| 10 | CUA, ANG & CHUA SECURITIES INC. | 66,000 | 0.00% |
| 11 | DEES SECURITIES CORP. | 60,715 | 0.00% |
| 12 | PAIC SECURITIES CORPORATION | 60,400 | 0.00% |
| 13 | TANSENGCO & CO., INC. | 56,000 | 0.00% |
| 14 | ANSALDO, GODINEZ & CO., INC. | 54,286 | 0.00% |
| 15 | FINVEST SEC. CO., INC. | 50,000 | 0.00% |
| 16 | MARIO OSMENA JR. | 50,000 | 0.00% |
| 17 | BENITO PENALOSA | 50,000 | 0.00% |
| 18 | DAVID LIMQUECO KHO | 40,000 | 0.00% |
| 19 | GILBERT M. TIU | 40,000 | 0.00% |
| 20 | OH SIONG YU | 39,942 | 0.00% |
| | **Total** | **8,424,372,779** | **99.98%** |
| | Others | 1,608,377 | 0.02% |
| | **Total issued and outstanding common shares as of April 30, 2017** | **8,425,981,156** | **100.00%** |

*Preferred Shares*

As of April 30, 2018, there is only one (1) holder of the preferred shares of the Company:

| | Stockholders Name | No. of Preferred Shares | Percentage (of Preferred Shares) |
|---|---|---|---|
| 1. | Fine Properties, Inc. | 2,350,000,000 | 100.00% |
| | **Total outstanding, issued and subscribed** | **2,350,000,000** | **100.00%** |

[7] *based on the total shares issued of 8,425,981,156*

[8] *Lodged under PCD Nominee Corporation (Filipino)*

**Dividends**

**₱0.0368 per share Regular Cash Dividend**
Declaration Date: September 27, 2017
Record date: October 12, 2017
Payment date: October 26, 2017

**₱0.0215 per share Regular Cash Dividend**
Declaration Date: September 26, 2016
Record date: October 11, 2016
Payment date: October 26, 2016

**Dividend Policy**

The Registrant's Board is authorized to declare dividends. A cash dividend declaration does not require any further approval from the Registrant's shareholders. A stock dividend declaration requires the further approval of shareholders representing not less than two-thirds of the Registrant's outstanding capital stock. Dividends may be declared only from unrestricted retained earnings.

In relation to foreign shareholders, dividends payable may not be remitted using foreign exchange sourced from the Philippine banking system unless the investment was first registered with the Banko Sentral ng Pilipinas.

The Registrant is allowed under Philippine laws to declare property and stock dividends, subject to certain requirements.

**Record Date**

Pursuant to existing Philippine SEC rules, cash dividends declared by a company must have a record date not less than 10 nor more than 30 days from the date the cash dividends are declared. With respect to stock dividends, the record date is to be not less than 10 or more than 30 days from the date of shareholder approval, provided however, that the set record date is not to be less than 10 trading days from receipt by the PSE of the notice of declaration of stock dividend. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the Philippine SEC.

**Recent Sale of Unregistered Securities**

There have been no sales of unregistered securities in the past three years.

**Stock Options**

None

## VI. COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

The Company's Board has adopted a Revised Manual on Corporate Governance. The Company's Revised Manual on Corporate Governance describes the terms and conditions by which the Company intends to conduct sound corporate governance practices that are consistent with the relevant laws and regulations of the Republic of the Philippines, and which seek to enhance business transparency and build shareholder value.

Ultimate responsibility and oversight of the Company's adherence to superior corporate governance practices rests with the Board of Directors. As a policy matter, the Board will hold monthly meetings, at which any number of relevant corporate governance issues may be raised for discussion.

Practical oversight of the Company's corporate governance standards is exercised through the Board's three standing committees:

- The Audit Committee is charged with internal audit oversight over all of the Company's business transactions and the effective management of risk.
- The Nomination Committee is charged with ensuring that potential candidates for the Board are fully qualified as well as ensuring that the Board maintains adequate independent membership.
- The Compensation and Remuneration Committee is charged with ensuring that fair and competitive compensation policies are maintained.

The Company is committed to building a solid reputation for sound corporate governance practices, including a clear understanding by its Directors of the Company's strategic objectives, structures to ensure that such objectives are realized, systems to ensure the effective management of risks and the systems to ensure the Company's obligations are identified and discharged in all aspects of its business. Each January, the Company will issue a certification to the Philippines Securities and Exchange Commission and the Philippine Stock Exchange that it has fulfilled its corporate governance obligations.

As of December 31, 2017, there are no known material deviations from the Company's Revised Manual of Corporate governance. The Company is taking further steps to enhance adherence to principles and practices of good corporate governance

**UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE REGISTRANT UNDERTAKES TO FURNISH SAID STOCKHOLDER A COPY OF SEC FORM 17-A FREE OF CHARGE, EXCEPT FOR EXHIBITS ATTACHED THERETO WHICH SHALL BE CHARGED AT COST. ANY WRITTEN REQUEST FOR A COPY OF SEC FORM 17-A SHALL BE ADDRESSED AS FOLLOWS:**

**Starmalls, Inc.**
**Lower Ground Floor, Building B, EVIA**
**Lifestyle Center, Vista City, Daanghari,**
**Almanza II, Las Piñas City**

**Attention: Brian N. Edang**

## <u>REPORT ACCOMPANYING INFORMATION SHEET</u>

(A) Notice of Agenda for the Annual Stockholder's Meeting

(B) 2017 Annual Report

(C) Financial Statements as of 31 December 2017

## PART III

**SIGNATURE PAGE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth on this Report is true, complete and correct. This Report is signed in Mandaluyong City on 24th May 2018.

By:

**MA. NALEN S.J. ROSERO**
Corporate Secretary

starmall

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY**
**FOR CONSOLIDATED FINANCIAL STATEMENTS**

The management of **Starmalls, Inc. and Subsidiaries (the "Group")** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached herein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders or members.

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

APR 13 2018

Signed this ____________ day of ______________ 2018.

**MANUEL B. VILLAR, JR.**
Chairman of the Board

**BENJAMARIE THERESE N. SERRANO**
President

**CYNTHIA J. JAVAREZ**
Chief Financial Officer and Treasurer

SUBSCRIBED AND SWORN, to before me this ______________________________ at MANDALUYONG CITY, affiants exhibiting to me their respective Passports, to wit:

APR 13 2018

| Name | Passport No. | Date and Place of Issue |
|---|---|---|
| Manuel B Villar, Jr. | DE0011147 | 14 OCT 2014 / DFA MANILA |
| Benjamarie Therese N. Serrano | EC5357726 | 16 SEP 2015 / DFA MANILA |
| Cynthia J. Javarez | EC3842813 | 31 MAR 2015/ DFA MANILA |

who has satisfactory proven to me their identities through their valid identification cards, and that they are the same persons who personally signed before me the foregoing and acknowledges that they executed the same.

Doc No. 434
Page No. 88
Book No. XXV
Series of 2018.

ATTY. FERDINAND B. SABILLO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2018
ROLL No. 53511
IBP Lifetime Member No. 018538
PTR No. 3405286 / 04 Jan. 2018 / Mandaluyong City
MCLE Compliance No. V-0019610, issued dated 21 April 2016
Notarial Commission Appointment No. 0314-17
Worldwide Corporate Center, Upper Ground Floor,
Worldwide Corporate Center, Shaw Blvd., Mandaluyong City

# COVER SHEET

for

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

| C | S | 0 | 0 | 0 | 0 | 3 | 9 | 5 | 8 | 7 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

STARMALLS, INC. AND SUBSIDIARIES

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

Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daanghari, Almanza II, Las Piñas City

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AACFS | SEC | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| www.starmallsinc.com.ph | 571 5948 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 440 | 06/25 | 12/31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Brian N. Edang | brian_edang@ vistaland.com.ph | 02-226-3552 loc. 0088 | 0917-857-6513 |

**CONTACT PERSON's ADDRESS**

Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daanghari, Almanza II, Las Piñas City

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

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

**INDEPENDENT AUDITOR'S REPORT**

The Stockholders and the Board of Directors
Starmalls, Inc. and Subsidiaries
Lower Ground Floor, Building B
EVIA Lifestyle Center, Vista City
Daanghari, Almanza II, Las Piñas City

## Opinion

We have audited the consolidated financial statements of Starmalls, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

*Valuation of receivable from tenants*

As of December 31, 2017, receivables from tenants arising from the Group's leasing operations represent 11.31% of the total assets. The appropriateness of provision for credit losses for receivables from tenants is a key area of judgment. The Group determines the provision for credit losses on an individual basis for individually significant receivables, and collectively for receivables that are not individually significant. The identification of impairment and the determination of the recoverable amount involve various assumptions and factors. This includes the assessment of lessee's current financial condition, payment history, and estimated future cash flows. The use of different assumptions could result to significantly different estimates to provision for credit losses. The disclosure in relation to provision for credit losses on receivables from tenants are disclosed in Notes 9 and 27.

*Audit Response*

We obtained an understanding of the Group's credit policy and impairment process over receivables from tenants and tested the relevant controls. For specific impairment testing of individually significant receivables, we tested the assumptions underlying the impairment calculation by assessing whether the forecasted cash flows are based on the lessee's current financial condition and checking the lessee's payment history including payment made subsequent to year end. For the collective impairment testing, we tested the groupings of the receivables based on credit risk characteristics and age of receivables and compared the loss rate to historical data. We also re-performed the calculation of the provision for credit losses.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cyril Jasmin B. Valencia.

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1229-AR-1 (Group A),
May 12, 2015, valid until May 11, 2018
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621337, January 9, 2018, Makati City

March 27, 2018

## STARMALLS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2017** | 2016 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash (Notes 7 and 27) | **₱572,361,719** | ₱428,235,799 |
| Available-for-sale financial assets (Notes 8, 26 and 27) | **34,551,067** | 31,588,143 |
| Receivables (Notes 9 and 27) | **6,812,971,107** | 4,054,246,784 |
| Receivable from ultimate parent company (Notes 23 and 27) | **2,154,546,538** | 1,960,071,562 |
| Receivables from other related parties (Notes 23 and 27) | **2,600,010,624** | 1,152,597,515 |
| Real estate properties for sale (Note 10) | **322,090,433** | 323,112,576 |
| Prepayments and other current assets (Note 11) | **1,472,786,408** | 1,402,924,207 |
| Total Current Assets | **13,969,317,896** | 9,352,776,586 |
| **Noncurrent Assets** | | |
| Available-for-sale financial assets - net of current portion (Notes 8 and 27) | **4,509,236,373** | 3,726,634,834 |
| Receivables - net of current portion (Notes 9 and 27) | **11,730,831** | 10,428,875 |
| Receivables from other related parties (Notes 23 and 27) | **168,092,001** | – |
| Property and equipment (Note 12) | **51,842,671** | 51,791,296 |
| Investment properties (Note 13) | **25,580,740,587** | 22,028,469,478 |
| Other noncurrent assets (Note 11) | **1,039,440,544** | 652,507,309 |
| Total Noncurrent Assets | **31,361,083,007** | 26,469,831,792 |
| | **₱45,330,400,903** | ₱35,822,608,378 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 15) | **₱1,916,868,622** | ₱1,864,432,619 |
| Payable to parent company (Notes 23 and 27) | **11,699,707,437** | 4,857,332,925 |
| Payables to other related parties (Notes 23 and 27) | **214,663,688** | 391,593,844 |
| Interest-bearing loans and borrowings (Notes 16, 26 and 27) | **1,601,982,977** | 1,596,831,058 |
| Liability for purchased land (Notes 14 and 27) | **577,697,753** | 79,644,720 |
| Income tax payable | **38,207,472** | 38,800,111 |
| Dividends payable (Note 18) | **275,118** | 313,216 |
| Total Current Liabilities | **16,049,403,067** | 8,828,948,493 |
| **Noncurrent Liabilities** | | |
| Interest-bearing loans and borrowings - net of current portion (Notes 16, 26 and 27) | **5,927,684,889** | 7,048,991,583 |
| Liability for purchased land - net of current portion (Notes 14 and 27) | **244,714,560** | 222,641,520 |
| Refundable deposits | **174,694,272** | 128,552,216 |
| Pension liabilities (Note 19) | **50,766,213** | 40,418,438 |
| Deferred tax liabilities - net (Note 22) | **1,530,354,705** | 853,217,192 |
| Other noncurrent liabilities (Note 17) | **732,370,782** | 615,009,673 |
| Total Noncurrent Liabilities | **8,660,585,421** | 8,908,830,622 |
| Total Liabilities | **₱24,709,988,488** | ₱17,737,779,115 |

(Forward)

| | December 31 | |
|---|---|---|
| | **2017** | 2016 |
| **Equity** (Note 18) | | |
| Equity attributable to equity holders of the Parent Company: | | |
| Capital stock | **₱8,449,481,156** | ₱8,449,481,156 |
| Additional paid-in capital | **6,389,314,354** | 6,389,314,354 |
| Retained earnings | **6,433,402,872** | 4,703,708,769 |
| Other comprehensive income | **(763,856,172)** | (1,535,612,600) |
| | **20,508,342,210** | 18,006,891,679 |
| Non-controlling interest | **112,070,205** | 77,937,584 |
| Total Equity | **20,620,412,415** | 18,084,829,263 |
| | **₱45,330,400,903** | ₱35,822,608,378 |

*See accompanying Notes to Consolidated Financial Statements.*

## STARMALLS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| **REVENUE** | | | |
| Rental income (Note 13) | **₱4,798,595,982** | ₱4,077,936,489 | ₱2,380,179,636 |
| Parking fees | **117,104,544** | 105,615,365 | 121,746,680 |
| Other operating income (Note 20) | **381,491,995** | 295,659,510 | 273,668,177 |
| | **5,297,192,521** | 4,479,211,364 | 2,775,594,493 |
| **COSTS AND EXPENSES** | | | |
| Depreciation (Notes 12 and 13) | **950,118,521** | 717,910,218 | 479,507,582 |
| Light and power | **386,901,518** | 340,473,841 | 219,495,777 |
| Outside services | **279,000,699** | 251,018,048 | 202,937,734 |
| Salaries and employee benefits (Note 19) | **186,123,331** | 169,157,974 | 130,668,569 |
| Rentals | **134,036,615** | 112,428,601 | 107,286,569 |
| Taxes and licenses | **130,868,076** | 144,198,111 | 69,515,732 |
| Repairs and maintenance | **96,241,381** | 85,352,599 | 58,033,061 |
| Advertising and promotions | **48,833,765** | 49,083,978 | 30,071,874 |
| Insurance | **28,089,429** | 20,503,912 | 15,077,636 |
| Professional fees | **21,593,055** | 11,506,392 | 27,254,964 |
| Other operating expenses (Note 20) | **70,578,985** | 46,116,693 | 99,212,961 |
| | **2,332,385,375** | 1,947,750,367 | 1,439,062,459 |
| **OTHER INCOME (EXPENSE)** | | | |
| Interest income (Notes 7, 8, 11 and 21) | **24,792,430** | 11,616,221 | 23,917,351 |
| Interest expense (Notes 14, 16 and 21) | **(44,644,940)** | (300,917,401) | (50,529,983) |
| Loss on disposal of investments in shares of stock | **–** | – | (222,772) |
| | **(19,852,510)** | (289,301,180) | (26,835,404) |
| **INCOME BEFORE INCOME TAX** | **2,944,954,636** | 2,242,159,817 | 1,309,696,630 |
| **PROVISION FOR INCOME TAX** (Note 22) | **883,919,646** | 690,669,472 | 405,247,851 |
| **NET INCOME** | **₱2,061,034,990** | ₱1,551,490,345 | ₱904,448,779 |
| **NET INCOME ATTRIBUTABLE TO:** | | | |
| Equity holders of the Parent Company | **₱2,039,770,209** | ₱1,537,164,566 | ₱830,509,357 |
| Non-controlling interest | **21,264,781** | 14,325,779 | 73,939,422 |
| **NET INCOME** | **₱2,061,034,990** | ₱1,551,490,345 | ₱904,448,779 |
| **BASIC/DILUTED EARNINGS PER SHARE** (Note 24) | **₱0.242** | ₱0.182 | ₱0.117 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| **NET INCOME** | **₱2,061,034,990** | ₱1,551,490,345 | ₱904,448,779 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| *Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:* | | | |
| Fair value gain on available-for-sale financial assets reclassified to profit or loss (Note 8) | **–** | – | (16,735,567) |
| Unrealized fair value gain (loss) on available-for-sale financial assets (Note 8) | **785,564,463** | (207,773,571) | (1,472,596,174) |
| *Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:* | | | |
| Remeasurement gain (loss) on pension liabilities - net of tax (Note 19) | **(940,195)** | 12,432,783 | 937,904 |
| | **784,624,268** | (195,340,788) | (1,488,393,837) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **₱2,845,659,258** | ₱1,356,149,557 | (₱583,945,058) |
| **TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:** | | | |
| Equity holders of the Parent Company | **₱2,811,526,637** | ₱1,345,116,459 | (₱515,056,480) |
| Non-controlling interest | **34,132,621** | 11,033,098 | (68,888,578) |
| | **₱2,845,659,258** | ₱1,356,149,557 | (₱583,945,058) |

*See accompanying Notes to Consolidated Financial Statements.*

# STARMALLS, INC. AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Capital stock (Note 18) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | Preferred Stock | Additional Paid-in Capital (Note 18) | Treasury Stock | Other Comprehensive Income (Note 18 and 19) | Retained Earnings (Note 18) | Non-controlling Interest | Total |
| | **For the Year Ended December 31, 2017** | | | | | | | |
| **Balances as at January 1, 2017** | **₱8,425,981,156** | **₱23,500,000** | **₱6,389,314,354** | **₱–** | **(₱1,535,612,600)** | **₱4,703,708,769** | **₱77,937,584** | **₱18,084,829,263** |
| Net income | – | – | – | – | – | **2,039,770,209** | **21,264,781** | **2,061,034,990** |
| Other comprehensive income | – | – | – | – | **771,756,428** | – | **12,867,840** | **784,624,268** |
| Total comprehensive income | – | – | – | – | **771,756,428** | **2,039,770,209** | **34,132,621** | **2,845,659,258** |
| Cash Dividends | – | – | – | – | – | **(310,076,106)** | – | **(310,076,106)** |
| **Balances as at December 31, 2017** | **₱8,425,981,156** | **₱23,500,000** | **₱6,389,314,354** | **₱–** | **(₱763,856,172)** | **₱6,433,402,872** | **₱112,070,205** | **₱20,620,412,415** |
| | For the Year Ended December 31, 2016 | | | | | | | |
| **Balances as at January 1, 2016** | ₱8,425,981,156 | ₱23,500,000 | ₱6,389,314,354 | ₱– | (₱1,343,564,493) | ₱3,347,702,798 | ₱66,904,486 | ₱16,909,838,301 |
| Net income | – | – | – | – | – | 1,537,164,566 | 14,325,779 | 1,551,490,345 |
| Other comprehensive loss | – | – | – | – | (192,048,107) | – | (3,292,681) | (195,340,788) |
| Total comprehensive loss | – | – | – | – | (192,048,107) | 1,537,164,566 | 11,033,098 | 1,356,149,557 |
| Cash Dividends | – | – | – | – | – | (181,158,595) | – | (181,158,595) |
| **Balances as at December 31, 2016** | ₱8,425,981,156 | ₱23,500,000 | ₱6,389,314,354 | ₱– | (₱1,535,612,600) | ₱4,703,708,769 | ₱77,937,584 | ₱18,084,829,263 |
| | For the Year Ended December 31, 2015 | | | | | | | |
| **Balances as at January 1, 2015** | ₱8,425,981,156 | ₱23,500,000 | ₱2,451,348,760 | (₱1,578,227,989) | ₱2,001,344 | ₱2,517,193,441 | ₱135,793,064 | ₱11,977,589,776 |
| Net income | – | – | – | – | – | 830,509,357 | 73,939,422 | 904,448,779 |
| Other comprehensive loss | – | – | – | – | (1,345,565,837) | – | (142,828,000) | (1,488,393,837) |
| Total comprehensive loss | – | – | – | – | (1,345,565,837) | 830,509,357 | (68,888,578) | (583,945,058) |
| Sale of treasury shares | – | – | 3,937,965,594 | 1,578,227,989 | – | – | – | 5,516,193,583 |
| **Balances as at December 31, 2015** | ₱8,425,981,156 | ₱23,500,000 | ₱6,389,314,354 | ₱– | (₱1,343,564,493) | ₱3,347,702,798 | ₱66,904,486 | ₱16,909,838,301 |

*See accompanying Notes to Consolidated Financial Statements.*

## STARMALLS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱2,944,954,636** | ₱2,242,159,817 | ₱1,309,696,630 |
| Adjustments for: | | | |
| Depreciation (Notes 12 and 13) | **950,118,521** | 717,910,218 | 479,507,582 |
| Interest expense (Note 21) | **44,644,940** | 300,917,401 | 50,529,983 |
| Retirement expense (Note 19) | **9,004,639** | 7,799,006 | 9,348,615 |
| Interest income (Note 21) | **(24,792,430)** | (11,616,221) | (23,917,351) |
| Loss on asset retirement (Note 12) | | 42,395 | – |
| Loss on sale of AFS financial assets | **–** | – | 222,772 |
| Unrealized foreign currency gains - net | **–** | – | (839,167) |
| Operating income before working capital changes | **3,923,930,306** | 3,257,212,616 | 1,824,549,064 |
| Decrease (increase) in: | | | |
| Receivables | **(2,763,365,467)** | (2,122,681,488) | (916,341,096) |
| Real estate properties for sale | **1,022,143** | 270,745 | 58,055 |
| Prepayments and other assets | **(456,795,436)** | (441,774,855) | (507,680,864) |
| Increase (decrease) in: | | | |
| Trade and other payables | **(408,535,875)** | 100,694,708 | 599,273,981 |
| Refundable deposits | **46,142,056** | 33,949,678 | 21,999,736 |
| Other noncurrent liabilities | **117,361,109** | 33,169,961 | 106,142,087 |
| Net cash flows generated from operations | **459,758,836** | 860,841,365 | 1,128,000,963 |
| Interest received | **28,131,618** | 13,402,383 | 21,213,379 |
| Interest paid (including capitalized borrowing cost) | **(441,987,125)** | (645,307,621) | (203,432,843) |
| Income taxes paid | **(207,777,713)** | (183,926,571) | (155,114,557) |
| Net cash flows provided by (used in) operating activities | **(161,874,384)** | 45,009,556 | 790,666,942 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Decrease (increase) in receivables from related parties | **(1,809,980,086)** | 630,295,504 | 445,431,164 |
| Proceeds from disposal of AFS financial assets (Note 8) | **–** | – | 295,990,228 |
| Acquisitions of: | | | |
| Property and equipment (Note 12) | **(26,524,823)** | (14,857,190) | (99,324,307) |
| Investment property (Note 13) | **(3,595,647,727)** | (3,192,820,550) | (6,792,777,302) |
| AFS financial assets (Notes 8 and 29) | **–** | – | (344,762,099) |
| Increase in liability for purchased land (Note 29) | **520,126,073** | 35,327,346 | 360,381,060 |
| Net cash flows used in investing activities | **(4,912,026,563)** | (2,542,054,890) | (6,135,061,256) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from: | | | |
| Interest-bearing loans and borrowings (Note 16) | **500,000,000** | – | 7,273,621,392 |
| Reissuance of treasury shares | **–** | – | 344,762,099 |
| Payments of: | | | |
| Interest-bearing loans and borrowings (Note 16) | **(1,637,303,285)** | (2,128,584,388) | (1,469,250,764) |
| Dividends declared | **(310,114,204)** | (181,120,497) | – |
| Increase (decrease) in payables to related parties | **6,665,444,356** | 4,226,932,745 | (1,757,800,939) |
| Net cash flows provided by financing activities | **5,218,026,867** | 1,917,227,860 | 4,391,331,788 |
| Effect of exchange rate changes on cash | **–** | – | 839,167 |
| **NET INCREASE (DECREASE) IN CASH** | **144,125,920** | (579,817,474) | (952,223,359) |
| **CASH AT BEGINNING OF YEAR** | **428,235,799** | 1,008,053,273 | 1,960,276,632 |
| **CASH AT END OF YEAR** (Note 7) | **₱572,361,719** | ₱428,235,799 | ₱1,008,053,273 |

*See accompanying Notes to Consolidated Financial Statements.*

# STARMALLS, INC. AND SUBSIDIARIES
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

Starmalls, Inc. (the Parent Company) was incorporated in the Republic of the Philippines and duly registered with the Securities and Exchange Commission (SEC) on October 16, 1969, originally to pursue mineral exploration. After obtaining Philippine SEC approval on November 10, 2004, the Parent Company changed its primary business to holding investments in shares of stock and real estate.

The Parent Company is the holding company of the Starmalls Group (the Group) which is engaged in development and leasing of retail malls and Business Process Outsourcing ("BPO") commercial centers. The Group has wholly owned subsidiary, Masterpiece Asia Properties, Inc. (MAPI) and a 98.36% owned subsidiary, Manuela Corporation (MC or Manuela).

On November 10, 2015, Vista Land & Lifescapes, Inc. (VLLI or Vista Land) signed an agreement with the existing shareholders of the Group to acquire 88.34% or 7,443.19 million shares of the outstanding capital stock of the Parent Company for a total consideration of ₱33,537.36 million.

Starmalls and its subsidiaries became subsidiaries of Vista Land as at December 31, 2015.

Both Vista Land and Starmalls Group are entities under common control of Fine Properties, Inc. (the Ultimate Parent Company or Fine). Accordingly, Vista Land accounted for the acquisition of the Group under the pooling-of-interest method of accounting.

The Parent Company is 88.34% owned by Vista Land while 7.50% is owned by Land & Houses Public Company Limited and 4.16% is owned by the public. The Parent Company's shares of stock are listed at the Philippine Stock Exchange (PSE).

In a meeting held on May 3, 2016 and June 27, 2016, the Board of Directors (BOD) and the Stockholders, respectively, ratified and approved the amendments of Article III and Article IV of the Articles of Incorporation to extend the corporate term for another 50 years from October 15, 2019 and to change the registered office and principal place of business of the Parent Company. On September 30, 2016, the Amended Articles of Incorporation was approved by the Philippine SEC.

The Parent Company's new registered office and principal place of business is located at Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daanghari, Almanza II, Las Piñas City.

## 2. Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for the available-for-sale (AFS) financial assets which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) which is the functional and presentation currency of the Parent Company, and all amounts are rounded to the nearest Philippine Peso unless otherwise indicated.

<u>Statement of Compliance</u>
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the Parent Company and to the noncontrolling interests (NCI), even if this results in the NCI having a deficit balance. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other similar events. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries. The voting rights held by the Group in these subsidiaries are in proportion of their ownership interest.

| | **Percentage of Ownership** | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Manuela Corporation | 98.36% | 98.36% | 98.36% |
| Masterpiece Asia Properties, Inc. | 100.00 | 100.00 | 100.00 |

Non-controlling Interests
Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from parent shareholder's equity. Any losses applicable to the noncontrolling interests are allocated against the interests of the non-controlling interest even if this results to the non-controlling interest having a deficit balance. The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interest is recognized in equity of the parent in transactions where the non-controlling interest are acquired or sold without loss of control.

As at December 31, 2017 and 2016, percentage of non-controlling interests pertaining to Manuela Corporation amounted to 1.64%. The voting rights held by the non-controlling interest are in proportion of their ownership interest.

The Parent Company and the subsidiaries are all domiciled and incorporated in the Philippines and are in the business of leasing commercial spaces and buildings.

## 3. Changes in Accounting Policies

The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017. Unless otherwise indicated, the adoption of the new accounting standards will not impact the consolidated financial statements.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of these amendments did not have any impact on the Group's consolidated financial statements because it does not have disposal group.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in Note 29 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016 and 2015.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

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

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

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

*Effective beginning on or after January 1, 2018*

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Group does not expect impact from the adoption of this amendment because it does not have share-based payment transactions.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

In 2017, the Group performed its initial impact assessment of PFRS 9 and assessed that it will impact its methodology and measurement of credit losses as well on the classification and measurement of financial assets. There is no impact to the classification and measurement of its financial liabilities.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

  Based on its initial assessment, adoption of PFRS 15 has no significant impact to the leasing operations of the Group because it is following lease accounting which is covered by another accounting standard while other sources of revenue such as interest and dividends are already aligned with the requirements of PFRS 15. It will impact, however, its real estate development business as follows:

  - Significant financing component in relation to advance payments received from customers or advance proportion of work performed
  - Determination if existing documentation would meet the definition of contracts for real estate agreements
  - Accounting for costs in obtaining the contract for real estate agreements
  - Measurement of progress for real estate

  The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets such as items of property and equipment and investment properties when that disposal is not in the ordinary course of business.

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

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

  The amendments should be applied retrospectively, with earlier application permitted. The amendment is not expected to significantly impact the financial statements since entities within the Group are not venture capital organization or alike.

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  The Group has assessed the impact of the standard and will apply to its future change in use of properties to and from investment property given that it is in the mall and commercial center operations.

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

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the consolidated financial statements of the reporting period in which the entity first applies the interpretation.

  The Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

*Effective beginning on or after January 1, 2019*

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

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

  The Group will apply this amendment if there are transactions of this nature in the future. None of its current transactions will fall under this feature.

- PFRS 16, *Leases*

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

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

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

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

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

  The new lease standard will impact its operating lease agreements with its land leases where the commercial centers stand and its branch offices which are currently accounted for as operating leases, which will now require to be recorded as right of use asset and the related lease liability. There is no significant impact to the Group as a lessor for its investment portfolio. There will be more disclosures as required by the new standard.

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

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group does not expect this amendment to have significant impact to the consolidated financial statements because it does not currently have interests in associates and joint ventures.

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

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

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

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

  The Group is currently assessing the impact of adopting this interpretation.

*Deferred effectivity*

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

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

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

4. **Summary of Significant Accounting Policies**

Current and Noncurrent Classification
The Group presents assets and liabilities in consolidated statement of financial position based on current/noncurrent classification.

An asset is current when:
- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after reporting date; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after 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 12 months after reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after reporting date.

The Group classifies all other liabilities as noncurrent.

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

Cash
Cash includes cash on hand and in banks. Cash in banks earn interest at the prevailing interest rate.

Financial Instruments
*Date of recognition*
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, which is the date when the Group commits to purchase or sell the asset.

*Initial recognition of financial instruments*
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities include transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets, and loans and receivables.

The Group classifies its financial liabilities as financial liabilities at FVPL or other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. The financial assets of the Group are of the nature of loans and receivable, AFS financial assets and HTM financial assets, while its financial liabilities are of the nature of other financial liabilities. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Fair Value Measurement

The Group measures AFS financial assets at fair value at each reporting date. Also, fair values of loans and receivables, other financial liabilities and investment properties are disclosed in Notes 13 and 26.

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 by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group 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 consolidated financial statements are categorized within the fair value hierarchy 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 consolidated financial statements on a recurring basis, the Group 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.

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

*Loans and receivables*
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held-for-trading, designated as AFS or as financial assets at FVPL. Receivables are recognized initially at fair value. After initial measurement, loans and receivables are subsequently measured at cost or at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization, if any, is included in profit or loss. The losses arising from impairment of receivables are recognized in profit or loss. These financial assets are included in current assets if maturity is within 12 months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

This accounting policy applies primarily to the Group's cash, receivables (except for advances to contractors and suppliers), receivables from related parties and cash restricted for use included in "Other noncurrent assets".

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

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognized in OCI and credited to the OCI until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the OCI to the consolidated statement of comprehensive income in interest and other financing charges. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

When the investment is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as gain or loss on disposal in profit or loss. Where the Group holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets are reported as interest and other income from investments using the EIR. Dividends earned on holding AFS financial assets are recognized in profit or loss as part of miscellaneous income when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as provisions for impairment losses in profit or loss.

When the fair value of AFS equity financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any impairment losses.

As at December 31, 2017 and 2016, AFS financial assets comprise of unquoted and quoted equity securities and investment in mutual funds.

*Other financial liabilities*
Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Gains and losses are recognized in profit or loss when the liabilities are derecognized (redemption is a form of derecognition), as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

The financial liabilities measured at cost are trade and other payables (except for deferred output VAT), liability for purchased land, payables to related parties and dividends payable. The financial liabilities measured at amortized cost are interest-bearing loans and borrowings.

Derecognition of Financial Assets and Financial Liabilities

*Financial asset*
A financial asset (or, where applicable, a part of a group of financial assets) is derecognized when: (a) the rights to receive cash flows from the assets have expired; (b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or (c) the Group has transferred its right to receive cash flows from the asset and either: (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred control of the asset.

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

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

Impairment of Financial Assets
The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and

that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. The fact that title of the real estate properties are transferred only to the buyer upon full payment of the contract price is considered in the evaluation of impairment. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortized cost*
The Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost (i.e., loans and receivables or HTM investments) has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the assets original EIR (excluding future credit losses that have not been incurred). If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset, together with the other assets that are not individually significant and were thus not individually assessed for impairment, is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as selling price of the lots and residential houses, past-due status and term.

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss. Financial assets carried at amortized costs, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*AFS financial assets carried at fair value*
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. 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 the consolidated statement of comprehensive income is removed from OCI and recognized in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. In the case of debt instruments classified as AFS, 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 consolidated statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

*AFS financial assets carried at cost*
If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

<u>Real Estate Properties for Sale</u>
Real estate properties for sale consist of subdivision land and residential houses and lots for sale and development. These are properties acquired or being constructed for sale in the ordinary course of business rather than to be held for rental or capital appreciation. These are held as inventory and are measured at the lower of cost and net realizable value (NRV).

Cost includes:
- Acquisition cost of raw land and subdivision land;
- Amounts paid to contractors for construction and development of subdivision land and residential houses and lots; and
- Capitalized borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less costs to complete and the estimated costs of sale. The carrying amount of inventories is reduced through the use of allowance account and the amount of loss is charged to profit or loss.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs. The total costs are allocated pro-rata based on the relative size of the property sold.

Value-Added Tax
Input tax represents the VAT due or paid on purchases of goods and services subjected to VAT that the Group can claim against any future liability to the BIR for output VAT on sale of goods and services subjected to VAT. The input tax can also be recovered as tax credit under certain circumstances against future income tax liability of the Group upon approval of the BIR and/or Bureau of Customs. Input tax is stated at its estimated net realizable values. A valuation allowance is provided for any portion of the input tax that cannot be claimed against output tax or recovered as tax credit against future income tax liability. Input tax is recorded under current assets in the statement of financial position.

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for marketing fees, taxes and licenses, rentals and insurance.

Creditable Withholding Tax
Creditable withholding tax pertains to taxes withheld on income payments and may be applied against income tax due. The balance of taxes withheld is recovered in future period.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and any impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and computed using the straight-line basis over the Estimated Useful Life (EUL) of property and equipment as follows:

| | Years |
|---|---|
| Office and other equipment | 3 to 5 |
| Transportation equipment | 3 |
| Construction equipment | 1 to 2 |

The useful lives and depreciation and amortization method are reviewed annually to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated and amortized property and equipment are retained in the accounts until they are no longer in use. No further depreciation and amortization is charged against current operations.

Investment Properties

Investment properties comprise of completed property and property under construction or re-development that are held to earn rentals or for capital appreciation or both. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

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

Construction-in-progress (CIP) is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time as the relevant assets are completed and put into operational use. Construction-in-progress are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation and amortization are computed using the straight-line method over the EUL of the assets, regardless of utilization. The EUL and the depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

The EUL of buildings and building improvements is 10 to 40 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

Impairment of Nonfinancial Assets

This accounting policy relates to prepayments and other assets (except for cash restricted for use), property and equipment and investment properties.

The Group assesses as at reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those assets or groups of assets. Where the carrying amount of an asset 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. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase in OCI. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Security deposit
Security deposits are measured at amortized cost. Security deposit are deposits received from various tenants upon inception of the respective lease control on the Group's investment properties. At the termination of the lease contracts, the deposit received by the Group are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. The related lease contracts usually have a term of more than 12 months.

Construction bonds
Construction bonds are measured at amortized cost. Construction bonds are deposits from tenants undertaking construction and/or repairs of their leased commercial spaces. At the termination of the construction period, the deposit received by the Group are returned to tenants, reduced by penalties and/or deductions from repairs of damaged leased properties, if any. The construction contracts usually have a term of more than 12 months.

Retention payable
Retention payable are amount withheld from the contractors as guaranty for any claims against them. These are settled and paid once the construction period has expired.

Equity
Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Retained earnings represent accumulated earnings of the Group less dividends declared. It includes the accumulated equity in undistributed earnings of consolidated subsidiaries which are not available for dividends until declared by the subsidiaries.

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow and the amount of revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue arrangements.

*Rental income*

Rental income under noncancellable leases are recognized in the consolidated statements of comprehensive income under “Rental income” on a straight-line basis over the term of the lease. Contingent rent is recognized as revenue in the period in which it is earned.

*Common usage and service area charges and administrative fees*

Revenue is recognized when the performance of service has been substantially rendered. Income received from customer usage and service area charges is presented under “Rental income” while administrative fees is presented under “Other income” in the consolidated statement of comprehensive income.

*Parking fees*

Parking fees are recognized as revenue when earned.

*Real estate revenue and cost of real estate sales*

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectability of the sales price is demonstrated by the buyer’s commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectability is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee, Q&A 2006-01, the percentage-of-completion (POC) method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished, and the costs incurred or to be incurred can be measured reliably). Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included in the “Trade and other payables” account in the liabilities section of the consolidated statement of financial position.

When a sale of real estate does not meet the requirements for revenue recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized, and the receivable from the buyer is not recorded. The real estate inventories continue to be reported on the consolidated statement of financial position as “Real estate properties for sale” and the related liability as deposits under “Trade and other payables”.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

*Interest income*
Interest is recognized using the effective interest method, i.e, the rate, that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Unearned discount is recognized as income over the terms of the loans and receivables using the effective interest method and is shown as deduction for the financial assets.

*Miscellaneous income*
Miscellaneous income are recognized when the Group's right to receive payment is established.

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction 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 the investment properties in the consolidated statement of financial position. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress.

Operating Expenses
Operating expenses constitute costs of administering the business. These are recognized as expenses when incurred.

Pension Cost
*Defined benefit plan*
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 (PUC) method.

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(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.

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 high quality corporate 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 OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Income Taxes

*Current tax*

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

*Deferred tax*

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

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

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

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

Deferred tax relating to items recognized outside of profit or loss is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement; a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(b) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(c) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for any of the scenarios above, and at the date of renewal or extension period for the second scenario.

*Group as a lessor*
Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

*Group as a lessee*
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same bases as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Foreign Currency Translation
Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the period.

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

Segment Reporting
The Group's business is primarily leasing of retail malls and BPO commercial centers which are all located in the Philippines and treated as one segment. The segmentation is the basis of the chief operating decision market's internal reports allocation resources, and the evaluation of performance.

Provisions
Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in consolidated statement of comprehensive income net of any reimbursement.

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

Events After the Financial Reporting Date
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Any post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

## 5. Significant Accounting Judgments and Estimates

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Operating lease commitments - the Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties as the Group considered among others the length of the lease term as compared with the EUL of the assets.

*Real estate revenue and cost recognition*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others:

- Buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment; and
- Stage of completion of the project.

Management's Use of Estimates

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

*Determining fair values of financial assets*

Fair value determinations for financial assets are based generally on listed market prices or broker or dealer quotations. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market condition, assuming an orderly liquidation over a reasonable period of time. Fair value disclosures are provided in Note 26.

*Impairment of loans and receivables*

The Group reviews its receivables on a periodic basis to assess impairment of receivables at an individual and collective level. In assessing for impairment, the Group determines whether there is any objective evidence indicating that there is a measurable decrease in the estimated future cash flows of its loans and receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or industry-wide or local economic conditions that correlate with defaults on receivables. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies individually significant accounts that are to be provided with allowance.

For the purpose of a collective evaluation of impairment, loans are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, past-due status and term and age of the receivables.

Both the specific and collective impairment testing considered the outstanding balance of security deposit received from tenants and whether they still have active lease agreement.

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment would increase recorded expenses and decrease net income.

The carrying values of the Group's receivables (except for advances to contractors and suppliers) and receivables from related parties as at December 31, 2017 and 2016 follows:

| | **2017** | 2016 |
|---|---|---|
| Receivables (Note 9) | **₱5,164,462,414** | ₱3,706,902,845 |
| Receivables from related parties (Note 23) | **4,922,649,163** | 3,112,669,077 |
| | **₱10,087,111,577** | ₱6,819,571,922 |

*Evaluation of net realizable value of real estate properties for sale*
Real estate properties for sale are valued at the lower of cost or NRV. This requires the Group to make an estimate of the real estate for sale inventories' estimated selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. The Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of these assets. In determining the recoverability of these assets, management considers whether these assets are damaged, if their selling prices have declined and management's plan in discontinuing the real estate projects. Estimated selling price is derived from publicly available market data while estimated selling costs are basically commission expense and transfer costs.

Real estate properties for sale amounted to ₱322.09 million and ₱323.11 million as at December 31, 2017 and 2016, respectively (Note 10).

## 6. Segment Information

The Group's malls and BPO centers are all located in the Philippines and are treated as one operating segment. The real estate development of the Parent Company is very minimal to the overall operations and financial position of the Group as of December 31, 2017 and 2016. These were not treated as a separate segment by the chief operating decision maker for its review, evaluation and allocation of resources.

The Group has operating lease agreements with All Value Holdings, Inc. and Subsidiaries (All Value Group), an entity under common control, which is comprised of AllHome Corp., AllDay Retail Concepts, Inc. and Family Shoppers Unlimited Inc., for the leases of commercial spaces. Revenue earned from All Value Group which is engaged in retail businesses covering supermarkets, retail of apparel, construction materials and home/building appliances and furnishings constitutes more than 10% of the Group's total revenue in 2017, 2016 and 2015.

The leasing operations have no noted significant seasonality in operations.

## 7. Cash

This account consists of:

| | 2017 | 2016 |
|---|---|---|
| Cash on hand | **₱345,500** | ₱349,500 |
| Cash in banks | **572,016,219** | 427,886,299 |
| | **₱572,361,719** | ₱428,235,799 |

Cash in banks earns interest at the prevailing bank deposit rates. Interest rate ranges from 1.00% to 2.00% and 1.20% to 2.00% in 2017 and 2016, respectively.

Interest earned from cash in banks for the years ended December 31, 2017, 2016 and 2015 amounted to ₱3.62 million, ₱2.23 million and ₱10.72 million, respectively (Note 21).

## 8. Available-For-Sale Financial Assets

This account consists of:

| | 2017 | 2016 |
|---|---|---|
| Current | | |
| Investment in mutual funds | **₱34,551,067** | ₱31,588,143 |
| Noncurrent | | |
| Quoted equity securities | **4,506,032,203** | 3,723,430,664 |
| Unquoted equity securities | **3,204,170** | 3,204,170 |
| | **4,509,236,373** | 3,726,634,834 |
| | **₱4,543,787,440** | ₱3,758,222,977 |

The rollforward of the carrying amounts of AFS financial assets are as follows:

| | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | **₱3,758,222,977** | ₱3,936,604,709 |
| Additions | **–** | 29,391,839 |
| Unrealized gains (losses) recognized in OCI | **785,564,463** | (207,773,571) |
| Balance at end of year | **₱4,543,787,440** | ₱3,758,222,977 |

The movements in the unrealized gain (losses) for the years ended December 31, 2017, 2016 and 2015 follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Balance at beginning of year | **(₱1,682,661,829)** | (₱1,474,888,258) | ₱14,443,483 |
| Unrealized fair value gains (losses) on investment in mutual funds | **2,962,924** | (5,373,842) | 9,254,010 |
| Unrealized fair value gains (losses) on quoted equity securities | **782,601,539** | (202,399,729) | (1,481,850,184) |
| Fair value loss on AFS financial assets reclassified to profit or loss | **–** | – | (16,735,567) |
| Balance at end of year | **(₱897,097,366)** | (₱1,682,661,829) | (₱1,474,888,258) |

Investment in quoted equity securities represents investment in shares of stock of Vista Land representing 752.21 million shares.

In 2015, the Group disposed AFS financial assets amounting to ₱312.95 million. The unrealized gain amounting to ₱16.74 million previously recognized under other comprehensive income were reclassified to profit or loss upon realization. There were no other disposals in 2017 and 2016.

No AFS financial assets are used to secure the obligations of the Group (Note 16).

## 9. Receivables

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Trade receivables from tenants: | | |
| Related parties | **₱4,150,155,998** | ₱2,744,625,517 |
| Third party | **978,176,607** | 951,006,150 |
| Advances to contractors and suppliers | **1,660,239,524** | 357,772,814 |
| Installment contracts receivable | **58,788,066** | 57,009,370 |
| Others | **32,608,464** | 5,845,185 |
| | **6,879,968,659** | 4,116,259,036 |
| Less allowance for impairment losses | **(55,266,721)** | (51,583,377) |
| | **6,824,701,938** | 4,064,675,659 |
| Less noncurrent portion | **(11,730,831)** | (10,428,875) |
| | **₱6,812,971,107** | ₱4,054,246,784 |

*Trade receivables from tenants*
Trade receivables from tenants arise from lease operations of retail malls and BPO commercial centers and are collectible within 30 days from billing date. These are covered by security deposit equivalent to three-month rental. This includes both the fixed and contingent portion of lease and the effect of straight-line recognition of contractual rent income.

*Advances to contractors and suppliers*
Advances to contractors and suppliers are advance payments in relation to the Group's construction activities and purchases of owner supplied materials. These are recouped from settlement of progress billings statements which are expected to occur within one year from the date of payment.

*Installment contracts receivable*
Installment contracts receivable consist of accounts collectible in equal monthly installments with various terms up to a maximum of 15 years. These are carried at amortized cost. The corresponding titles to the subdivision or condominium units sold under this arrangement are transferred to the buyers only upon full payment of the contract price. Annual interest rates on installment contracts receivables range from 18.00% to 19.00%. Total interest income recognized amounted to ₱3.91 million, ₱1.79 million and ₱2.70 million in 2017, 2016 and 2015, respectively (Note 21).

*Others*
Others include receivables from employees which are collectible through salary deductions. These are noninterest bearing and has various maturity dates.

Movements in allowance for doubtful accounts on trade receivables from tenants follow:

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of year | **₱51,583,377** | ₱50,000,667 |
| Provisions (Note 20) | **3,683,344** | 1,582,710 |
| Balance at end of year | **₱55,266,721** | ₱51,583,377 |

The impairment losses above pertain to individually impaired accounts. No impairment losses resulted from performing collective impairment test.

No receivables are used to secure the obligations of the Group (Note 16).

## 10. Real Estate Properties for Sale

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Lot inventory | **₱167,062,069** | ₱166,586,560 |
| Residential units for sale | **155,028,364** | 156,526,016 |
| | **₱322,090,433** | ₱323,112,576 |

The real estate properties for sale are carried at cost. No inventories are recorded at amounts lower than cost in 2017 and 2016.

Residential properties for sale represent lots or houses and lots in completed subdivision projects for which the Group has already been granted the License to Sell (LTS) by the Housing and Land Use Regulatory Board of the Philippines.

Cost of real estate sales includes acquisition cost of raw land, subdivision and development costs paid to contractors and other costs attributable to bringing the real estate properties for sale to its intended condition.

Except as stated, the real estate properties for sale are not used to secure borrowings of the Group (Note 16).

## 11. **Prepayments and Other Assets**

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Current | | |
| Input VAT | **₱1,252,230,701** | ₱1,316,575,547 |
| Prepayments | **119,501,486** | 57,580,403 |
| Refundable deposits | **82,811,563** | – |
| Creditable withholding taxes | **4,996,213** | 14,979,029 |
| Others | **13,246,445** | 13,789,228 |
| | **1,472,786,408** | 1,402,924,207 |
| Noncurrent | | |
| Cash restricted for use (Note 16) | **934,178,185** | 500,630,394 |
| Refundable deposits | **105,262,359** | 151,876,915 |
| | **1,039,440,544** | 652,507,309 |
| | **₱2,512,226,952** | ₱2,055,431,516 |

Input VAT is a tax imposed on purchases of goods, professional and consulting services and construction costs. These are available for offset against output VAT in future periods.

Prepayments pertain to prepaid taxes, insurance premiums, employee benefits and rent, which will be utilized within 12 months from the end of the reporting period.

Refundable deposits pertain to deposits on utility subscriptions, rental deposits and security deposits. These deposits shall be applied against unpaid utility expenses and rent expenses upon termination of the contracts. These deposits are necessary for the continuing construction and development of retail malls and BPO commercial centers of the Group.

Creditable withholding taxes pertain to taxes withheld by the customer and are recoverable and can be applied against income tax in future periods. As at December 31, 2017 and 2016, the Group applied creditable withholding taxes amounting to ₱96.62 million and ₱59.21 million, respectively.

Cash restricted for use are bank deposits restricted solely for payment of the principal amortization and interest of certain bank loans. These deposits bear prevailing interest rates and will be retained as deposits until the bank loans are fully paid. The bank loans to which these deposits were maintained will be due in 2020. Deposit balance should be equivalent to two quarters of debt amortization. Interest income from cash restricted for use amounted to ₱6.19 million, ₱4.73 million and ₱1.45 million in 2017, 2016 and 2015, respectively (Note 21).

## 12. Property and Equipment

The rollforward analysis of this account follows:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | **Office and Other Equipment** | **Transportation Equipment** | **Construction Equipment** | **Total** |
| **Cost** | | | | |
| Balances at beginning of year | **₱95,619,550** | **₱15,403,045** | **₱7,552,918** | **₱118,575,513** |
| Additions | **19,401,642** | **8,022,847** | **3,167,118** | **30,591,607** |
| Balances at end of year | **115,021,192** | **23,425,892** | **10,720,036** | **149,167,120** |
| **Accumulated Depreciation** | | | | |
| Balances at beginning of year | **53,995,429** | **6,878,024** | **5,910,764** | **66,784,217** |
| Depreciation | **24,634,161** | **2,994,145** | **2,911,926** | **30,540,232** |
| Balances at end of year | **78,629,590** | **9,872,169** | **8,822,690** | **97,324,449** |
| **Net Book Value** | **₱36,391,602** | **₱13,553,723** | **₱1,897,346** | **₱51,842,671** |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Office and Other Equipment | Transportation Equipment | Construction Equipment | Total |
| **Cost** | | | | |
| Balances at beginning of year | ₱84,884,152 | ₱9,876,969 | ₱4,806,879 | ₱99,568,000 |
| Additions | 6,585,075 | 5,526,076 | 2,746,039 | 14,857,190 |
| Retirement | (160,652) | – | – | (160,652) |
| Transfers from investment properties (Note 13) | 4,310,975 | – | – | 4,310,975 |
| Balances at end of year | 95,619,550 | 15,403,045 | 7,552,918 | 118,575,513 |
| **Accumulated Depreciation** | | | | |
| Balances at beginning of year | 30,254,374 | 4,640,032 | 3,641,433 | 38,535,839 |
| Depreciation | 23,859,312 | 2,237,992 | 2,269,331 | 28,366,635 |
| Retirements | (118,257) | – | – | (118,257) |
| Balances at end of year | 53,995,429 | 6,878,024 | 5,910,764 | 66,784,217 |
| **Net Book Value** | ₱41,624,121 | ₱8,525,021 | ₱1,642,154 | ₱51,791,296 |

In 2016, the Group transferred construction in progress amounting ₱4.31 million that were reclassified to be used for normal operations and not for commercial or retail purposes (Note 13).

In 2016, the Group disposed various office equipment resulting to loss on retirement amounting to ₱0.04 million. There are no disposal of property and equipment in 2017.

As at December 31, 2017 and 2016, cost of fully depreciated assets that are still actively in use amounted to ₱36.59 million and ₱29.12 million, respectively.

Except as stated, the property and equipment are not used to secure borrowings of the Group (Note 16).

13. **Investment Properties**

The rollforward analysis of this account follows:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | **Land** | **Building and Building Improvements** | **Construction in Progress** | **Total** |
| **Cost** | | | | |
| Balances at beginning of year | **₱7,982,838,511** | **₱16,588,558,789** | **₱1,017,814,439** | **₱25,589,211,739** |
| Additions | **1,191,228,098** | **685,334,136** | **2,595,287,164** | **4,471,849,398** |
| Reclassification | **37,059,429** | **1,441,717,596** | **(1,478,777,025)** | **–** |
| Retirement | **–** | **(57,857)** | **–** | **(57,857)** |
| Balances at end of year | **9,211,126,038** | **18,715,552,664** | **2,134,324,578** | **30,061,003,280** |
| **Accumulated Depreciation** | | | | |
| Balances at beginning of year | **–** | **3,560,742,261** | **–** | **3,560,742,261** |
| Depreciation | **–** | **919,578,289** | **–** | **919,578,289** |
| Retirement | **–** | **(57,857)** | **–** | **(57,857)** |
| Balances at end of year | **–** | **4,480,262,693** | **–** | **4,480,262,693** |
| **Net Book Value** | **₱9,211,126,038** | **₱14,235,289,971** | **₱2,134,324,578** | **25,580,740,587** |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Land | Building and Building Improvements | Construction in Progress | Total |
| **Cost** | | | | |
| Balances at beginning of year | ₱7,725,796,111 | ₱8,561,042,910 | ₱5,738,518,894 | ₱22,025,357,915 |
| Additions | 541,645,274 | 914,709,339 | 2,397,006,896 | 3,853,361,509 |
| Derecognition (Note 14) | (285,196,710) | – | – | (285,196,710) |
| Reclassification | 593,836 | 7,112,806,540 | (7,113,400,376) | – |
| Transfers to property and equipment (Note 12) | – | – | (4,310,975) | (4,310,975) |
| Balances at end of year | 7,982,838,511 | 16,588,558,789 | 1,017,814,439 | 25,589,211,739 |
| **Accumulated Depreciation** | | | | |
| Balances at beginning of year | – | 2,871,198,678 | – | 2,871,198,678 |
| Depreciation | – | 689,543,583 | – | 689,543,583 |
| Balances at end of year | – | 3,560,742,261 | – | 3,560,742,261 |
| **Net Book Value** | ₱7,982,838,511 | ₱13,027,816,528 | ₱1,017,814,439 | ₱22,028,469,478 |

Investment properties consist mainly of land and commercial centers that are held to earn rental income. These include Vista Malls and Starmalls that are located in key cities and municipalities in the Philippines and three BPO commercial centers in Metro Manila, with a combined gross floor area of 844,537 square meters. The construction in progress represents capitalized costs arising from a construction of commercial centers that are located in Taguig City, Las Piñas City, Cavite, Davao, Naga and Cagayan de Oro which are due to be completed in 2018 to 2020.

The reclassification of ₱1,478.78 million in 2017 from construction in progress to building and improvements represents completed BPO commercial center in Taguig and Vista Malls in Molino, Kawit, Las Piñas and Talisay Cebu, with gross floor area of 113,327 square meters.

Rental income earned from investment properties amounted to ₱4,798.60 million, ₱4,077.94 million and ₱2,380.18 million in 2017, 2016 and 2015, respectively. Repairs and maintenance costs incurred arising from the investment properties amounted to ₱96.24 million, ₱85.35 million and ₱58.03 million for the years ended December 31, 2017, 2016 and 2015, respectively. Cost of property operations amounted to ₱2,165.47 million, ₱1,862.40 million and ₱1,281.82 million for the years ended December 31, 2017, 2016 and 2015. For the terms and conditions on the lease, refer to Note 28.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase or construct or develop investment properties or for repairs, maintenance and enhancements.

Borrowing cost capitalized to investment properties in 2017, 2016 and 2015 amounted to ₱406.28 million, ₱665.88 million and ₱468.63 million, respectively, representing the actual borrowing costs incurred on loans obtained to fund the construction projects (Note 21). The range of capitalization rate used was 4.50% to 7.25% in 2017, 2016 and 2015.

Investment properties with total carrying amount of ₱9,666.06 million and ₱8,764.94 million as at December 31, 2017 and 2016, respectively, are used as collaterals for loans obtained from local banks (Note 16).

In 2017 and 2016, the Group secured the services of an independent firm of appraisers to determine the fair market values of the Group's investment properties as at December 31, 2017 and 2016. The fair value was determined by an SEC accredited external valuer. Fair value of investment properties amounted to ₱39,307.22 million and ₱34,799.20 million as at December 31, 2017 and 2016, respectively.

Fair market value of investment properties were determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

## 14. Liability for Purchased Land

The rollforward analysis of this account follows:

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of year | **₱302,286,240** | ₱552,155,604 |
| Additions | **1,228,314,517** | 542,239,110 |
| Payments | **(708,161,444)** | (506,911,764) |
| Cancellation (Note 13) | **–** | (285,196,710) |
| Balance at end of year | **822,439,313** | ₱302,286,240 |
| Less noncurrent portion | **(244,741,560)** | (222,641,520) |
| | **₱577,697,753** | ₱79,644,720 |

Liabilities for purchased land are payables to various real estate property sellers. Under the terms of the agreements executed by the Group covering the purchase of certain real estate properties, the titles of the subject properties shall be transferred to the Group only upon full payment of the real estate payables. Liabilities for purchased land that are payable beyond one year from year end date are reported as noncurrent liabilities.

In 2016, the Group cancelled the purchase of land in 2014 resulting to cancellation of related liability for land acquisition and derecognition of the corresponding land recorded under investment properties with a cost of ₱285.20 million (Note 13).

15. **Trade and Other Payables**

This account consists of:

| | 2017 | 2016 |
|---|---|---|
| Accounts payable: | | |
| Supplier | **₱1,037,803,325** | ₱544,201,883 |
| Contractors | **120,810,190** | 45,059,734 |
| Government | **13,401,511** | 2,212,585 |
| Current portion of: | | |
| Security deposit | **177,639,096** | – |
| Retention payable | **34,244,700** | 509,497,273 |
| Construction payable | **15,750,596** | – |
| Accrued expenses | **346,446,662** | 383,113,669 |
| Deferred output VAT | **101,428,017** | 316,466,794 |
| Other payables | **69,344,525** | 63,880,681 |
| | **₱1,916,868,622** | ₱1,864,432,619 |

*Accounts payable - suppliers*
Accounts payable - suppliers represent construction materials, marketing collaterals, office supplies and property and equipment ordered and delivered but not yet due.

*Accounts payable - contractors*
Accounts payable - contractors pertain to contractors' billings for construction services related to the development of various projects of the Group.

*Accounts payable - government*
Accounts payable - government represent registration fees, building permit, documentary stamp taxes and real property taxes due to the government and other regulatory bodies.

*Current portion of security deposit*
Security deposits pertain to the three-month rental and three-month advance rental paid by the lessees as required under lease contracts, which will be refunded upon termination of the lease term or applied to unpaid rentals and damages. Security deposit that are payable beyond one year from year end date are presented as noncurrent liability (Note 17).

*Current portion of retention payable*
Retention payable pertains to 10.00% retention from the contractors' progress billings which will be released after the completion of contractors' project. The 10.00% retention serves as a holdout amount withheld from the contractor to cover for back charges that may arise from quality issues in affected projects. Retention payables that are payable beyond one year from year end date are presented as noncurrent liability (Note 17).

*Current portion of construction bond*
Construction bond pertains to the deposits made by the tenants which is payable prior to the start of construction of the leased space and to be refunded upon receipt of final clearance to operate. Construction bond that are payable beyond one year from year end date are presented as noncurrent liability (Note 17).

*Accrued expenses*
Accrued expenses represent the accrual for rentals, interest on loans, external contracted services and other administrative expenses which are expected to be settled within 12 months after the end of the reporting period. Details of accrued expenses as follow:

| | **2017** | 2016 |
|---|---|---|
| Rental | **₱247,118,202** | ₱239,101,859 |
| Interest | **58,858,749** | 71,072,439 |
| Agency services | **9,766,778** | 10,779,599 |
| Security | **9,518,242** | 19,563,564 |
| Others | **21,184,691** | 42,596,208 |
| | **₱346,446,662** | ₱383,113,669 |

*Deferred output VAT*
Deferred output VAT pertains to the output VAT of the Group on unpaid portion of recognized receivable from leasing operations. This amount is presented as output VAT upon collection of the receivables.

*Other payables*
Other payables mostly include payables for janitorial, professional fees, light and power, building maintenance and dues to be remitted to Social Security System, Philippine Health Insurance Corporation and Home Development Mutual Fund. These are noninterest-bearing and are normally settled within one year.

## 16. **Interest-Bearing Loans and Borrowings**

Details of the interest bearing loans and borrowings as at December 31, 2017 and 2016 follow:

| Loan Type | Date of Availment | 2017 | 2016 | Maturity | Interest Rate | Payment Terms | Collaterals |
|---|---|---|---|---|---|---|---|
| **MAPI** | | | | | | | |
| Bank loan | May 2012 | **₱–** | ₱52,500,000 | May 2017 | 5.70% | Interest and principal payable monthly | With collateral |
| Bank loan | Availed in various dates in 2013 and 2014 | **1,321,884,709** | 1,801,153,679 | August 2020 | 5.70% to 6.12% | Interest and principal payable quarterly | With collateral |
| Bank loan | December 2014 | **182,342,446** | 273,105,263 | December 2019 | 6.25% | Interest and principal payable monthly | With collateral |
| Bank loan | Availed in various dates in 2015 | **1,932,578,183** | 2,273,621,392 | March 2022 | 5.46% to 6.25% | Interest and principal payable monthly | With collateral |
| Bank loan | July 2017 | **500,000,000** | – | June 2027 | 6.23% | Interest and principal payable monthly | Unsecured |
| | | **3,936,805,338** | 4,400,380,334 | | | | |
| **MC** | | | | | | | |
| Bank loan | Availed in various dates in 2012 and 2013 | **122,126,194** | 257,559,138 | Various maturities in 2017 to 2020 | 7.00% to 7.25% | Interest and principal payable monthly | With collateral |
| Bank loan | Availed in various dates in 2014 | **151,764,706** | 231,764,706 | Various maturities in 2019 | 5.75% | Interest and principal payable quarterly | Unsecured |
| Bank loan | July 2015 | **3,318,971,628** | 3,756,118,463 | July 2022 | 5.75% | Interest and principal payable quarterly | With collateral |
| | | **3,592,862,528** | 4,245,442,307 | | | | |
| | | **7,529,667,866** | 8,645,822,641 | | | | |
| Less current portion | | **1,601,982,977** | 1,596,831,058 | | | | |
| | | **₱5,927,684,889** | ₱7,048,991,583 | | | | |

MAPI

In May 2012, MAPI obtained a secured loan from a local bank amounting to ₱420.00 million to finance the construction of Starmall San Jose del Monte. As at December 31, 2016, the outstanding balance of loan amounted to ₱52.50 million and was fully paid in May 2017. The loan provide for the Group to observe certain covenants including, among others, incurrence of additional debt; grant of security interest; payment of dividends; mergers, acquisitions and disposals; and certain other covenants.

In 2013 and 2014, MAPI entered into a secured term loan agreement with a local bank for a total credit line of ₱2,700.00 million. As of December 31, 2017, a total of ₱2,300.00 million has been drawn from this secured facility to finance the construction of various ongoing projects of MAPI. The loans have maturities beginning December 2015 to August 2020 and bear annual interest rates ranging from 5.75% to 6.12%. The loan requires MAPI to maintain a current ratio of not lower than 1.25:1:00 and debt-equity ratio of not higher than 3.00:1.00. These were complied with by MAPI as at December 31, 2017 and 2016. As at December 31, 2017 and 2016, outstanding balance of the loans amounted to ₱1,321.88 million and ₱1,801.15 million, respectively.

MAPI is also required to maintain a reserve fund for its future loan and interest repayments. In accordance with the agreement, MAPI maintains a reserve fund amounting to ₱808.02 million and ₱374.48 million for loan with outstanding balance of ₱3,754.46 million and ₱4,074.78 million as at December 31, 2017 and 2016, respectively. The cash restricted for use is presented under "Other noncurrent assets" account in the consolidated statements of financial position (Note 11).

In connection with the loan, MAPI agreed to execute a negative pledge over certain real properties with carrying amount of ₱9,666.06 million and ₱8,764.94 million as at December 31, 2017 and 2016, respectively (Note 12). MAPI cannot allow any other indebtedness to be secured by the covered real properties nor permit any other creditor to receive any priority or preference over the covered real properties, without written consent from the local bank.

In December 2014, MAPI entered into a secured term loan agreement with a local bank amounting to ₱366.00 million also primarily to finance various ongoing mall constructions. The loan has maturities beginning December 2014 to December 2019 and bears annual interest of 6.25%. As at December 31, 2017 and 2016, outstanding balance of the loans amounted to ₱182.34 million and ₱273.11 million, respectively.

In 2015, MAPI entered into a secured term loan agreement with a local bank amounting to ₱2,273.62 million primarily to finance various ongoing mall constructions. The loans have maturities of seven years from the date of drawdown and bear an annual fixed interest rate of 5.46%. As at December 31, 2017 and 2016, outstanding balance of the loans amounted to ₱1,932.58 million and ₱2,273.62 million, respectively.

In July 2017, MAPI obtained a 10-year unsecured peso denominated loan from a local bank amounting to ₱500.00 million which bears annual fixed interest rate of 6.23%. The principal balance of the loan will be paid in thirty two (32) equal quarterly installments commencing on the ninth interest payment date. The loan requires MAPI to maintain a current ratio of at least 1.00:1.00, debt-to-equity ratio of 2.50:1.00 and a DSCR of at least 1.00:100. These were complied with by MAPI as at December 31, 2017. The outstanding balance as at December 31, 2017 amounted to ₱500.00 million.

MC

In 2012 and 2013, MC obtained various term loans from local banks to finance the upgrade of the air conditioning systems of Starmall EDSA - Shaw and Starmall Alabang. The loans have maturities from October 2014 to February 2020 and bear an annual fixed interest rates ranging from 7.00% to 7.25%. As at December 31, 2017 and 2016, outstanding balance of the loans amounted to ₱122.13 million and ₱257.56 million, respectively.

In 2014, MC obtained various unsecured loans from a local bank to finance the upgrade of the air conditioning systems of Starmall Las Piñas - Main and Starmall Las Piñas - Annex and the acquisition of generator set upgrades for all the malls of MC. The loans have maturities of five years from the date of drawdown and bear fixed annual interest rate of 5.75%. The loan requires MC to maintain a current ratio of not lower than 1.10:1:00 and debt-equity ratio of not higher than 3.00:1.00. These were complied with by MC as at December 31, 2017 and 2016. As at December 31, 2017 and 2016, outstanding balance of loans amounted to ₱151.76 million and ₱231.76 million, respectively.

In July 2015, MC obtained a loan from a local bank worth ₱4,000.00 million which was used solely for capital expenditure and general corporate purposes and has a maturity of seven years from the date of drawdown and bears an annual fixed interest rate of 5.75%. Real estate contracts of MC as well as investment properties in Starmall Alabang are used as a mortgage for this loan. The loan requires MC to maintain a current ratio of not lower than 1.10:1:00 and debt-equity ratio of not higher than 3.00:1.00. These were complied with by MC as at December 31, 2017 and 2016. As at December 31, 2017 and 2016, outstanding balance of loans amounted to ₱3,318.97 million and ₱3,756.12 million, respectively.

MC is also required to maintain a reserve fund for its future loan and interest repayments. In accordance with the agreement, MC maintains a reserve fund amounting to ₱126.15 million for loan with outstanding balance of ₱110.00 million and ₱156.54 million as at December 31, 2017 and 2016, respectively. The cash restricted for use is presented under "Other noncurrent assets" account in the consolidated statements of financial position (Note 11).

## 17. **Other Noncurrent Liabilities**

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Security deposits - net of current portion (Note 15) | **₱471,484,056** | ₱572,642,162 |
| Retention payable - net of current portion (Note 15) | **222,611,371** | – |
| Construction bond - net of current portion (Note 15) | **33,086,934** | 35,406,727 |
| Others | **5,188,421** | 6,960,784 |
| Total | **₱732,370,782** | ₱615,009,673 |

18. **Equity**

Capital Stock
This account consists of:

| | Shares | Amount |
|---|---|---|
| Preferred - voting, cumulative, non-participating, non-convertible, non-redeemable - ₱0.01 par value | | |
| Authorized | 10,000,000,000 | ₱100,000,000 |
| Issued and outstanding | 2,350,000,000 | 23,500,000 |
| Common shares - ₱1.00 par value | | |
| Authorized | 16,900,000,000 | 16,900,000,000 |
| Issued and outstanding | 8,425,981,156 | 8,425,981,156 |

Registration Track Record
On November 13, 1970, the SEC approved the listing of the Parent Company's common shares totaling 1,000.00 million. The shares were initially issued at an offer price of ₱0.01 per share.

Below is the summary of the Parent Company's track record of registration of securities with the SEC as at December 31, 2017:

| | Number of Shares Registered | Number of holders of securities as of year end |
|---|---|---|
| December 31, 2015 | 8,425,981,156 | 440 |
| Add/(Deduct) Movement | – | – |
| December 31, 2016 | 8,425,981,156 | 440 |
| Add/(Deduct) Movement | – | – |
| **December 31, 2017** | **8,425,981,156** | **440** |

Retained Earnings
In accordance with SRC Rule No. 68, As Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2017, after reconciling items, amounted to ₱1,914.46 million.

Retained earnings include the accumulated equity in undistributed earnings of consolidated subsidiaries of ₱4,518.94 million, ₱2,469.16 million and ₱960.12 million in 2017, 2016 and 2015, respectively. These are not available for dividends until declared by the subsidiaries.

On September 26, 2016, the BOD approved the declaration of cash dividends amounting ₱181.16 million or ₱0.0215 per share, payable to all stockholders of record as of October 11, 2016. The said dividends were paid on October 26, 2016.

On September 29, 2017, the BOD approved the declaration of cash dividends amounting ₱310.08 million or ₱0.1342 per share, payable to all stockholders of record as of October 16, 2017. The said dividends were paid on October 26, 2017.

As at December 31, 2017 and 2016, unpaid dividends amounted to ₱0.03 million for each year.

Capital Management
The primary objective of the Group's capital management policy is to ensure that debt and equity capital are mobilized efficiently to support business objectives and maximize shareholder value. The Group establishes the appropriate capital structure for each business line that properly reflects its premier credit rating and allows it the financial flexibility, while providing it sufficient cushion to absorb cyclical industry risks.

The Group considers debt as a stable source of funding. The Group may lengthen the maturity profile of its debt portfolio in order to spread out its debt maturities by not having a significant percentage of its total debt maturing in a single year.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using leverage ratios on both a gross debt and net debt basis.

As at December 31, 2017, 2016 and 2015, the Group had the following ratios:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Current ratio | **0.87** | 1.06 | 2.20 |
| Debt-to-equity ratio | **0.41** | 0.49 | 0.67 |
| Net debt-to-equity ratio | **0.38** | 0.47 | 0.61 |
| Asset-to-equity ratio | **2.20** | 1.98 | 1.88 |

As at December 31, 2017, 2016 and 2015, the Group had complied with all externally imposed capital requirements (Note 16). No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2017, 2016 and 2015.

The Group considers as capital the equity attributable to equity holders of the Parent Company.

The following table shows the component of the Group's equity which it manages as capital as at December 31, 2017, 2016 and 2015:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Total paid-up capital | **₱14,838,795,510** | ₱14,838,795,510 | ₱14,838,795,510 |
| Retained earnings | **6,433,402,872** | 4,703,708,769 | 3,347,702,798 |
| Other comprehensive income | **(763,856,172)** | (1,535,612,600) | (1,343,564,493) |
| | **₱20,508,342,210** | ₱18,006,891,679 | ₱16,842,933,815 |

19. **Pension Liabilities**

The Group has unfunded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The benefits are based on current salaries and years of service and compensation on the last year of employment as defined under Philippine Republic Act 7641. The retirement is the only long-term employee benefit.

The most recent actuarial valuation was performed by a professionally qualified external actuary.

The principal actuarial assumptions used to determine the pension benefits with respect to the discount rate, salary increases and return on plan assets were based on historical and projected normal rates.

The components of pension expense follow:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current service cost | **₱2,931,969** | ₱7,799,006 | ₱9,348,615 |
| Interest cost | **6,072,670** | 2,899,717 | 1,868,123 |
| Total pension expense | **₱9,004,639** | ₱10,698,723 | ₱11,216,738 |

Changes in the present value of the defined benefit obligation follow:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Balance at beginning of year | **₱40,418,438** | ₱60,696,193 | ₱50,819,318 |
| Current service cost | **2,931,969** | 7,799,006 | 9,348,615 |
| Interest cost | **6,072,670** | 2,899,717 | 1,868,123 |
| Actuarial losses (gains) | **1,343,136** | (17,761,119) | (1,339,863) |
| Transfer out | **–** | (13,215,359) | – |
| Balance at end of year | **₱50,766,213** | ₱40,418,438 | ₱60,696,193 |

In 2016, pension liability amounting ₱13.22 million pertaining to a former key officer of the Parent Company was transferred out to a related party which is an entity under common control.

Remeasurement effect recognized in OCI:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Actuarial losses (gains) due to: | | | |
| Experience adjustments | **₱3,423,708** | (₱955,758) | (₱2,101) |
| Changes in financial assumptions | **(1,995,619)** | (16,668,929) | (1,337,762) |
| Changes in demographic assumptions | **(84,953)** | (136,432) | – |
| | **₱1,343,136** | (₱17,761,119) | (₱1,339,863) |

The assumptions used to determine the pension benefits for the Group are as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Discount rates | **4.88% to 5.80%** | 4.88% to 5.60% | 4.58% to 5.00% |
| Salary increase rate | **7.00% to 11.00%** | 7.00% to 11.00% | 7.00% to 11.00% |

Shown below is the maturity analysis of the undiscounted benefit payments:

| Plan Year | 2017 | 2016 |
|---|---|---|
| Less than 1 year | **₱1,862,409** | ₱1,629,608 |
| More than 1 year to 5 years | **5,334,761** | – |
| More than 5 years to 10 years | **25,109,187** | 14,855,411 |
| More than 10 years to 15 years | **47,343,023** | 69,935,630 |
| More than 15 years to 20 years | **678,465,952** | 514,890,979 |
| | **₱758,115,332** | ₱601,311,628 |

The average duration of retirement life is 14 years.

*Sensitivity analysis on the actuarial assumptions*
Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the Defined Benefit Obligation (DBO) at the reporting date after adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The sensitivities were expressed as the corresponding change in the DBO.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

| | | |
|---|---|---|
| Discount rate | +1.00% | ₱46,824,863 |
| | -1.00% | 55,126,173 |
| Salary increase | +1.00% | ₱54,913,556 |
| | -1.00% | 46,967,315 |

## 20. Other Operating Income and Expenses

Presented below are the details of other operating income and expenses for the years ended December 31, 2017, 2016 and 2015.

*Other operating income*
This account consists of:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Administrative fees | **₱219,015,573** | ₱184,346,671 | ₱159,339,357 |
| Mall maintenance and security fees | **96,319,023** | 60,732,762 | 63,658,174 |
| Advertising fees | **33,112,574** | 22,940,522 | 18,953,077 |
| Realized gross profit on real estate sales | **10,904,393** | 2,611,244 | – |
| Penalties and surcharges | **5,567,250** | 3,430,654 | 2,397,018 |
| Forfeited deposits and advances | **2,577,099** | 14,474,972 | 8,693,583 |
| Gain on derecognition of liabilities | **–** | 1,451,058 | 17,750,625 |
| Miscellaneous | **13,996,083** | 5,671,627 | 2,876,343 |
| | **₱381,491,995** | ₱295,659,510 | ₱273,668,177 |

Administrative fees pertain to service fees for the Group's administration of commercial spaces for the tenants which are marked up on monthly billings. This account also include excess collection of other charges paid in advance by the Group in behalf of the tenants.

*Other operating expense*
This account consists of:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Representation and entertainment | **₱29,667,709** | ₱20,259,140 | ₱19,068,837 |
| Transportation and travel | **9,442,576** | 4,509,850 | 8,378,303 |
| Registration fees | **5,309,702** | 3,227,327 | 2,774,953 |
| Supplies | **4,782,498** | 4,644,017 | 6,816,852 |
| Commission | **4,017,509** | 2,995,020 | 757,507 |
| Training | **3,821,342** | 3,686,851 | 3,894,973 |
| Impairment loss on accounts receivables (Note 9) | **3,683,344** | 1,582,710 | 50,544,672 |
| Documentation fee | **262,440** | 92,832 | - |
| Dues and subscriptions | **15,120** | 144,785 | 717,188 |
| Penalties and surcharges | **–** | 3,782,858 | – |
| Miscellaneous | **9,576,745** | 1,191,303 | 6,259,676 |
| | **₱70,578,985** | ₱46,116,693 | ₱99,212,961 |

## 21. **Interest Income and Expense**

Interest income consist of:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Interest income from tenants | **₱11,076,380** | ₱2,875,108 | ₱5,268,323 |
| Interest income from cash restricted for use (Note 11) | **6,185,652** | 4,729,068 | 1,454,201 |
| Interest income from installment contracts receivables and accretion of discount (Note 9) | **3,913,948** | 1,786,162 | 2,703,972 |
| Interest income from cash and cash equivalents (Note 7) | **3,616,450** | 2,225,883 | 10,720,005 |
| Interest income from AFS financial assets | **–** | – | 3,770,850 |
| | **₱24,792,430** | ₱11,616,221 | ₱23,917,351 |

Interest expense consist of:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Interest on loans and borrowings (Note 16) | **₱450,712,527** | ₱966,615,695 | ₱518,965,857 |
| Bank charges | **209,418** | 180,136 | 190,877 |
| | **450,921,945** | 966,795,831 | 519,156,734 |
| Amounts capitalized (Note 13) | **406,277,005** | 665,878,430 | 468,626,751 |
| | **₱44,644,940** | ₱300,917,401 | ₱50,529,983 |

## 22. **Income Tax**

Provision for income tax consists of:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Current: | | | |
| RCIT | **₱205,201,944** | ₱185,058,569 | ₱135,343,514 |
| Final | **1,983,130** | 490,405 | 1,079,166 |
| Deferred | **676,734,572** | 505,120,498 | 268,825,171 |
| | **₱883,919,646** | ₱690,669,472 | ₱405,247,851 |

Creditable withholding tax offset against income tax payable are disclosed in Note 11.

The components of the Group's deferred tax assets (liabilities) are as follows:

| | **2017** | 2016 |
|---|---|---|
| Deferred tax assets on: | | |
| Straight lining of rent expense | **₱90,975,027** | ₱80,691,004 |
| Allowance for impairment | **16,580,017** | 15,475,014 |
| Accrual of retirement costs | **14,752,430** | 10,443,698 |
| MCIT | **–** | 26,835,665 |
| NOLCO | **–** | 23,689,729 |
| Deferred gross profit | **–** | 559,450 |
| | **122,307,474** | 157,694,560 |
| Deferred tax liabilities on: | | |
| Straight lining of rent income | **(1,148,711,064)** | (615,532,454) |
| Capitalized interest and other expenses | **(503,951,115)** | (395,379,298) |
| | **(1,652,662,179)** | (1,010,911,752) |
| | **(₱1,530,354,705)** | (₱853,217,192) |

As at December 31, 2017, 2016 and 2015, the Group has deductible temporary differences, NOLCO and MCIT that are available for offset against future taxable income for which no deferred tax assets have been recognized as follows:

| | **2017** | 2016 |
|---|---|---|
| NOLCO | **₱82,157,735** | ₱80,665,746 |
| Accrual of retirement cost | **19,605,535** | 18,821,470 |
| MCIT | **322,344** | 298,132 |
| | **₱102,085,614** | ₱99,785,348 |

The related unrecognized deferred tax assets on these deductible temporary differences amounted to ₱30.85 million and ₱30.14 million as at December 31, 2017 and 2016, respectively.

Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The subsidiaries will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As at December 31, 2017, the details of the unused tax credits from the excess of the MCIT over RCIT and NOLCO, which are available for offset against future income tax payable and taxable income, respectively, over a period of three years from the year of inception, follow:

NOLCO

| Inception Year | Amount | Used/Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2014 | ₱71,673,745 | 71,673,745 | ₱– | 2017 |
| 2015 | 58,433,758 | 33,842,470 | 24,591,288 | 2018 |
| 2016 | 49,288,133 | – | 49,288,133 | 2019 |
| 2017 | 8,278,314 | – | 8,278,314 | 2020 |
| | ₱187,673,950 | ₱105,516,215 | ₱82,157,735 | |

MCIT

| Inception Year | Amount | Used/Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2014 | ₱3,610,513 | ₱3,610,513 | ₱– | 2017 |
| 2015 | 6,606,566 | 6,476,222 | 130,344 | 2018 |
| 2016 | 16,773,141 | 16,677,141 | 96,000 | 2019 |
| 2017 | 96,000 | – | 96,000 | 2020 |
| | ₱27,086,220 | ₱26,763,876 | ₱322,344 | |

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in profit or loss follows:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Provision for income tax at statutory income tax rate | **30.00%** | 30.00% | 30.00% |
| Tax effects of: | | | |
| Nondeductible interest and other expenses | **0.10%** | 0.07% | 0.10% |
| Income already subjected to final tax | **(0.10%)** | (0.01%) | (0.12%) |
| Expiration of NOLCO and MCIT | **0.07%** | 0.15% | 0.36% |
| Unrecognized DTA on temporary differences during the year | **(0.06%)** | 0.59% | 0.60% |
| Provision for income tax | **30.01%** | 30.80% | 30.94% |

23. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence. Entities under common control are those entities outside the Group but are related parties of Fine Properties, Inc. Related parties may be individuals or corporate entities.

The consolidated statements of financial position include the following amounts resulting from the foregoing transactions which represent amounts receivable (payable) with related parties as of December 31, 2017 and 2016:

**December 31, 2017**

| Nature | Volume | Amount | Terms | Conditions |
|---|---|---|---|---|
| **Trade receivables** (Note 9) | | | | |
| ***Ultimate Parent Company*** | | | | |
| (a) Rental of office spaces | **₱1,353,387** | **₱405,861** | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| ***Parent Company*** | | | | |
| (a) Rental of office spaces | **1,005,932** | **662,226** | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| ***Other related parties*** | | | | |
| (a) Rental of mall and office spaces | **2,454,286,691** | **4,149,087,911** | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| | | **4,150,155,998** | | |
| **Receivables from related parties** | | | | |
| ***Ultimate Parent Company*** | | | | |
| (b) Advances | **194,474,977** | **194,474,976** | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| (c) Sale of VLLI shares | – | **1,960,071,562** | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| ***Other related parties*** | | | | |
| (b) Advances | **1,615,505,110** | **2,600,010,624** | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| | | **168,092,001** | Noninterest-bearing | Unsecured; no impairment |
| | | **4,922,649,163** | | |
| **Payables to related parties** | | | | |
| ***Ultimate Parent Company*** | | | | |
| (d) Dividends | **4,227,509** | – | Due and demandable; noninterest-bearing | Unsecured |
| ***Parent Company*** | | | | |
| (b) Advances | **(7,031,839,944)** | **(11,699,707,437)** | Due and demandable; noninterest-bearing | Unsecured |
| (d) Dividends | **273,909,489** | – | Due and demandable; noninterest-bearing | Unsecured |
| ***Other related parties*** | | | | |
| (b) Advances | **176,930,156** | **(214,663,688)** | Due and demandable; noninterest-bearing | Unsecured |
| | | **(11,914,371,125)** | | |
| **Dividends payable** (Note 18) | | | | |
| ***Other stockholders*** | | | | |
| (d) Dividends | **31,939,108** | **(275,118)** | Due and demandable; noninterest-bearing | Unsecured |
| | | **(₱2,841,841,082)** | | |

December 31, 2016

| Nature | Volume | Amount | Terms | Conditions |
|---|---|---|---|---|
| **Trade receivables** (Note 9) | | | | |
| ***Ultimate Parent Company*** | | | | |
| (a) Rental of office spaces | ₱1,689,232 | ₱30,312 | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| ***Parent Company*** | | | | |
| (a) Rental of office spaces | 914,484 | 430,017 | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| ***Other related parties*** | | | | |
| (a) Rental of mall and office spaces | 1,760,341,888 | 2,744,165,188 | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| | | 2,744,625,517 | | |
| **Receivables from related parties** | | | | |
| ***Ultimate Parent Company*** | | | | |
| (b) Advances | 362,520 | – | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| (c) Sale of VLLI shares | (67,500,000) | 1,960,071,562 | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| ***Other related parties*** | | | | |
| (b) Advances | (702,070,557) | 1,152,597,515 | Due and demandable; noninterest-bearing | Unsecured; no impairment |
| | | 3,112,669,077 | | |
| **Payables to related parties** | | | | |
| ***Ultimate Parent Company*** | | | | |
| (d) Dividends | 2,469,876 | – | Due and demandable; noninterest-bearing | Unsecured |
| ***Parent Company*** | | | | |
| (b) Advances | (4,805,772,339) | (4,857,332,925) | Due and demandable; noninterest-bearing | Unsecured |
| (d) Dividends | 160,035,503 | – | Due and demandable; noninterest-bearing | Unsecured |
| ***Other related parties*** | | | | |
| (b) Advances | 415,695,521 | (391,593,844) | Due and demandable; noninterest-bearing | Unsecured |
| | | (5,248,926,769) | | |
| **Dividends payable** (Note 18) | | | | |
| ***Other stockholders*** | | | | |
| (d) Dividends | 18,653,216 | (313,216) | Due and demandable; noninterest-bearing | Unsecured |
| | | ₱608,054,609 | | |

The significant transactions with related parties follow:

a) The Group entered into operating lease agreements with ultimate parent company, parent company and entities under common control (referred to as “other related parties”) for the lease of the Group’s investment properties. The lease agreements are renewable annually and contains escalation clauses and contingent rent portion based on percentage of sales for the period. Rental income from related parties amounted to ₱2,456.65 million and ₱1,762.94 million as of December 31, 2017 and 2016, respectively. These are due and demandable and are non-interest bearing, unsecured and are not impaired.

   On October 30, 2017, Manuela and MAPI entered into a memorandum of agreement with AllHome Corp., an entity under common control, wherein Manuela and MAPI will offset its receivables from AllHome Corp. relating to mall rental and other charges, against billings of AllHome Corp to Manuela and MAPI for the supply of construction materials and home/building appliances and furnishings.

b) The Group in its regular conduct of business has entered into transactions with ultimate parent company, parent company and other related parties control principally consisting of noninterest bearing advances for working capital requirements and capital expenditures which are due and demandable. The Group’s policy is to settle its intercompany receivables and payables on a net basis.

c) In May 2013, the Group sold the remaining 399,397,000 shares of its investments in VLLI, with a carrying amount of ₱1,906.22 million, for a total consideration of ₱2,772.30 million to Fine Properties Inc. The outstanding receivables as at December 31, 2017 and 2016 amounted to ₱1,960.07 million. This is noninterest bearing receivables that is due and demandable.

d) Details of dividends declared to stockholders are discussed in Note 18.

In addition, the Group served as the guarantor of the following borrowings entered into by its related parties. The guarantee has no fee.

i. On October 4, 2013, VLL International, Inc. (VII), a related party issued US$100.00 million bonds which are due in 2018. On January 18, 2016, the BOD of the Group authorized to guarantee this Note together with the subsidiaries of Vista Land. On December 21, 2017, VII redeemed and paid $47.26 million remaining balance of the Note at 103.522% redemption price. The notes were fully paid as at December 31, 2017.

ii. On April 29, 2014, VII issued US$350.00 million bonds which are due in 2019. On January 18, 2016, the BOD of the Group authorized to guarantee this Note together with the subsidiaries of the Vista Land. On December 21, 2017, VII redeemed and paid $105.01 million remaining balance of the Note at 106.869% redemption price. The notes were fully paid as at December 31, 2017.

iii. On June 18, 2015, VII issued US$300.00 million bonds which are due on April 29, 2019 to refinance its debt and for general corporate purposes. On January 18, 2016, the BOD of the Group authorized to guarantee this Note together with the subsidiaries of Vista Land.

   On February 2, 2016, VII issued additional USD$125.00 million bonds with the same terms and conditions with the above note. On September 29, 2016, VII repurchased US$54.54 million out of the US$425.00 million notes outstanding balance prior to the repurchase date.

iv. On December 28, 2016, Vista Land entered into a Corporate Notes Facility Agreement with China Bank Capital Corporation for the issuance of a long term corporate notes with a principal amount of up to ₱8,000.0 million. On April 21, 2017, a consent solicitation was made for amendments to include among others, increasing the corporate notes principal amount to up to ₱10,000.00 million and the appointment of RCBC Capital Corporation as Co-Lead Arranger together with the China Bank Capital Corporation in respect to the second draw down. As part of the issuance of the corporate notes, the Group together with the subsidiaries of Vista Land acted as irrevocable and unconditional guarantors of the corporate notes.

The Company made certain reclassifications to the consolidated financial statement of position as at December 31, 2016 and January 1, 2016 to align with the December 31, 2017 classification. Receivables from ultimate parent company and from other related parties were reclassified to current assets from noncurrent assets. Payable to parent company was reclassified to current liabilities from noncurrent liabilities. Below is the summary of reclassification:

| | December 31, 2016 | | |
|---|---|---|---|
| | Previous balance | Reclassification | Revised balance |
| Total current assets | ₱6,261,684,307 | ₱3,091,092,279 | ₱9,352,776,586 |
| Total noncurrent assets | 29,560,924,071 | (3,091,092,279) | 26,469,831,792 |
| Total current liabilities | 3,971,615,568 | 4,857,332,925 | 8,828,948,493 |
| Total noncurrent liabilities | 13,766,163,547 | (4,857,332,925) | 8,908,830,622 |

| | January 1, 2016 | | |
|---|---|---|---|
| | Previous balance | Reclassification | Revised balance |
| Total current assets | ₱4,951,754,883 | ₱3,556,024,295 | ₱8,507,779,178 |
| Total noncurrent assets | 26,831,879,394 | (3,556,024,295) | 23,275,855,099 |
| Total current liabilities | 3,470,943,291 | 393,257,223 | 3,864,200,514 |
| Total noncurrent liabilities | 11,402,852,685 | (393,257,223) | 11,009,595,462 |

The above reclassifications did not impact the consolidated statements of comprehensive income and consolidated statements of cash flows.

*Key Management Personnel Compensation*
The compensation of key management personnel by benefit type follows:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Short-term employee benefits | **₱36,916,411** | ₱28,220,113 | ₱26,224,428 |
| Post-employment benefits | **10,780,407** | 9,895,231 | 9,348,615 |
| | **₱47,696,818** | ₱38,115,344 | ₱35,573,043 |

24. **Earnings Per Share**

The following table presents information necessary to compute the EPS:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Net profit attributable to equity holders of Parent Company | **₱2,039,770,209** | ₱1,537,164,566 | ₱830,509,357 |
| Weighted average common shares | **8,425,981,156** | 8,425,981,156 | 7,092,378,517 |
| Basic/Diluted EPS | **₱0.242** | ₱0.182 | ₱0.117 |

The basic and dilutive earnings per share are the same due to the absence of potentially dilutive common shares for the years ended December 31, 2017, 2016 and 2015.

## 25. **Contingencies**

The Group is contingently liable with respect to lease contracts and other transactions arising in the ordinary course of business.

The Group has various contingent liabilities from legal cases arising from the ordinary course of business which are either pending decision by the courts or are currently being contested by the Group, the outcome of which are not presently determinable.

In the opinion of the management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect in the Group's financial position and results of operations.

## 26. **Fair Value Determination**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1*:* quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2*:* other valuation techniques involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3*:* other valuation techniques involving inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

*Cash*: Due to the short-term nature of the account, the fair value of cash approximates the carrying amounts in the statements of financial position.

*Receivables (except for installment contracts receivables and advances to contractors and suppliers) and receivables from related parties*: Being due and demandable, carrying amounts approximate their fair values.

*Installment contracts receivables*: Estimated fair value of long-term portion of installment contracts receivables is based on the discounted value of future cash flows using the prevailing interest rates for similar types of receivables as of the reporting date using the remaining terms of maturity. The discount rate used ranged from 3.08% to 4.90% in 2017 and 2.82% to 5.04% in 2016.

*AFS financial assets:* Fair values of equity securities are based on quoted market prices. For AFS investment in unquoted equity securities, these are carried and presented at cost since fair value is not reasonably determinable due to the unpredictable nature of future cash flows and without any other suitable methods of arriving at a reliable fair value. For investment in mutual funds, fair value is by reference to net asset value per share.

*Trade and other payables (except for deferred output VAT and statutory obligations), dividends payable, liability for purchased land and payables to related parties:* Due to the short-term nature of the accounts, the fair value approximate the carrying amounts in the consolidated statements of financial position.

*Interest-bearing loans and borrowings*: Estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans. Interest rates used in discounting cash flows ranges from 5.46% to 7.25% in 2017 and 2016 using the remaining terms to maturity.

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities recognized as at December 31, 2017 and 2016:

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Quoted prices in active markets for identical assets (Level 1)** | **Significant offer observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| **Assets** | | | | | |
| Installment contracts receivables (Note 9) | **₱58,788,066** | **₱–** | **₱–** | **₱62,111,813** | **₱62,111,813** |
| AFS financial assets (Note 8) | **4,540,583,270** | **4,506,032,203** | **34,551,067** | **–** | **4,540,583,270** |
| **Liabilities** | | | | | |
| Interest-bearing loans and borrowings (Note 16) | **7,529,667,866** | **–** | **–** | **6,366,228,222** | **6,366,228,222** |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Quoted prices in active markets for identical assets (Level 1) | Significant offer observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| **Assets** | | | | | |
| Installment contracts receivables (Note 9) | ₱57,009,370 | ₱– | ₱– | ₱60,986,966 | ₱60,986,966 |
| AFS financial assets (Note 8) | 3,755,018,807 | 3,723,430,664 | 31,588,143 | – | 3,755,018,807 |
| **Liabilities** | | | | | |
| Interest-bearing loans and borrowings (Note 16) | 8,645,822,641 | – | – | 7,154,681,869 | 7,154,681,869 |

In 2017 and 2016, there were no transfers between Levels of fair value measurements.

Significant increases (decreases) in discount rate would result in significantly higher (lower) fair value of the installment contracts receivables and interest-bearing loans and borrowings.

Description of significant unobservable inputs to valuation:

| Account | Valuation Technique | Significant Unobservable Inputs |
|---|---|---|
| Installment contracts receivables | Discounted cash flow analysis | Discount rate |
| Interest-bearing loans and borrowings | Discounted cash flow analysis | Discount rate |

Significant increases (decreases) in discount rate would result in significantly higher (lower) fair value of the installment contracts receivables and interest-bearing loans and borrowings.

## 27. Financial Assets and Liabilities

Financial Risk Management Objectives and Policies

*Financial risk*
The Group's principal financial liabilities comprise of interest-bearing loans and borrowings, trade and other payables (except for deferred output VAT and other statutory obligations), dividends payable, payable to related parties and liability for purchased land. The main purpose of the Group's financial liabilities is to raise financing for the Group's operations. The Group has various financial assets such as installment contracts receivables, cash and AFS financial assets which arise directly from its operations. The main risks arising from the use of financial instruments are interest rate risk, equity price risk, foreign currency risk and liquidity risk.

The BOD reviews and approves with policies for managing each of these risks. The Group monitors market price risk arising from all financial instruments and regularly report financial management activities and the results of these activities to the BOD.

The Group's risk management policies are summarized below. The exposure to risk and how they arise, as well as the Group's objectives, policies and processes for managing the risk and the methods used to measure the risk did not change from prior years.

*Interest rate risk*
The Group's exposure to market risk for changes in interest rates, relates primarily to its financial assets and liabilities that are interest-bearing.

The Group's policy is to manage its interest cost by entering into fixed rate debts. The Group also regularly enters into short-term loans as it relates to its sold installment contracts receivables in order to cushion the impact of potential increase in loan interest rates.

The table below shows the financial assets and liabilities that are interest-bearing:

| | **December 31, 2017** | | December 31, 2016 | |
|---|---|---|---|---|
| | **Effective Interest Rate** | **Amount** | Effective Interest Rate | Amount |
| Financial assets | | | | |
| *Fixed rate* | | | | |
| Cash* (Note 7) | **1.00% to 2.00%** | **₱572,016,219** | 1.20% to 2.00% | ₱427,886,299 |
| Installment contracts receivable (Note 9) | **18.00% to 19.00%** | **58,788,066** | 12.00% to 20.00% | 57,009,370 |
| | | **₱630,804,285** | | ₱484,895,669 |
| Financial liabilities | | | | |
| *Fixed rate* | | | | |
| Interest-bearing loans and borrowings (Note 16) | **5.46% to 7.25%** | **₱7,529,667,866** | 5.46% to 7.25% | ₱8,645,822,641 |

** Excluding cash on hand*

As at December 31, 2017 and 2016, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

*Equity Price Risk*
The Group's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally its investment in quoted equity securities and investment in mutual funds classified as AFS financial assets. Such securities are subject to price risk due to possible adverse changes in market values of instruments arising from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

In 2017 and 2016, the Group determined the reasonably possible change in index using the specific adjusted data for each equity security the Group holds as of the reporting dates. The adjusted data is the forecasted measure of the volatility of security or a portfolio in comparison to the market as a whole.

The analysis below is performed for reasonably possible movements in the close share price of the underlying equity security and net asset value (NAV) per share of the investment in mutual funds with all other variables held constant, showing the impact on equity (that reflects adjustments due to changes in fair value of AFS financial assets):

| | Impact on Equity | |
|---|---|---|
| | **2017** | 2016 |
| Change in share price | | |
| +1.00% | **₱45,092,334** | ₱37,266,348 |
| -1.00% | **(45,092,334)** | (30,088,329) |
| Change in NAV | | |
| +1.00% | **₱345,511** | ₱315,881 |
| -1.00% | **(345,511)** | (315,881) |

*Foreign exchange risk*
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Exposure to foreign currency risk arises mainly when financial assets, financial liabilities, and forecasted transactions are denominated in a currency other than the Group’s local currency or will be denominated in such a currency in the planned course of business. The principal foreign currency risk to which the Group is exposed involves the US Dollar (US$). Foreign currency risk is monitored and analyzed systematically and is managed by the Group.

The Group’s foreign exchange risk from fluctuation of exchange rate is mainly on the Parent Company’s cash in bank in 2016.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group’s 2016 profit before tax (due to changes in the fair value of monetary assets and liabilities) as at December 31, 2016.

| | Currency | Increase (decrease) in US dollar rate | Effect on income (loss) before income tax |
|---|---|---|---|
| 2016 | US$ | 0.45% | (₱6,917) |
| | | -0.45% | 6,917 |

There are no items that are affected with foreign exchange risk which are charged directly to equity.

*Credit risk*
The Group transacts only with recognized and creditworthy entities under common control and third parties. The Group's receivables are monitored on an ongoing basis resulting to manageable exposure to bad debts. Lessee and real estate buyers are subject to standard credit check procedures, which are calibrated based on the payment scheme offered. The Group's respective credit management units conduct a comprehensive credit investigation and evaluation of each lessee and buyer to establish creditworthiness.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with provision of lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which help reduce the Group's credit risk exposure in case of defaults by the tenants.

With respect to credit risk arising from the other financial assets of the Group, which are comprised of cash and AFS financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group manages its cash by maintaining cash accounts with banks which have demonstrated financial soundness for several years.

The table below shows the comparative summary of maximum credit risk exposure on financial assets as at December 31, 2017 and 2016:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | **Maximum Credit Exposure** | **Fair Value of Collateral** | **Net Exposure to Credit Risk** | **Financial Effect** |
| **Loans and Receivables** | | | | |
| Cash* (Note 7) | **₱572,016,219** | **₱–** | **₱572,016,219** | **₱–** |
| Receivables** (Note 9) | **5,105,674,348** | **–** | **5,105,674,348** | **–** |
| Installment contracts receivables (Note 9) | **58,788,066** | **101,276,796** | **–** | **–** |
| Receivable from related parties (Note 23) | **4,922,649,163** | **–** | **4,922,649,163** | **–** |
| | **10,659,127,796** | **101,276,796** | **10,600,339,730** | **–** |
| **AFS Financial Assets** (Note 8) | | | | |
| Investments in mutual funds | **34,551,067** | **–** | **34,551,067** | **–** |
| Investments in quoted equity shares | **4,506,032,203** | **–** | **4,506,032,203** | **–** |
| Investments in unquoted equity shares | **3,204,170** | **–** | **3,204,170** | **–** |
| | **4,543,787,440** | **–** | **4,543,787,440** | **–** |
| | **₱15,202,915,236** | **₱101,276,796** | **₱15,144,127,170** | **₱–** |

** Excluding cash on hand*
*** Excluding installment contracts receivables and advances to contractors and suppliers*

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Maximum Credit Exposure | Fair Value of Collateral | Net Exposure to Credit Risk | Financial Effect |
| **Loans and Receivables** | | | | |
| Cash* (Note 7) | ₱427,886,299 | ₱– | ₱427,886,299 | ₱– |
| Receivables** (Note 9) | 3,649,893,475 | – | 3,649,893,475 | – |
| Installment contracts receivables (Note 9) | 57,009,370 | 99,498,100 | – | – |
| Receivable from related parties (Note 23) | 3,112,669,077 | – | 3,112,669,077 | |
| | 7,247,458,221 | 99,498,100 | 7,190,448,851 | – |
| **AFS Financial Assets** (Note 8) | | | | |
| Investments in mutual funds | 31,588,143 | – | 31,588,143 | – |
| Investments in quoted equity shares | 3,723,430,664 | – | 3,723,430,664 | – |
| Investments in unquoted equity shares | 3,204,170 | – | 3,204,170 | – |
| | 3,758,222,977 | | 3,758,222,977 | |
| | ₱11,005,681,198 | ₱99,498,100 | ₱10,948,671,828 | ₱– |

** Excluding cash on hand*
*** Excluding installment contracts receivables and advances to contractors and suppliers*

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk. As at December 31, 2017 and 2016, the aging analyses of past due but not impaired receivables, presented per class are as follows:

| | **December 31, 2017** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Neither Past Due Nor Impaired** | **Past Due But Not Impaired** | | | | **Total of Past Due But Not Impaired** | **Impaired Financial Assets** | **Total** |
| | | **<30 days** | **30-60 days** | **60-90 days** | **>90 days** | | | |
| Receivables* (Note 9) | **₱1,974,966,597** | **₱426,012,346** | **₱44,848,060** | **₱28,742,599** | **₱2,631,104,746** | **₱3,130,707,751** | **₱55,266,721** | **₱5,160,941,069** |
| Installment contract receivables (Note 9) | **58,788,066** | **–** | **–** | **–** | **–** | **–** | **–** | **58,788,066** |
| Receivables from related parties | **4,922,649,163** | **–** | **–** | **–** | **–** | **–** | **–** | **4,922,649,163** |
| Total | **₱6,956,403,826** | **₱426,012,346** | **₱44,848,060** | **₱28,742,599** | **₱2,631,104,746** | **₱3,130,707,751** | **₱55,266,721** | **₱10,142,378,298** |

** Excluding installment contracts receivables and advances to contractors and suppliers*

| | December 31, 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | Past Due But Not Impaired | | | | Total of Past Due But Not Impaired | Impaired Financial Assets | Total |
| | | <30 days | 30-60 days | 60-90 days | >90 days | | | |
| Receivables* (Note 9) | ₱1,353,112,917 | ₱486,229,580 | ₱70,319,612 | ₱33,090,618 | ₱1,758,724,125 | ₱2,348,363,935 | ₱51,583,377 | ₱3,753,060,229 |
| Installment contract receivables (Note 9) | 57,009,370 | – | – | – | – | – | – | 57,009,370 |
| Receivables from related parties | 3,112,669,077 | – | – | – | – | – | – | 3,112,669,077 |
| Total | ₱4,522,791,364 | ₱486,229,580 | ₱70,319,612 | ₱33,090,618 | ₱1,758,724,125 | ₱2,348,363,935 | ₱51,583,377 | ₱6,922,738,676 |

** Excluding installment contracts receivables and advances to contractors and suppliers*

Those accounts that are considered neither past due nor impaired are receivables without any default in payments and those accounts wherein the management has assessed that recoverability is high.

The tables below show the credit quality of the Group's financial assets as at December 31, 2017 and 2016, gross of allowance for impairment losses:

| | **December 31, 2017** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Neither past due nor impaired** | | | | **Past due but** | | |
| | **High grade** | **Medium grade** | **Low grade** | **Total** | **not impaired** | **Impaired** | **Total** |
| **Loans and Receivables** | | | | | | | |
| Cash* (Note 7) | **₱572,016,219** | **₱–** | **₱–** | **₱572,016,219** | **₱–** | **₱–** | **₱572,016,219** |
| Receivables** (Note 9) | – | **1,974,966,597** | – | **1,974,966,597** | **3,130,707,751** | **55,266,721** | **5,160,941,069** |
| Installment contract receivables (Note 9) | – | **58,788,066** | – | **58,788,066** | – | – | **58,788,066** |
| Receivable from related parties (Note 23) | – | **4,922,649,163** | – | **4,922,649,163** | – | – | **4,922,649,163** |
| | **572,016,219** | **6,956,403,826** | – | **7,528,420,045** | **3,130,707,751** | **55,266,721** | **10,714,394,517** |
| **AFS Financial Assets** (Note 8) | | | | | | | |
| Investments in mutual funds | **34,551,067** | – | – | **34,551,067** | – | – | **34,551,067** |
| Investments in quoted equity shares | **4,506,032,203** | – | – | **4,506,032,203** | – | – | **4,506,032,203** |
| Investments in unquoted equity shares | **3,204,170** | – | – | **3,204,170** | – | – | **3,204,170** |
| | **4,543,787,440** | – | – | **4,543,787,440** | – | – | **4,543,787,440** |
| | **₱5,115,803,659** | **₱6,956,403,826** | **₱–** | **₱12,072,207,485** | **₱3,130,707,751** | **₱55,266,721** | **₱15,258,181,957** |

** Excluding cash on hand*
*** Excluding installment contracts receivables and advances to contractors and suppliers*

| | December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | | | Past due but | | |
| | High grade | Medium grade | Low grade | Total | not impaired | Impaired | Total |
| **Loans and Receivables** | | | | | | | |
| Cash* (Note 7) | ₱427,886,299 | ₱– | ₱– | ₱427,886,299 | ₱– | ₱– | ₱427,886,299 |
| Receivables** (Note 9) | – | 1,353,112,917 | – | 1,353,112,917 | 2,348,363,935 | 51,583,377 | 3,753,060,229 |
| Installment contract receivables (Note 9) | – | 57,009,370 | – | 57,009,370 | – | – | 57,009,370 |
| Receivable from related parties (Note 23) | – | 3,112,669,077 | – | 3,112,669,077 | – | – | 3,112,669,077 |
| | 427,886,299 | 4,522,791,364 | – | 4,950,677,663 | 2,348,363,935 | 51,583,377 | 7,350,624,975 |
| **AFS Financial Assets** (Note 8) | | | | | | | |
| Investments in mutual funds | 31,588,143 | – | – | 31,588,143 | – | – | 31,588,143 |
| Investments in quoted equity shares | 3,723,430,664 | – | – | 3,723,430,664 | – | – | 3,723,430,664 |
| Investments in unquoted equity shares | 3,204,170 | – | – | 3,204,170 | – | – | 3,204,170 |
| | 3,758,222,977 | – | – | 3,758,222,977 | – | – | 3,758,222,977 |
| | ₱4,186,109,276 | ₱4,522,791,364 | ₱– | ₱8,708,900,640 | ₱2,348,363,935 | ₱51,583,377 | ₱11,108,847,952 |

** Excluding cash on hand*
*** Excluding installment contracts receivables and advances to contractors and suppliers*

High grade cash and cash equivalents and short-term and long-term cash investments are money market placements and working cash fund placed, invested or deposited in local banks belonging to the top ten banks in the Philippines in terms of resources and profitability.

The Group's high-grade receivables pertain to receivables from related parties and third parties which, based on experience, are highly collectible or collectible on demand, and of which exposure to bad debt is not significant.

Medium grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Low grade accounts are accounts which have probability of impairment based on historical trend.

Based on the Group's experience, its loans and receivables are highly collectible or collectible on demand. In respect of trade receivables, the Group is exposed to a significant credit risk exposure to a single counter party having similar characteristic. This is the Group's trade receivable from related party tenants, the All Value Group wherein the outstanding balance is guaranteed for collection by All Value Group parent company, Fine Properties, Inc. Trade receivables consist of a large number of lessee and buyers in various industries and geographical areas. Based on historical information about lessee and buyer default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good. The trade receivables from tenants are covered by security deposit and advance rental.

The installment contract receivables are collateralized by the corresponding real estate properties. In few cases of buyer defaults, the Group can repossess the collateralized properties and held it for sale in the ordinary course of business at the prevailing market price. The total of repossessed properties included in the "Real estate properties for sale" account in the consolidated statements of financial position amounted to ₱0.11 million and ₱0.62 million as of December 31, 2017 and 2016, respectively. The Group performs certain repair activities on the said repossessed assets in order to put their condition at a marketable state. Costs incurred in bringing the repossessed assets to its marketable state are included in their carrying amounts.

The Group did not accrue any interest income on impaired financial assets.

*Liquidity Risk*
The Group monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Group maintains a level of cash deemed sufficient to finance its cash requirements. Operating expenses and working capital requirements are sufficiently funded through cash collections. The Group's loan maturity profile is regularly reviewed to ensure availability of funding through adequate credit facilities with banks and other financial institutions.

The extent and nature of exposures to liquidity risk and how they arise as well as the Group's objectives, policies and processes for managing the risk and the methods used to measure the risk are the same for 2017 and 2016.

Maturity Profile of Financial Assets and Liabilities

The tables below summarize the maturity profile of the Group's financial assets and liabilities as at December 31, 2017 and 2016 based on undiscounted contractual payments, including interest receivable and payable.

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | **On Demand** | **1 to 3 Months** | **3 to 12 Months** | **More than 1 year** | **Total** |
| **Financial Assets** | | | | | |
| *Loans and receivables* | | | | | |
| Cash* | **₱572,016,219** | **₱–** | **₱–** | **₱–** | **572,016,219** |
| Receivables** | **1,919,699,876** | **499,603,006** | **2,686,371,466** | **–** | **5,105,674,348** |
| Installment contracts receivables | **47,057,235** | **–** | **–** | **11,730,831** | **58,788,066** |
| Receivable from related parties | **4,754,557,162** | **–** | **–** | **168,092,001** | **4,922,649,163** |
| *AFS Financial Assets* | | | | | |
| Investments mutual funds | **34,551,067** | **–** | **–** | **–** | **34,551,067** |
| Investments in quoted equity securities | **–** | **–** | **–** | **4,506,032,203** | **4,506,032,203** |
| Investments in unquoted equity securities | **–** | **–** | **–** | **3,204,170** | **3,204,170** |
| | **₱7,327,881,559** | **₱499,603,006** | **₱2,686,371,466** | **₱4,689,059,205** | **₱15,202,915,236** |
| **Financial Liabilities** | | | | | |
| *Other financial liabilities* | | | | | |
| Interest-bearing loans and borrowings | **–** | **411,519,486** | **1,190,463,491** | **5,927,684,889** | **7,529,667,866** |
| Trade and other payables*** | **–** | **–** | **1,815,440,605** | **727,182,361** | **2,542,622,966** |
| Liability for purchased land | **–** | **₱210,706,578** | **366,991,175** | **244,714,560** | **822,412,313** |
| Payables to related parties | **11,914,371,125** | **–** | **–** | **–** | **11,914,371,125** |
| | **₱11,914,371,125** | **₱622,226,064** | **₱3,372,895,271** | **₱6,899,581,810** | **₱22,809,074,270** |

** Excluding cash on hand*
*** Excluding installment contracts receivables and advances to contractors and suppliers*
**** Excluding deferred output VAT and including noncurrent portion of security deposit, retention payable and construction bonds*

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | On Demand | 1 to 3 Months | 3 to 12 Months | More than 1 year | Total |
| **Financial Assets** | | | | | |
| *Loans and receivables* | | | | | |
| Cash* | ₱427,886,299 | ₱– | ₱– | ₱– | ₱427,886,299 |
| Receivables** | 1,301,529,540 | 589,639,810 | 1,758,724,125 | – | 3,649,893,475 |
| Installment contracts receivables | – | – | 46,580,495 | 10,428,875 | 57,009,370 |
| Receivable from related parties | 3,112,669,077 | – | – | – | 3,112,669,077 |
| *AFS Financial Assets* | | | | | |
| Investments mutual funds | 31,588,143 | – | – | – | 31,588,143 |
| Investments in quoted equity securities | – | – | – | 3,723,430,664 | 3,723,430,664 |
| Investments in unquoted equity securities | – | – | – | 3,204,170 | 3,204,170 |
| | ₱4,873,673,059 | ₱589,639,810 | ₱1,805,304,620 | ₱3,737,063,709 | ₱11,005,681,198 |
| **Financial Liabilities** | | | | | |
| *Other financial liabilities* | | | | | |
| Interest-bearing loans and borrowings | – | – | 1,596,831,058 | 7,048,991,583 | 8,645,822,641 |
| Trade and other payables*** | – | – | 1,547,965,825 | 608,048,889 | 2,156,014,714 |
| Liability for purchased land | – | – | 79,644,720 | 222,641,520 | 302,286,240 |
| Payables to related parties | 5,248,926,769 | – | 391,593,844 | – | 5,640,520,613 |
| | ₱5,248,926,769 | ₱– | ₱3,616,035,447 | ₱7,879,681,992 | ₱16,744,644,208 |

** Excluding cash on hand*
*** Excluding installment contracts receivables and advances to contractors and suppliers*
**** Excluding deferred output VAT and including noncurrent portion of security deposit, retention payable and construction bonds*

## 28. Lease Commitments

The Group as Lessor

The Group has entered into non-cancellable property leases on its investment property portfolio, consisting of retail mall spaces and BPO commercial centers which generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as of December 31, 2017 and 2016 follow:

| | **2017** | 2016 |
|---|---|---|
| Less than one year | **₱2,642,854,364** | ₱2,142,993,018 |
| Between one and five years | **9,909,201,900** | 8,561,900,197 |
| More than five years | **5,199,202,017** | 7,002,260,095 |
| | **₱17,751,258,281** | ₱17,707,153,310 |

Contingent rent included in rental income for the years ended December 31, 2017, 2016 and 2015 amounted to ₱570.25 million, ₱401.32 million and ₱221.23 million, respectively.

The Group as Lessee

The Group leases a parcel of land from LECA Properties, Inc. (LECA) where WCC is situated for an original period of 25 years commencing on August 1, 1995 until July 31, 2020 with rental escalation every year at an agreed rate ranging from ₱44.20 to ₱44.89 per square meter. The lease contract includes a clause that the lessee shall be responsible for all real property taxes, assessments or charges on the improvements on the leased property.

On August 25, 2010, Manuela executed a Memorandum of Agreement (MOA) whereby LECA agreed to a reduction of the amount of outstanding rentals and arrearages and set a schedule of payment of the agreed amount. Furthermore, on the same MOA, LECA agreed for an extension of the term of the original lease, for an addition 10 years from the expiration of the original lease period, under the same terms and conditions, except as to the rate of rentals which the parties shall agree prior to the expiration of the original lease term.

Also, the Group is a lessee under various operating leases covering parcels of land where some on-going mall projects are being constructed. These leases have terms ranging from 20 to 25 years, with rental escalation clauses and renewal options.

Future minimum rentals payable under non-cancellable operating leases as of December 31, 2017 and 2016 follow:

| | **2017** | 2016 |
|---|---|---|
| Less than one year | **₱134,184,111** | ₱119,351,440 |
| Between one and five years | **659,452,299** | 620,183,884 |
| More than five years | **1,679,928,540** | 1,853,381,067 |
| | **₱2,473,564,950** | ₱2,592,916,391 |

## 29. Notes to Consolidated Statements of Cash Flows

Details of the movement in cash flows from financing activities follow:

| | December 31, 2016 | Cash Flows | Non-cash Change: Amortization of Debt Issue Cost | Non-cash Change: Foreign exchange movement | Fair value changes | December 31, 2017 |
|---|---|---|---|---|---|---|
| Payables to related parties | ₱391,593,844 | ₱6,665,444,356 | ₱– | ₱– | ₱– | ₱5,248,926,769 |
| Dividends payable | 313,216 | (310,114,204) | – | – | – | 275,118 |
| Interest-bearing loans and borrowings | 8,645,822,641 | (1,137,303,285) | 21,148,510 | – | – | 7,529,667,866 |
| Total liabilities from financing activities | ₱9,037,729,701 | ₱5,260,323,887 | ₱21,148,510 | ₱– | ₱– | ₱12,778,869,753 |

The Group's noncash investing and financing activities pertain to the following:

a) As at December 31, 2017, unpaid investment properties amounted to ₱469.92 million.
b) As at December 31, 2017, unpaid property and equipment amounted to ₱4.07 million.
c) In 2016, the Group cancelled a 2014 land acquisition amounting ₱285.20 million.
d) In 2016, pension liability amounting to ₱13.22 million was transferred to a related party.
e) Transfers from property and equipment to investment property amounting to ₱4.31 million in 2015. There are no transfers in 2016 and 2017.

The Group made certain reclassifications to the consolidated statements of cash flows for 2016 and 2015 to align with 2017 classification. Movements in receivables from related parties and liability for purchased land were transferred to investing activities from operating activities while interest received and interest paid were moved to operating activities from investing and financing activities. Below is the summary of movements:

| | December 31, 2016 | | |
|---|---|---|---|
| | Previous balance | Reclassification | Revised balance |
| Net cash flows provided by (used in): | | | |
| Operating activities | ₱1,342,537,644 | (₱1,297,528,088) | ₱45,009,556 |
| Investing activities | (3,194,275,357) | 652,220,467 | (2,542,054,890) |
| Financing activities | 1,271,920,239 | 645,307,621 | 1,917,227,860 |

| | December 31, 2015 | | |
|---|---|---|---|
| | Previous balance | Reclassification | Revised balance |
| Net cash flows provided by (used in): | | | |
| Operating activities | ₱1,778,698,630 | (₱988,031,688) | ₱790,666,942 |
| Investing activities | (6,919,660,101) | 784,598,845 | (6,135,061,256) |
| Financing activities | 4,187,898,945 | 203,432,843 | 4,391,331,788 |

## 30. Approval of the Financial Statements

The consolidated financial statements of the Group as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issue by the BOD on March 27, 2018.

SGV
Building a better working world

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

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

**INDEPENDENT AUDITOR'S REPORT**
**ON THE SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Starmalls, Inc. and Subsidiaries
Lower Ground Floor, Building B
EVIA Lifestyle Center, Vista City
Daanghari, Almanza II, Las Piñas City

We have audited in accordance with Philippine Standards on Auditing the accompanying consolidated financial statements of Starmalls, Inc. and its subsidiaries (the Group) as at December 31, 2017 and 2016 and for the three years in the period ended December 31, 2017, and have issued our report thereon dated March 27, 2018. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the management of Starmalls, Inc. These schedules are presented for purposes of complying with Securities Regulation Code Rule No. 68, As Amended (2011) and are not part of the consolidated financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements. In our opinion, the information are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1229-AR-1 (Group A),
May 12, 2015, valid until May 11, 2018
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621337, January 9, 2018, Makati City

March 27, 2018

**STARMALLS, INC.**

**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**

**December 31, 2017**

| | |
|---|---|
| Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning | ₱2,234,545,161 |
| Net income actually earned/realized during the period | |
| Net loss during the period closed to retained earnings | (10,010,996) |
| Less: Non-actual/unrealized income net of tax | – |
| Equity in net income of associate/joint venture | – |
| Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) | – |
| Unrealized actuarial gain | – |
| Fair value adjustment (M2M gains) | – |
| Fair value adjustment of Investment Property resulting to gain | – |
| Adjustment due to deviation from PFRS/GAAP-gain | – |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | – |
| Add: Non-actual losses | |
| Depreciation on revaluation increment (after tax) | – |
| Adjustment due to deviation from PFRS/GAAP-loss | – |
| Loss on fair value adjustment of investment property (after tax) | – |
| Net income actually earned during the period | (10,010,996) |
| Add (Less): | |
| Dividend declarations during the period | (310,076,106) |
| Appropriations of retained earnings during the period | – |
| Reversals of appropriations | – |
| Effects of prior period adjustments | – |
| Treasury shares | – |
| **TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION** | ₱1,914,458,059 |

## STARMALLS, INC. AND SUBSIDIARIES

**SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS**
**[which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2017:**

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2017:

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | | | ✓ |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | | | ✓ |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | | | ✓ |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| | Amendment to PFRS 5, Changes in Methods of Disposal | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✓ | | |
| | Amendment to PFRS 7, Servicing Contracts | ✓ | | |
| | Amendment to PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | ✓ | | |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments* | | ✓ | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* | | ✓ | |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception | ✓ | | |
| **PFRS 11** | Joint Arrangements | ✓ | | |
| | Amendments to PFRS 11, Accounting for Acquisitions of Interests in Joint Operations | ✓ | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception | ✓ | | |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| **PFRS 14** | Regulatory Deferral Accounts | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendments to PAS 1, Disclosure Initiative | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | | | ✓ |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Amendments to PAS 16 and PAS 38, Clarification of Acceptable Methods of Depreciation and Amortization | ✓ | | |
| | Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| | Amendments to PAS 19: Discount Rate: Regional Market Issue | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits | ✓ | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| **PAS 23 (Revised)** | Borrowing Costs | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27** | Consolidated and Separate Financial Statements | ✓ | | |
| **PAS 27 (Amended)** | Separate Financial Statements | ✓ | | |
| | Amendments to PAS 27, Equity Method in Separate Financial Statements | ✓ | | |
| **PAS 28** | Investments in Associates | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception | ✓ | | |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures* | ✓ | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 31** | Interests in Joint Ventures | | | ✓ |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* | | ✓ | |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |
| | Amendment to PAS 34, Disclosure of Information 'Elsewhere in the Interim Financial Report' | ✓ | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | | | ✓ |
| | Amendments to PAS 16 and PAS 38, Clarification of Acceptable Methods of Depreciation and Amortization | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| **PAS 40** | Investment Property | | | ✓ |
| **PAS 41** | Agriculture | | | ✓ |
| | Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | *Determining Whether an Arrangement Contains a Lease* | ✓ | | |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | | | ✓ |
| **IFRIC 7** | *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | | | ✓ |
| **IFRIC 8** | *Scope of PFRS 2* | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | *Interim Financial Reporting and Impairment* | | | ✓ |
| **IFRIC 11** | PFRS 2 - Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine* | | | ✓ |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | | | ✓ |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

Standards tagged as “Not applicable” have been adopted by the Group but have no significant covered transactions for the year ended December 31, 2017.

Standards tagged as “Not adopted” are standards issued but not yet effective as of December 31, 2017. The Group will adopt the Standards and Interpretations when these become effective.

**STARMALLS, INC. AND SUBSIDIARIES**
**INDEX TO SUPPLEMENTARY SCHEDULES**

**STARMALLS, INC. AND SUBSIDIARIES**

**SCHEDULE A: FINANCIAL ASSETS**

**DECEMBER 31, 2017**

| Name of issuing entity and association of each issue | Number of shares or principal amount of bonds and notes | Amount shown in the balance sheet | Value based on market quotation at end of reporting period | Income received and accrued |
|---|---|---|---|---|
| Cash (excluding cash on hand) | N/A | ₱572,016,219 | ₱572,016,219 | ₱3,616,450 |
| Trade receivables | N/A | 5,128,332,605 | 5,128,332,605 | 11,076,380 |
| Installment contracts receivables | N/A | 58,788,066 | 58,788,066 | 3,913,948 |
| Investments in mutual funds | 30 | 34,551,067 | 34,551,067 | – |
| Investments in quoted equity shares (VLL) | 752,208,215 shares | 4,506,032,203 | 4,506,032,203 | – |
| Investments in unquoted equity shares (MMC) | 2,432,000 shares | 3,204,170 | 3,204,170 | – |
| **Total Financial Assets** | | ₱10,302,924,330 | ₱10,302,924,330 | ₱18,606,778 |

## STARMALLS, INC. AND SUBSIDIARIES

## SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDER (OTHER THAN RELATED PARTIES)

**DECEMBER 31, 2017**

| Name and Designation of debtor | Balance at beginning of period | Additions | Amounts collected | Amounts written off | Current | Not current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| Employees | ₱5,845,185 | ₱115,821,341 | (₱92,588,996) | ₱– | ₱29,077,530 | ₱– | ₱29,077,530 |

## STARMALLS, INC. AND SUBSIDIARIES

## SCHEDULE C: AMOUNTS RECEIVABLES/PAYABLES FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

**DECEMBER 31, 2017**

| Name and Designation of Debtor/Creditor | Balance at Beginning of Period | Additions | Amounts Liquidated | Amounts Converted to APIC/Capital Stock | Current | Noncurrent | Balance at end of period |
|---|---|---|---|---|---|---|---|
| MC | ₱4,603,697,794 | ₱17,910,838 | ₱– | ₱– | ₱– | ₱4,621,608,632 | ₱4,621,608,632 |
| MC | 34,419,603 | (86,227,714) | – | – | – | (51,808,111) | (51,808,111) |
| STR | 5,512,010,449 | 4,476,560,160 | – | – | – | 9,988,570,609 | 9,988,570,609 |
| MAPI | (5,512,010,449) | (4,476,560,160) | – | – | – | (9,988,570,609) | (9,988,570,609) |
| MAPI | (4,603,697,794) | (17,910,838) | – | – | – | (4,621,608,632) | (4,621,608,632) |
| STR | (34,419,603) | 86,227,714 | – | – | – | 51,808,111 | 51,808,111 |

## STARMALLS, INC. AND SUBSIDIARIES

## SCHEDULE D: INTANGIBLE ASSETS

**DECEMBER 31, 2017**

| Description | Beginning balance | Additions | Amount of Amortization | Current | Not Current | Ending balance |
|---|---|---|---|---|---|---|

**NOT APPLICABLE**

## STARMALLS, INC. AND SUBSIDIARIES

## SCHEDULE E: LONG TERM DEBT

**DECEMBER 31, 2017**

| Title of issue and type of obligation | Amount authorized by indenture | Amount shown under caption "Current portion of long-term debt" in related balance sheet | Amount shown under caption "Long-term debt" in related balance sheet | Interest rates | Amount | Number of periodic installments | Maturity date |
|---|---|---|---|---|---|---|---|
| Interest-Bearing Loans and Borrowings | ₱4,330,000,000 | ₱489,740,294 | ₱2,939,233,778 | 5.75%/7.00% | ₱3,428,974,072 | Monthly interest payment; quarterly principal payment | July 29, 2020/ Feb 01, 2018 |
| Interest-Bearing Loans and Borrowings | 420,000,000 | 91,500,000 | 91,500,000 | 6.25% | 183,000,000 | Monthly interest payment; quarterly principal payment | May 1, 2015/ Aug 01, 2020 |
| Interest-Bearing Loans and Borrowings | 355,580,000 | 12,123,750 | – | 7.25% | 12,123,750 | Monthly interest payment; quarterly principal payment | November 1, 2017/ March 01 2018/ April 01 2018 |
| Interest-Bearing Loans and Borrowings | 4,694,571,392 | 928,618,933 | 2,825,186,405 | 5.75% | 3,753,805,338 | Monthly interest payment; quarterly principal payment | March 2016/ September 2016- August 2020 |
| Interest-Bearing Loans and Borrowings | 340,000,000 | 80,000,000 | 71,764,706 | 5.75% | 151,764,706 | Monthly interest payment; quarterly principal payment | August 30, 2019/ Dec 19, 2019 |
| | ₱10,140,151,392 | ₱1,601,982,977 | ₱5,927,684,889 | | ₱7,529,667,866 | | |

## STARMALLS, INC. AND SUBSIDIARIES

## SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES

**DECEMBER 31, 2017**

| Name of related party | Balance at beginning of period | Balance at end of period |
|---|---|---|
| Payable to parent company | ₱4,857,332,925 | ₱11,699,707,437 |
| Payable to other related parties | 391,593,844 | 214,663,688 |
| | ₱5,248,926,769 | ₱11,914,371,125 |

## STARMALLS, INC. AND SUBSIDIARIES

## SCHEDULE G:
## GUARANTEES OF SECURITIES OF OTHER ISSUERS
### DECEMBER 31, 2017

| Name of issuing entity of securities guaranteed by the company for which this statements is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount of owned by person for which statement is filed | Nature of guarantee |
|---|---|---|---|---|

**NOT APPLICABLE**

## STARMALLS, INC. AND SUBSIDIARIES

## SCHEDULE H: CAPITAL STOCK

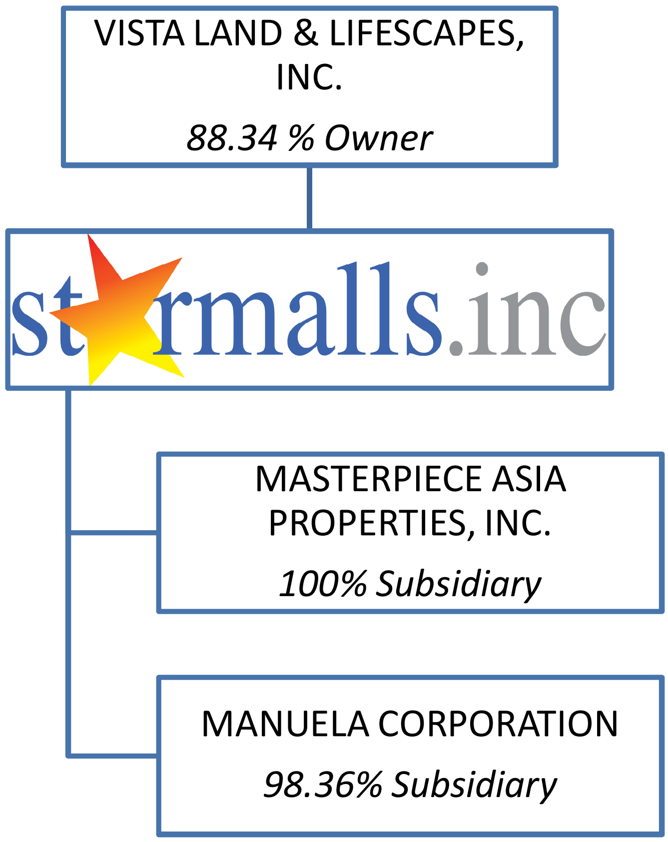
**DECEMBER 31, 2017**

| Title of issue | Number of shares authorized | Number of shares issued and outstanding at shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by | | |
|---|---|---|---|---|---|---|
| | | | | Related parties | Directors, officers and employees | Others |
| Common Stock, P1 par value | 16,900,000,000 | 8,425,981,156 | – | 7,558,070,596 | 7,100 | 867,903,460 |
| Preferred Stock, P0.01 par value | 10,000,000,000 | 2,350,000,000 | – | 2,350,000,000 | – | – |

See Note 18 of the Consolidated Financial Statements

# STARMALLS, INC. AND SUBSIDIARIES

Map showing the relationships between and among the Group and its ultimate parent and its subsidiaries
December 31, 2017:



## STARMALLS, INC. AND SUBSIDIARIES

## SCHEDULE OF FINANCIAL RATIOS

### DECEMBER 31, 2017

Below are the financial ratios that are relevant to the Group for the years ended December 31, 2017, 2016 and 2015.

| | | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Current ratio | Current assets / Current liabilities | **0.87** | **1.06** | 2.20 |
| Long-term debt-to-equity ratio | Long-term debt[1] / Equity | **0.30** | **0.40** | 0.59 |
| Debt ratio | Interest bearing debt[2] / Total assets | **0.18** | **0.25** | 0.36 |
| Debt to equity ratio | Interest bearing debt[2] / Total equity | **0.41** | **0.49** | 0.67 |
| Net debt to equity ratio | Net debt[3] / Total equity | **0.38** | **0.47** | 0.61 |
| Asset to equity ratio | Total assets / Total equity | **2.20** | **1.98** | 1.88 |
| Interest service coverage ratio | EBITDA / Total interest paid | **8.91** | **5.05** | 9.04 |
| Asset to liability ratio | Total Assets / Total Liabilities | **1.83** | **2.02** | 2.14 |

[1] Pertains to long term portion of the Liability for Land Acquisition and Interest-bearing Loans and Borrowings

[2] Includes Liability for Land Acquisition and Interest-bearing Loans and Borrowings

[3] Interest bearing debt less Cash and cash equivalents, Short-term and Long-Term cash investments

May 15, 2018

**PHILIPPINE STOCK EXCHANGE**
9th Floor, Philippine Stock Exchange Tower
28th Street corner 5th Avenue, BGC Taguig City

Attention: **Mr. Jose Valeriano B. Zuño III**
OIC – Head, Disclosure Department

Subject: Starmalls Inc.: **SEC 17Q – March 31, 2018**

Gentlemen:

Please see attached SEC Form 17Q for the quarter ended March 31, 2018 filed with the Securities and Exchange Commission today.

Truly Yours,

Brian N. Edang
Officer-In-Charge

## COVER SHEET

| C | S | 0 | 0 | 0 | 0 | 3 | 9 | 5 | 8 | 7 |
|---|---|---|---|---|---|---|---|---|---|---|

S.E.C. Registration Number

STARMALLS, INC. (FORMERLY: POLAR PROPERTY HOLDINGS CORPORATION)

(Company's Full Name)

LOWER GROUND FLOOR, BUILDING B, EVIA LIFESTYLE CENTER, VISTA CITY, DAANGHARI, ALMANZA II LAS PIÑAS CITY

(Business Address : No. Street/City/Province)

| Brian N. Edang | 571-5948 / 871-4001 |
|---|---|
| Contact Person | Company Telephone Number |

| 12 / 31 | 17-Q | |
|---|---|---|
| *Month* / *Day* | FORM TYPE | *Month* / *Day* |
| Calendar Year | | Annual Meeting |

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

| Total No. of Stockholders | Domestic | Foreign |
|---|---|---|

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(B) THEREUNDER**

1. For the quarter ended **March 31, 2018**

2. SEC Identification Number 39587

3. BIR Tax Identification No. 000-806-396

4. STARMALLS, INC.
   Exact name of the registrant as specified in its charter

5. Metro Manila, Philippines
   Province, country or other jurisdiction of incorporation

6. Industry Classification Code (SEC Use Only)

7. Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daanghari, Almanza II, Las Piñas City — 1750
   Address of Principal Office — Postal Code

8. (02) 571-5948 / (02) 871-4001
   Registrant's telephone number, including area code

9. 3rd Level Starmall Las Piñas, CV Starr Avenue, Philamlife Avenue, Pamplona, Las Piñas City
   Former name, former address and former fiscal year, if change since last report.

10. Securities registered pursuant to Sections 4 and 8 of the RSA

| Title of each Class | Number of Shares of common stock outstanding |
|---|---|
| **Common stock** | **8,425,981,156 shares** |
| **Preferred stock** | **2,350,000,000 shares** |

11. Are any of the registrant's securities listed on the Philippine Stock Exchange?

Yes [x] No [ ]

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period of the registrant was required to file such reports.)

Yes [ x ] No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [ x ] No [ ]

## TABLE OF CONTENTS

**STARMALLS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS OF MARCH 31, 2018 AND DECEMBER 31, 2017**
***(In Million Pesos)***

| | *Unaudited 03/31/2018* | *Audited 2017* |
|---|---|---|
| **A S S E T S** | | |
| **CURRENT ASSETS** | | |
| Cash (Note 7) | **288** | 572 |
| Available-for-sale financial assets (Note 8) | **35** | 35 |
| Receivables (Notes 9) | **8,012** | 6,813 |
| Receivables from related parties | **5,292** | 4,755 |
| Real estate properties for sale (Note 10) | **322** | 322 |
| Prepayments and other current assets (Note 11) | **1,750** | 1,473 |
| Total Current Assets | **15,699** | 13,970 |
| **NON-CURRENT ASSETS** | | |
| Available-for-sale financial assets - net of current portion (Notes 8) | **4,509** | 4,509 |
| Receivables - net of current portion (Notes 9) | **12** | 12 |
| Receivables from related parties – net of current portion | **207** | 168 |
| Property and equipment | **48** | 52 |
| Investment properties (Note 12) | **26,817** | 25,580 |
| Other noncurrent assets (Note 11) | **841** | 1,039 |
| Total Non-current Assets | **32,434** | 31,360 |
| **TOTAL ASSETS** | **48,133** | 45,330 |
| **LIABILITIES AND EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Trade and other payables (Note 14) | **3,121** | 1,917 |
| Interest-bearing loans and borrowings (Note 15) | **1,602** | 1,602 |
| Liability for purchased land (Note 13) | **336** | 578 |
| Income tax payable | **76** | 38 |
| Payables to related parties | **13,487** | 11,914 |
| Total Current Liabilities | **18,622** | 16,049 |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing loans and borrowings - net of current portion (Notes 15) | **5,419** | 5,928 |
| Liability for purchased land (Note 13) | **275** | 245 |
| Refundable deposits | **164** | 175 |
| Pension Liabilities | **51** | 51 |
| Deferred tax liabilities – net | **1,679** | 1,530 |
| Other non-current liabilities | **722** | 732 |
| Total Non-current Liabilities | **8,310** | 8,661 |
| Total Liabilities | **26,932** | 24,710 |
| **EQUITY** | | |
| Equity attributable to parent company's shareholders (Note 16) | | |
| Capital Stock | **8,449** | 8,449 |
| Additional paid-in capital | **6,389** | 6,389 |
| Revaluation reserves | **-** | - |
| Retained earnings | **7,011** | 6,434 |
| Other Comprehensive Income | **(764)** | (764) |
| Total equity attributable to parent company's shareholders | **21,085** | 20,508 |
| Non-controlling interest | **116** | 112 |
| Total Equity | **21,201** | 20,620 |
| **TOTAL LIABILITIES AND EQUITY** | **48,133** | 45,330 |

**STARMALLS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**
***(In Million Pesos)***

| | ***Unadited Jan-Mar Q1 - 2018*** | ***Unadited Jan-Mar 2018*** | *Unadited Jan-Mar Q1 - 2017* | *Unadited Jan-Mar 2017* |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Rental Income | **1,376** | **1,376** | 1,219 | 1,219 |
| Other Operating Income | **121** | **121** | 141 | 141 |
| | **1,497** | **1,497** | 1,360 | 1,360 |
| **OPERATING EXPENSES** | | | | |
| Depreciation and Amortization | **250** | **250** | 240 | 240 |
| Other operating and administrative (Note 17) | **412** | **412** | 407 | 407 |
| | **662** | **662** | 647 | 647 |
| **OPERATING PROFIT** | **835** | **835** | 713 | 713 |
| **OTHER INCOME (CHARGES)** | | | | |
| Finance income | **5** | **5** | 11 | 11 |
| Finance costs – net | **(7)** | **(7)** | (23) | (23) |
| | **(2)** | **(2)** | (12) | (12) |
| **PROFIT BEFORE TAX** | **833** | **833** | 701 | 701 |
| **TAX EXPENSE (Note 22)** | **(251)** | **(251)** | (212) | (212) |
| **NET INCOME** | **582** | **582** | 489 | 489 |
| **NET INCOME ATTRIBUTABLE TO:** | | | | |
| Equity holders of the Parent Company | **578** | **578** | 484 | 484 |
| Non-controlling interest | **4** | **4** | 5 | 5 |
| | **582** | **582** | 489 | 489 |
| Weighted outstanding common shares | **8,426** | **8,426** | 8,426 | 8,426 |
| Basic / Diluted Earnings per share (Note 18) | **0.069** | **0.069** | 0.057 | 0.057 |

**STARMALLS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**
***(In Million Pesos)***

| | ***Unadited Jan-Mar Q1 - 2018*** | ***Unadited Jan-Mar 2018*** | *Unadited Jan-Mar Q1 - 2017* | *Unadited Jan-Mar 2017* |
|---|---|---|---|---|
| **NET INCOME** | **582** | **582** | 489 | 489 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| Fair value loss on Available for Sale Financial Assets | - | - | 68 | 68 |
| **TOTAL COMPREHENSIVE INCOME** | 582 | 582 | 557 | 557 |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | | |
| Equity holders of the Parent Company | 578 | 578 | 551 | 551 |
| Non-controlling interest | 4 | 4 | 6 | 6 |
| | 582 | 582 | 557 | 557 |
| Weighted outstanding common shares | 8,426 | 8,426 | 8,426 | 8,426 |
| Basic/Diluted Earnings per Share (Note 18) | 0.069 | 0.069 | 0.065 | 0.065 |

**STARMALLS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**
***(In Million Pesos)***

| | ***Unaudited Jan – Mar* 2018** | *Unaudited Jan – Mar* 2017 |
|---|---|---|
| **EQUITY ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS** | | |
| **COMMON STOCK** | | |
| Balance at beginning of period | **8,426** | 8,426 |
| Treasury shares | **-** | - |
| **Balance at end of period** | **8,426** | 8,426 |
| **PREFERRED STOCK** | | |
| Balance at beginning of period | **23** | 23 |
| Treasury shares | **-** | - |
| **Balance at end of period** | **23** | 23 |
| **ADDITIONAL PAID-IN CAPITAL** | **6,389** | 6,389 |
| Cost of additional life of Starmalls | **-** | - |
| **Balance at end of period** | **6,389** | 6,389 |
| **RETAINED EARNINGS** | | |
| Balance at beginning of period | **6,433** | 4,703 |
| Net income | **582** | 489 |
| Dividend declared | **-** | - |
| Minority interest | **(4)** | (5) |
| **Balance at end of period** | **7,011** | 5,187 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Balance at beginning of period | **(764)** | (1,535) |
| Fair value gains (losses) | **-** | 68 |
| **Balance at end of period** | **(764)** | (1,467) |
| **MINORITY INTEREST** | | |
| Balance at beginning of period | **112** | 77 |
| Share in net income | **4** | 5 |
| **MINORITY INTEREST** | **116** | 82 |
| **TOTAL EQUITY** | **21,201** | 18,640 |

**STARMALLS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2018**
***(In Million Pesos)***

| | **Unadited Jan-Mar Q1 - 2018** | **Unadited Jan-Mar 2018** | *Unadited Jan-Mar 2017* | *Unadited Jan-Mar 2017* |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before tax | **833** | **833** | 701 | 701 |
| Adjustments for: | | | | |
| Finance Costs | **7** | **7** | 23 | 23 |
| Depreciation and amortization | **250** | **250** | 240 | 240 |
| Interest income | **(5)** | **(5)** | (11) | (11) |
| **Operating income before changes in operating assets and liabilities** | **1,085** | **1,085** | 953 | 953 |
| Decrease (Increase) in: | | | | |
| Trade and other receivables | **(1,199)** | **(1,199)** | (644) | (644) |
| Prepayments and other current assets | **(278)** | **(278)** | (100) | (100) |
| Increase (Decrease) in: | | | | |
| Trade and other payables | **1,205** | **1,205** | (35) | (35) |
| **Cash from operations** | **813** | **813** | 174 | 174 |
| Payment of taxes | **(64)** | **(64)** | (37) | (37) |
| Interest received | **5** | **5** | 11 | 11 |
| Interest paid | **(115)** | **(115)** | (159) | (159) |
| **Net Cash provided by (used in) Operating Activities** | **639** | **639** | (11) | (11) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisition of AFS investments | **-** | **-** | 2 | 2 |
| Increase in investment properties and property and equipment | **(1,587)** | **(1,587)** | (562) | (562) |
| Increase in other non-current assets | **199** | **199** | (7) | (7) |
| Increase in other non-current liabilities | **(12)** | **(12)** | 3 | 3 |
| **Net Cash used in Investing Activities** | **(1,400)** | **(1,400)** | (564) | (564) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Increase in payables to related parties - net | **996** | **996** | 1,860 | 1,860 |
| Payments of interest bearing loans and borrowings – net | **(509)** | **(509)** | (338) | (338) |
| Increase (decrease) in refundable deposits | **(10)** | **(10)** | 6 | 6 |
| **Net Cash provided by Financing Activities** | **477** | **477** | 1,528 | 1,528 |
| **NET INCREASE (DECREASE) IN CASH** | **(284)** | **(284)** | 953 | 953 |
| **CASH AT BEGINNING OF PERIOD** | **572** | **572** | 428 | 428 |
| **CASH AT END OF PERIOD** | **288** | **288** | 1,381 | 1,381 |

**STARMALLS, INC. AND SUBSIDIARIES**
**NOTES TO INTERIM FINANCIAL STATEMENTS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2018**
***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

Starmalls, Inc. (the Parent Company) was incorporated in the Republic of the Philippines and duly registered with the Securities and Exchange Commission (SEC) on October 16, 1969, originally to pursue mineral exploration. After obtaining Philippine SEC approval on November 10, 2004, the Parent Company changed its primary business to holding investments in shares of stock and real estate.

The Parent Company is the holding company of the Starmalls Group (the Group) which is engaged in development and leasing of retail malls and Business Process Outsourcing ("BPO") commercial centers. The Group has wholly owned subsidiary, Masterpiece Asia Properties, Inc. (MAPI) and a 98.36% owned subsidiary, Manuela Corporation (MC or Manuela).

On November 10, 2015, Vista Land & Lifescapes, Inc. (VLLI or Vista Land) signed an agreement with the existing shareholders of the Group to acquire 88.34% or 7,443.19 million shares of the outstanding capital stock of the Parent Company for a total consideration of ₱33,537.36 million.

Starmalls and its subsidiaries became subsidiaries of Vista Land as at December 31, 2015.

Both Vista Land and Starmalls Group are entities under common control of Fine Properties, Inc. (the Ultimate Parent Company or Fine). Accordingly, Vista Land accounted for the acquisition of the Group under the pooling-of-interest method of accounting.

The Parent Company is 88.34% owned by Vista Land while 7.50% is owned by Land & Houses Public Company Limited and 4.16% is owned by the public. The Parent Company's shares of stock are listed at the Philippine Stock Exchange (PSE).

In a meeting held on May 3, 2016 and June 27, 2016, the Board of Directors (BOD) and the Stockholders, respectively, ratified and approved the amendments of Article III and Article IV of the Articles of Incorporation to extend the corporate term for another 50 years from October 15, 2019 and to change the registered office and principal place of business of the Parent Company. On March 31, 2017, the Amended Articles of Incorporation was approved by the Philippine SEC.

The Parent Company's new registered office and principal place of business is located at Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daanghari, Almanza II, Las Piñas City.

## 2. BASIS OF PREPARATION

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for the available-for-sale (AFS) financial assets which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) which is the functional and presentation currency of the Parent Company, and all amounts are rounded to the nearest Philippine Peso unless otherwise indicated.

<u>Statement of Compliance</u>
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the Parent Company and to the noncontrolling interests (NCI), even if this results in the NCI having a deficit balance. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other similar events. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries. The voting rights held by the Group in these subsidiaries are in proportion of their ownership interest.

| | Percentage of Ownership | |
|---|---|---|
| | **Mar-31-18** | Dec-31-17 |
| Manuela Corporation | **98.36%** | 98.36% |
| Masterpiece Asia Properties, Inc. | **100.00** | 100.00 |

<u>Non-controlling Interests</u>
Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from parent shareholder's equity. Any losses applicable to the noncontrolling interests are allocated against the interests of the non-controlling interest even if this results to the non-controlling interest having a deficit balance. The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interest is recognized in equity of the parent in transactions where the non-controlling interest are acquired or sold without loss of control.

As at December 31, 2017 and 2016, percentage of non-controlling interests pertaining to Manuela Corporation amounted to 1.64%. The voting rights held by the non-controlling interest are in proportion of their ownership interest.

The Parent Company and the subsidiaries are all domiciled and incorporated in the Philippines and are in the business of leasing commercial spaces and buildings.

## 3. CHANGES IN ACCOUNTING POLICIES

The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017. Unless otherwise indicated, the adoption of the new accounting standards will not impact the consolidated financial statements.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements* to PFRSs 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of these amendments did not have any impact on the Group's consolidated financial statements because it does not have disposal group.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in Note 29 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2017 and 2015.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

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

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

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

*Effective beginning on or after January 1, 2018*

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Group does not expect impact from the adoption of this amendment because it does not have share-based payment transactions.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

  In 2017, the Group performed its initial impact assessment of PFRS 9 and assessed that it will impact its methodology and measurement of credit losses as well on the classification and measurement of financial assets. There is no impact to the classification and measurement of its financial liabilities.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

  Based on its initial assessment, adoption of PFRS 15 has no significant impact to the leasing operations of the Group because it is following lease accounting which is covered by another accounting standard while other sources of revenue such as interest and dividends are already aligned with the requirements of PFRS 15. It will impact, however, its real estate development business as follows:

  - Significant financing component in relation to advance payments received from customers or advance proportion of work performed
  - Determination if existing documentation would meet the definition of contracts for real estate agreements
  - Accounting for costs in obtaining the contract for real estate agreements
  - Measurement of progress for real estate

  The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets such as items of property and equipment and investment properties when that disposal is not in the ordinary course of business.

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

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

The amendments should be applied retrospectively, with earlier application permitted. The amendment is not expected to significantly impact the financial statements since entities within the Group are not venture capital organization or alike.

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  The Group has assessed the impact of the standard and will apply to its future change in use of properties to and from investment property given that it is in the mall and commercial center operations.

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

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the consolidated financial statements of the reporting period in which the entity first applies the interpretation.

  The Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

*Effective beginning on or after January 1, 2019*

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

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

  The Group will apply this amendment if there are transactions of this nature in the future. None of its current transactions will fall under this feature.

- PFRS 16, *Leases*

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

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

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

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

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

The new lease standard will impact its operating lease agreements with its land leases which are currently accounted for as operating leases, which will now require to be recorded as right of use asset and the related lease liability. There is no significant impact to the Group as a lessor for its investment portfolio. There will be more disclosures as required by the new standard.

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

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

  The Group does not expect this amendment to have significant impact to the consolidated financial statements because it does not currently have interests in associates and joint ventures.

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

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

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

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

The Group is currently assessing the impact of adopting this interpretation.

*Deferred effectivity*

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

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

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Current and Noncurrent Classification</u>
The Group presents assets and liabilities in consolidated statement of financial position based on current/noncurrent classification.

An asset is current when:
- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after reporting date; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after 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 12 months after reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after reporting date.

The Group classifies all other liabilities as noncurrent.

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

<u>Cash</u>
Cash includes cash on hand and in banks. Cash in banks earn interest at the prevailing interest rate.

Financial Instruments

*Date of recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, which is the date when the Group commits to purchase or sell the asset.

*Initial recognition of financial instruments*

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities include transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets, and loans and receivables.

The Group classifies its financial liabilities as financial liabilities at FVPL or other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. The financial assets of the Group are of the nature of loans and receivable, AFS financial assets and HTM financial assets, while its financial liabilities are of the nature of other financial liabilities. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Fair Value Measurement

The Group measures AFS financial assets at fair value at each reporting date. Also, fair values of loans and receivables, other financial liabilities and investment properties are disclosed in Notes 13 and 26.

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 by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group 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 consolidated financial statements are categorized within the fair value hierarchy 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 consolidated financial statements on a recurring basis, the Group 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.

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

*Loans and receivables*
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held-for-trading, designated as AFS or as financial assets at FVPL. Receivables are recognized initially at fair value. After initial measurement, loans and receivables are subsequently measured at cost or at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization, if any, is included in profit or loss. The losses arising from impairment of receivables are recognized in profit or loss. These financial assets are included in current assets if maturity is within twelve (12) months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

This accounting policy applies primarily to the Group's cash, receivables (except for advances to contractors and suppliers), receivables from related parties and cash restricted for use included in "Other noncurrent assets".

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

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognized in OCI and credited to the OCI until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the OCI to the consolidated statement of comprehensive income in interest and other financing charges. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

When the investment is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as gain or loss on disposal in profit or loss. Where the Group holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets are reported as interest and other income from investments using the EIR. Dividends earned on holding AFS financial assets are recognized in profit or loss as part of miscellaneous income when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as provisions for impairment losses in profit or loss.

When the fair value of AFS equity financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any impairment losses.

As at March 31, 2018 and December 31, 2017, AFS financial assets comprise of unquoted and quoted equity securities and investment in mutual funds.

*Other financial liabilities*
Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Gains and losses are recognized in profit or loss when the liabilities are derecognized (redemption is a form of derecognition), as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

The financial liabilities measured at cost are trade and other payables (except for deferred output VAT), liability for purchased land, payables to related parties and dividends payable. The financial liabilities measured at amortized cost are interest-bearing loans and borrowings.

Derecognition of Financial Assets and Financial Liabilities

*Financial asset*
A financial asset (or, where applicable, a part of a group of financial assets) is derecognized where: (a) the rights to receive cash flows from the assets have expired; (b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or (c) the Group has transferred its right to receive cash flows from the asset and either: (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred control of the asset.

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

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

Impairment of Financial Assets
The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. The fact that title of the real estate properties are transferred only to the buyer upon full payment of the contract price is considered in the evaluation of impairment. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortized cost*
The Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost (i.e., loans and receivables or HTM investments) has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the assets original EIR (excluding future credit losses that have not been incurred). If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset, together with the other assets that are not individually significant and were thus not individually assessed for impairment, is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as selling price of the lots and residential houses, past-due status and term.

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss. Financial assets carried at amortized costs, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*AFS financial assets carried at fair value*
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. 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 the consolidated statement of comprehensive income is removed from OCI and recognized in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. In the case of debt instruments classified as AFS, 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 consolidated statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

*AFS financial assets carried at cost*
If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Real Estate Properties for Sale
Real estate properties for sale consist of subdivision land and residential houses and lots for sale and development. These are properties acquired or being constructed for sale in the ordinary course of business rather than to be held for rental or capital appreciation. These are held as inventory and are measured at the lower of cost and net realizable value (NRV).

Cost includes:
- Acquisition cost of raw land and subdivision land;
- Amounts paid to contractors for construction and development of subdivision land and residential houses and lots; and
- Capitalized borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less costs to complete and the estimated costs of sale. The carrying amount of inventories is reduced through the use of allowance account and the amount of loss is charged to profit or loss.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs. The total costs are allocated pro-rata based on the relative size of the property sold.

Value-Added Tax
Input tax represents the VAT due or paid on purchases of goods and services subjected to VAT that the Group can claim against any future liability to the BIR for output VAT on sale of goods and services subjected to VAT. The input tax can also be recovered as tax credit under certain circumstances against future income tax liability of the Group upon approval of the BIR and/or Bureau of Customs. Input tax is stated at its estimated net realizable values. A valuation allowance is provided for any portion of the input tax that cannot be claimed against output tax or recovered as tax credit against future income tax liability. Input tax is recorded under current assets in the statement of financial position.

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for marketing fees, taxes and licenses, rentals and insurance.

Creditable Withholding Tax
Creditable withholding tax pertains to taxes withheld on income payments and may be applied against income tax due. The balance of taxes withheld is recovered in future period.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and any impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and computed using the straight-line basis over the Estimated Useful Life (EUL) of property and equipment as follows:

| | Years |
|---|---|
| Office and other equipment | 3 to 5 |
| Transportation equipment | 3 |
| Construction equipment | 1 to 2 |

The useful lives and depreciation and amortization method are reviewed annually to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated and amortized property and equipment are retained in the accounts until they are no longer in use. No further depreciation and amortization is charged against current operations.

Investment Properties
Investment properties comprise of completed property and property under construction or re-development that are held to earn rentals or for capital appreciation or both. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

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

Construction-in-progress (CIP) is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time as the relevant assets are completed and put into operational use. Construction-in-progress are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation and amortization are computed using the straight-line method over the EUL of the assets, regardless of utilization. The EUL and the depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

The EUL of buildings and building improvements is 10 to 40 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

Impairment of Nonfinancial Assets
This accounting policy relates to prepayments and other assets (except for cash restricted for use), property and equipment and investment properties.

The Group assesses as at reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those assets or groups of assets. Where the carrying amount of an asset 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. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase in OCI. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Security deposit
Security deposits are measured at amortized cost. Security deposit are deposits received from various tenants upon inception of the respective lease control on the Group's investment properties. At the termination of the lease contracts, the deposit received by the Group are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. The related lease contracts usually have a term of more than 12 months.

Construction bonds
Construction bonds are measured at amortized cost. Construction bonds are deposits from tenants undertaking construction and/or repairs of their leased commercial spaces. At the termination of the construction period, the deposit received by the Group are returned to tenants, reduced by penalties and/or deductions from repairs of damaged leased properties, if any. The construction contracts usually have a term of more than 12 months.

Retention payable
Retention payable are amount withheld from the contractors as guaranty for any claims against them. These are settled and paid once the construction period has expired.

Equity

Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Retained earnings represent accumulated earnings of the Group less dividends declared. It includes the accumulated equity in undistributed earnings of consolidated subsidiaries which are not available for dividends until declared by the subsidiaries.

The retained earnings is restricted to payments of dividends to the extent of the cost of treasury shares.

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow and the amount of revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue arrangements.

*Rental income*

Rental income under noncancellable leases are recognized in the consolidated statements of comprehensive income under "Rental income" on a straight-line basis over the term of the lease. Contingent rent is recognized as revenue in the period in which it is earned.

*Common usage and service area charges and reimbursable tenant fees*

Revenue is recognized when the performance of service has been substantially rendered. Income received from these charges are presented under "Rental income" in the consolidated statements of comprehensive income.

*Parking fees*

Parking fees are recognized as revenue when earned.

*Real estate revenue*

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectability of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectability is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee, Q&A 2006-01, the percentage-of-completion (POC) method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished, and the costs incurred or to be incurred can be measured reliably). Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included in the "Customers' advances and deposits" account in the liabilities section of the consolidated statement of financial position.

When a sale of real estate does not meet the requirements for revenue recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized, and the receivable from the buyer is not recorded. The real estate inventories continue to be reported on the consolidated statement of financial position as "Real estate inventories" and the related liability as deposits under "Customers' advances and deposits".

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

*Interest income*
Interest is recognized using the effective interest method, i.e, the rate, that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Unearned discount is recognized as income over the terms of the loans and receivables using the effective interest method and is shown as deduction for the financial assets.

*Miscellaneous income*
Miscellaneous income are recognized when the Group's right to receive payment is established.

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction 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 the investment properties in the consolidated statement of financial position. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress.

Operating Expenses
Operating expenses constitute costs of administering the business. These are recognized as expenses when incurred.

Pension Cost
*Defined benefit plan*
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 (PUC) method.

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(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.

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 high quality corporate 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 OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

<u>Income Taxes</u>
*Current tax*
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

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

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

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

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

Deferred tax relating to items recognized outside of profit or loss is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement; a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(b) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(c) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for any of the scenarios above, and at the date of renewal or extension period for the second scenario.

*Group as a lessor*

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

*Group as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same bases as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the period.

Basic and Diluted Earnings Per Share (EPS)

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in consolidated statement of comprehensive income net of any reimbursement.

Contingencies

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

Events After the Financial Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Any post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Operating lease commitments - the Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties as the Group considered among others the length of the lease term as compared with the EUL of the assets.

*Real estate revenue and cost recognition*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others:

- Buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment; and
- Stage of completion of the project.

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

*Determining fair values of financial assets and liabilities*
Fair value determinations for financial assets and liabilities are based generally on listed market prices or broker or dealer quotations. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market condition, assuming an orderly liquidation over a reasonable period of time. Fair value disclosures are provided in Note 26.

*Impairment of loans and receivables*
The Group reviews its receivables on a periodic basis to assess impairment of receivables at an individual and collective level. In assessing for impairment, the Group determines whether there is any objective evidence indicating that there is a measurable decrease in the estimated future cash flows of its loans and receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or industry-wide or local economic conditions that correlate with defaults on receivables. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies individually significant accounts that are to be provided with allowance.

For the purpose of a collective evaluation of impairment, loans are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, past-due status and term.

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment would increase recorded expenses and decrease net income.

*Evaluation of net realizable value of real estate properties for sale*
Real estate properties for sale are valued at the lower of cost or NRV. This requires the Group to make an estimate of the real estate for sale inventories' estimated selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. The Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of these assets. In determining the recoverability of these assets, management considers whether these assets are damaged, if their selling prices have declined and management's plan in discontinuing the real estate projects. Estimated selling price is derived from publicly available market data while estimated selling costs are basically commission expense and transfer costs.

## 6. SEGMENT INFORMATION

The Group's malls and BPO centers are all located in the Philippines and are treated as one operating segment. The real estate development of the Parent Company is very minimal to the overall operations and financial position of the Group as of March 31, 2018 and 2017. These were not treated as a separate segment by the chief operating decision maker for its review, evaluation and allocation of resources.

The Group has operating lease agreements with All Value Holdings, Inc. and Subsidiaries (All Value Group), an entity under common control, which is comprised of AllHome Corp., AllDay Retail Concepts, Inc. and Family Shoppers Unlimited Inc., for the leases of commercial spaces. Revenue earned from All Value Group which is engaged in retail businesses covering supermarkets, retail of apparel, construction materials and home/building appliances and furnishings constitutes more than 10% of the Group's total revenue in 2018, 2017 and 2016.

The leasing operations have no noted significant seasonality in operations.

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of March 31, 2018:

| | |
|---|---|
| Cash on hand and in banks | **₱ 288** |

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earn interest as follows:

| | |
|---|---|
| Philippine Peso | **1.20% to 2.00%** |

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSESTS

The breakdown of this account is as follows:

| | |
|---|---|
| Equity – Current | **₱ 35** |
| Equity - Non current | **4,509** |
| | **₱ 4,544** |

The fair values of the investments in AFS financial assets have been determined directly by reference to published prices in an active market

The AFS financial assets classified as current assets in the consolidated statements of financial position is intended by management to be disposed within 12 months from the end of the reporting period.

Interest income from AFS financial assets are presented as part of Finance Income under the Other Income (Charges) account in the consolidated statements of comprehensive income.

## 9. RECEIVABLES

The balance of this account is composed of the following as of March 31, 2018:

| | |
|---|---|
| Trade receivables | **₱ 8,026** |
| Others | **53** |
| | **₱ 8,082** |
| Allowance for bad debts | **(55)** |
| | **₱ 8,024** |

All of the Group's trade and other receivables have been reviewed for indications of impairment. In 2015, certain receivables from tenants, contractors, suppliers, brokers, and others were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized.

Receivables from tenants represent the outstanding receivables arising from the lease of commercial spaces relating to the Group's mall operations and are collectible within 12 months from the end of the reporting period.

## 10. REAL ESTATE PROPERTIES FOR SALE

Real estate properties for sale as of March 31, 2018 are stated at cost, the details of which are shown below.

| | |
|---|---|
| Land | **₱ 178** |
| Residential units for sale | **144** |
| | **₱ 322** |

Residential units for sale represent houses and lots in completed subdivision projects for which the Group has already been granted the license to sell by the HLURB of the Philippines. Residential units include units that are ready for occupancy, house models and units under construction.

## 11. PREPAYMENTS AND OTHER ASSETS

This account is composed of the following as of March 31, 2018:

| | |
|---|---|
| Current | |
| Input VAT | **₱ 1,487** |
| Prepayments | **153** |
| Creditable Withholding Tax | **4** |
| Refundable Deposits | **94** |
| Others | **12** |
| | **₱ 1,750** |
| Non-Current | |
| Refundable deposits | **₱ 105** |
| Restricted Cash | **736** |
| | **₱ 841** |

The input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Advances to contractors, brokers and others pertain to receivables that are recouped from settlement of progress billing statements which occur within one year from date the receivables arose.

Prepayments pertain to prepaid taxes, insurance premiums, employee benefits, repairs and rent, which will be utilized within 12 months from the end of the reporting period.

Short-term installment contracts receivable represent the current portion of the Group's installment contracts receivable. The long-term installment contracts receivable consists of amounts arising from the sale of residential units that are collectible within 2 to 10 years.

Others include accrued interest receivable, penalties receivable from tenants due to late payments, security deposits, advance rentals and office supplies.

## 12. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land and building and improvements, which are owned and held for capital appreciation and rental purposes.

The Group's investment property generates rental income under various operating lease agreements. Rental income from the investment property amounting to ₱1,376 million and ₱ 1,219 million for the period ended March 31, 2018 and 2017, respectively, are presented as Rental income under Revenues and Income in the consolidated statements of comprehensive income.

Direct costs incurred generally pertain to depreciation charges and real property taxes. Real property tax related to investment property was recognized as part of Taxes and Licenses in the consolidated statements of comprehensive income. Depreciation charges are presented as part of Depreciation and Amortization in the consolidated statements of comprehensive income.

The composition of this account is shown below.

| | |
|---|---|
| Land | ₱ **9,428** |
| Building and improvements | **14,020** |
| Construction In Progress | **3,369** |
| | ₱ **26,817** |

Commercial building under construction pertains to accumulated costs incurred in the development of certain commercial buildings. Capitalized borrowing costs representing the actual borrowing costs incurred on loans obtained to fund the construction project are included as part of the costs of Investment Property.

*Fair Value of Investment Property*
In 2016, the Company secured the services of an independent firm of appraisers to determine the fair market values of the Company's investment as of December 31, 2017. Fair market value of investment property is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

The results of the appraisal below showed that the fair market values of investment property exceeded the related carrying amounts as of March 31, 2018.

| | Land | Buildings and Improvements | Total |
|---|---|---|---|
| Company - | | | |
| Land in Valenzuela City | ₱ 42,000,000 | ₱ – | ₱ 42,000,000 |
| MAPI: | | | |
| Sta. Rosa, Laguna | 1,206,000,000 | 1,535,000,000 | 2,741,000,000 |
| Imus, Cavite | 227,000,000 | 318,000,000 | 545,000,000 |
| Land in Bacoor, Cavite | 4,591,000,000 | 753,000,000 | 5,344,000,000 |
| Starmall San Jose del Monte | 210,000,000 | 1,511,000,000 | 1,721,000,000 |
| Mandaluyong City | 232,000,000 | 415,000,000 | 647,000,000 |
| Starmall Prima Taguig | 1,464,000,000 | 1,276,000,000 | 2,740,000,000 |
| Starmall Azienda | – | 368,000,000 | 368,000,000 |
| Manuela: | | | |
| Starmall Alabang | 2,916,000,000 | 3,469,000,000 | 6,385,000,000 |
| Starmall EDSA-Shaw | 3,001,000,000 | 1,170,000,000 | 4,171,000,000 |
| Starmall Las Piñas | 394,100,000 | 1,642,900,000 | 2,037,000,000 |
| Starmall Las Piñas-Annex | 121,000,000 | 100,000,000 | 221,000,000 |
| WCC | – | 1,935,000,000 | 1,935,000,000 |
| | ₱ 14,404,100,000 | ₱ 14,492,900,000 | ₱ 28,897,000,000 |

## 13. LIABILITY FOR PURCHASED LAND

Liability for land acquisition represents the outstanding payable as of March 31, 2018 and December 31, 2017 relating to the Group's acquisition of certain parcels of land.

Additions in March 31, 2018 and December 31, 2017 pertains to land purchases in various locations from individual third parties to be held as future commercial building construction sites. From these purchases, the Company had outstanding liability of ₱ 336 million, payable in the next 12 months, and ₱ 275 million with maturity of more than 1 year, presented as part of the Liability for land acquisition in the current and non-current liabilities section, respectively, as of March 31, 2018.

## 14. TRADE AND OTHER PAYABLES

This account consists of:

| | | |
|---|---|---|
| Retention payable | ₱ | **270** |
| Trade payables | | **2,036** |
| Deferred output vat | | **388** |
| Accrued rentals | | **239** |
| Accrued expenses | | **173** |
| Others | | **15** |
| | ₱ | **3,121** |

Retentions payable pertains to 10% retention from the contractors' progress billings which will be released after the completion of contractors' project. The 10% retention serves as a holdout amount withheld from the contractor to cover for back charges that may arise from quality issues in affected projects.

Trade payables represent construction materials, marketing collaterals and office supplies ordered and delivered but not yet due. These are expected to be settled within a year after the recognition period.

Accrued expenses represent the accrual for security, building maintenance and janitorial services, salaries and employee benefits, professional fees, interest on interest-bearing loans and borrowings and other administrative expenses as well as marketing and advertising expenses, which are expected to be settled within 12 months after the end of the reporting period.

Accrued rentals pertain to the effect of straight-line recognition of contractual rent expense as prescribed by PAS 17, Leases.

Other payables pertain to salaries related premiums and loans payable and withholding taxes payable.

## 15. INTEREST BEARING LOANS AND BORROWINGS

The breakdown of this account is as follows:

| | | |
|---|---|---|
| Interest bearing loans – Current | ₱ | **1,602** |
| Interest bearing loans - Non current | | **5,419** |
| | ₱ | **7,021** |

*Loans of Manuela*
In 2015, the loan obtained from BDO worth 4,000 million considered general borrowings and has a maturity of seven years from the date of drawdown and bears an annual fixed interest rate of 5.75%. The Company transferred 1,800 million to MAPI contractors and 1,670 million to Parent Company for meeting working capital requirements. The remaining amount from the loan borrowed was used for the construction of BPO building and parking building in Las Piñas and for the redevelopment of other buildings owned by the Company. Real estate contracts under Starmall Alabang used as a mortgage for long term loan obtained by the company from BDO.

In 2014, the Company obtained various loans from UBP to finance the upgrade of the air conditioning systems of Starmall Las Piñas and Starmall Las Piñas - Annex and the acquisition of generator set upgrades for all the malls of the Company. The loans have maturities of five years from the date of drawdown and bear fixed annual interest rate of 5.75%. In 2013 and previous years, the Company also obtained various term loans from BDO and PDB to finance the upgrade of the air conditioning systems of Starmall EDSA - Shaw and Starmall Alabang and the expansion of the business process outsourcing area of WCC. The loans have maturities from October 2014 to February 2020 and bear an annual fixed interest rates ranging from 7.00% to 7.25%.

Certain properties registered under the name of MAPI are used as third party real estate mortgage for the secured long-term loan obtained from PDB.

Certain Investment properties are used as collaterals for loans obtained from local creditor banks.

*Loans of MAPI*
On July 24, 2017, MAPI, a subsidiary of the Company obtained a 10-year unsecured peso-denominated loan from a local bank amounting ₱500 million which bears annual fixed interest rate of 6.2255%. The principal balance of the loan will be paid in thirty two (32) equal quarterly installments commencing on the ninth interest payment date. The loan requires MAPI to maintain a current ratio of at least 1.00:1.00, a maximum debt-to-equity ratio of 2.50:1.00 and a debt-service coverage ratio (DSCR) of at least 1.00:100.

In 2015, MAPI entered into a term loan agreement with RCBC amounting to 2,274 million primarily to finance various ongoing mall constructions. The loans have maturities of seven years from the date of drawdown and bear an annual fixed interest rate of 5.75%.

In 2014, MAPI entered into a term loan agreement with CBC and AUB amounting to 1,000 million and 366 million, respectively, primarily to finance various ongoing mall constructions. The loan with CBC has maturities beginning December 2016 to June 2017 and bears annual interest of 4.50% while the loan with AUB has maturities beginning December 2014 to December 2019 and bears annual interest of 6.25%.

In connection with the loan entered with CBC, MAPI agreed to execute a negative pledge over certain real properties. MAPI cannot allow any other indebtedness to be secured by the covered real properties nor permit any other creditor to receive any priority or preference over the covered real properties, without written consent from the CBC.

In addition, the loan agreement with RCBC and AUB requires MAPI to maintain a current ratio of not lower than 1.50:1:00 and debt-equity ratio of not higher than 3.00:1.00. MAPI has complied with these loan covenants, including maintaining certain financial ratios as at the reporting dates.

MAPI is also required to maintain a reserve fund for its future loan and interest repayments.

In 2012, MAPI obtained a loan from AUB amounting to 420 million to finance the construction of Starmall San Jose del Monte. The loan is due to be settled until 2017 and bears annual interest rate of 5.70%.

## 16. EQUITY

### *Capital Stock*

Capital stock consists of:

| | Shares | | Amount | |
|---|---|---|---|---|
| | 31-Mar-18 | 31-Dec-17 | 31-Mar-18 | 31-Dec-17 |
| Preferred shares - voting, cumulative, non-participating, non convertible, non-redeemable - P0.01 par value | | | | |
| Authorized | **10,000,000,000** | 10,000,000,000 | **₱ 100,000,000** | ₱ 100,000,000 |
| Issued and outstanding: | | | | |
| Balance at beginning of year | **2,350,000,000** | 2,350,000,000 | **₱ 23,500,000** | ₱ 23,500,000 |
| Issuance during the year | **-** | - | **-** | - |
| Balance at end of year | **2,350,000,000** | 2,350,000,000 | **₱ 23,500,000** | ₱ 23,500,000 |
| Common shares - P1.00 par value | | | | |
| Authorized | **16,900,000,000** | 16,900,000,000 | **₱ 16,900,000,000** | ₱ 16,900,000,000 |
| Issued and outstanding: | | | | |
| Balance at beginning of year | **8,425,981,156** | 8,425,981,156 | **₱ 8,425,981,156** | ₱ 8,425,981,156 |
| Issuance during the year | **-** | - | **-** | - |
| Balance at end of year | **8,425,981,156** | 8,425,981,156 | **₱ 8,425,981,156** | ₱ 8,425,981,156 |
| | | | **₱ 8,449,481,156** | ₱ 8,449,481,156 |

On May 14, 2012, the BOD approved the increase in the Company's authorized capital stock from P5.5 billion divided into 5.5 billion shares with P1 par value to P17.0 billion divided into 16.9 billion common shares with P1 par value and 10.0 billion preferred shares with P0.01 par value. The application for increase in authorized capital stock was approved by the SEC on June 22, 2012.

Each preferred share is a voting, cumulative, non-participating, non-convertible and non-redeemable share.

The list of common shareholders of the Company is shown in the next page with their respective number of shares held:

| | Number of Shares Issued | Percentage Ownership |
|---|---|---|
| VLLI | 7,443,194,641 | 88.34% |
| L&H | 808,431,465 | 9.59% |
| Others | 174,355,050 | 2.07% |
| | 8,425,981,156 | 100.00% |

The following also illustrates the additional listings made by the Company:

On November 13, 1970, the SEC approved the listing of the Company's common shares totaling 1.0 billion. The shares were initially issued at an offer price of ₱0.01 per share.

On November 10, 2004, the SEC approved the increase in the authorized capital stock of the Company to ₱4.5 billion divided into 4.5 billion shares with a par value of ₱1.00 each, as authorized by the Company's BOD.

In 2005, the Company applied for another increase in its authorized capital stock to ₱5.5 billion divided into 5.5 billion shares with a par value of ₱1.00 each, as authorized by the Company's BOD. On November 23, 2005, the SEC approved the increase in the authorized capital stock of the Company.

As of March 31, 2018 and December 31, 2017, 8,425,981,156 shares are listed in the PSE and closed at ₱15.88 and ₱8.81 per share, respectively.

***Retained Earnings***
On September 27, 2017, the BOD approved the declaration of a regular cash dividend amounting ₱ 310.3 million or ₱0.0368 per share, payable to all stockholders of record as of October 12, 2017. The said dividends were paid on October 26, 2017.

On September 26, 2016, the BOD approved the declaration of a regular cash dividend amounting ₱180.89 million or ₱0.0215 per share, payable to all stockholders of record as of October 11, 2016. The said dividends were paid on October 26, 2016.

## 17. OTHER OPERATING INCOME AND EXPENSES

This account consists of:

| | | |
|---|---|---|
| Occupancy expenses | **P** | **38** |
| Outside services | | **88** |
| Repairs and maintenance | | **35** |
| Advertising and promotions | | **18** |
| Salaries and employee benefits | | **53** |
| Taxes and licenses | | **47** |
| Others | | **133** |
| Total | **P** | **412** |

## 18. EARNINGS PER SHARE

Earnings per share were computed as follows:

| | | |
|---|---|---|
| Net Profit attributable to parent company's shareholders | **P** | **578** |
| Divided by weighted outstanding common shares | | **8,426** |
| Earnings per share | **P** | **0.069** |

Diluted earnings per share was not determined since the Group does not have potential dilutive shares as of March 31, 2018 and 2017.

*Financial Soundness Indicator*

Below are the financial ratios that are relevant to the Group for the period ended March 31, 2018 and 2017.

| | | Mar-31-18 | Dec-31-17 |
|---|---|---|---|
| Current Ratio | Current assets / Current liabilities | 0.84 | 0.87 |
| Long-term debt-to-equity ratio | Long-term debt[1] / Equity | 0.27 | 0.30 |
| Debt ratio | Interest bearing debt[2] / Total assets | 0.16 | 0.18 |
| Debt to equity ratio | Interest bearing debt / Total equity | 0.36 | 0.41 |
| Net debt to equity | Net debt[3] / Total equity | 0.35 | 0.38 |
| Asset to equity ratio | Total assets / Total equity | 2.28 | 2.21 |

| | | Mar-31-18 | Mar-31-17 |
|---|---|---|---|
| EBITDA to total interest | EBITDA / Total interest | 9.48 | 6.06 |
| Price Earnings Ratio | Market Capitalization[4] / Net Income[5] | 57.46 | 30.18 |
| Asset to liability ratio | Total assets / Total liabilities | 1.79 | 1.83 |
| Net profit margin | Net profit / Sales | 0.56 | 0.52 |
| Return on assets | Net income[5] / Total assets | 4.84% | 5.13% |
| Return on equity | Net income[5] / Total equity | 11.04% | 10.48% |
| Interest Service Coverage Ratio | EBITDA / Total interest | 9.48 | 6.06 |

[1] Pertains to long term portion of the Bank loans and Notes Payable

[2] Includes Bank Loans and Notes Payable

[3] Interest bearing debt less Cash, Short-term and Long Term Cash Investments, Available-for-sale financial assets (excluding unquoted equity securities) & Held-to-Maturity Investments

[4] Based on closing price at March 31, 2018 and 2017

[5] Annualized

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

***Results of operations covering three months ended March 31, 2018 vs. three months ended March 31, 2017***

**Revenues**

Rental income increased by 13% from ₱ 1,219 million in the three months ended March 31, 2017 to ₱1,376 million in the period ended March 31, 2018. The increase was primarily attributable to the increase in occupancy and rental rates of the existing malls and additional gross floor area of the new commercial assets.

Other operating income decrease by 14% from ₱ 141 million in the three months ended March 31, 2017 to ₱121 million in the period ended March 31, 2018 due to the decrease in other operating income generated from the commercial assets.

Finance income decreased by 55% from ₱11 million in the three months ended March 31, 2017 to ₱5 million in the period ended March 31, 2018 due to the lower cash balance that yields interests for the period.

Finance costs decreased by 70% from ₱23 million in the period ended March 31, 2017 to ₱ 7 million in the period ended March 31, 2018 decrease due to a lower capitalization for the period as more investment properties have been completed.

Provision for tax increased by 18% from ₱ 212 million in the period ended March 31, 2017 to ₱ 251 million in the period ended March 31, 2018 due to the higher taxable income in the 3-months of 2017.

**Net Income**

As a result of the foregoing, the Group's net income increased by 19% from ₱489 million in the three months ended March 31, 2017 to ₱582 million in the three months ended March 31, 2018.

For the three months ended March 31, 2018, there were no seasonal aspects that had a material effect on the financial condition or results of operations of the Group. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations. The Group is not aware of events that will cause a material change in the relationship between costs and revenues.

There are no significant elements of income or loss that did not arise from the Group's continuing operations.

***Financial Condition as of March 31, 2018 vs. December 31, 2017***

Total assets were ₱48,133 million as of March 31, 2018 and ₱45,330 million as of December 31, 2017. The 6% increase is due to the following:

- Cash decreased by 50% from ₱572 million as of December 31, 2017 to ₱ 288 million as of March 31, 2018 due primarily to construction of investment properties for the period.

- Trade and other receivables, including non-current portion increased by 18% from ₱6,825 million as of December 31, 2017 to ₱4,977 million as of March 31, 2018 mainly due to the increase in rental revenue for the period.

- Investment properties increased by 5% from ₱25,580 million as of December 31, 2017 to ₱26,817 million as of March 31, 2018 mainly due to the expansion of the Company's leasable properties..

- Property and equipment-net decreased by 8% from ₱52 million as of December 31, 2017 to ₱48 million as of March 31, 2018 mainly due to the depreciation for the period.

Total Liabilities as of March 31, 2018 were ₱26,932 million, 9% higher compared to ₱24,710 million as of December 31, 2017. This was due to the following:

- Trade and other payables increased by 63% from ₱1,917 million as of December 31, 2017 to ₱ 3,121 million as of March 31, 2018 due to higher trade payables for the period.

- Liability for land acquisition including current portion, decreased by 26% from ₱823 million as of December 31, 2017 to ₱611 million as of March 31, 2018 due to settlements for the period.

- Income tax payable increased by 100% from ₱38 million as of December 31, 2017 to ₱76 million as of March 31, 2018 due to higher tax for the period.

- Interest bearing loans and borrowings including current portion, decreased by 7% from ₱7,530 million as of December 31, 2017 to ₱7,021 million as of March 31, 2018 due to settlements for the period.

- Payables to related parties - net, increased by 14% from ₱6,991 million as of December 31, 2017 to ₱7,988 million as of March 31, 2018 due to advances made from related party for the period.

- Refundable deposits decreased by 64% from ₱175 million as of December 31, 2017 to ₱164 million as of March 31, 2018 due to application of payments from tenants for the period.

- Deferred tax liabilities - net increased by 10% from ₱1,530 million as of December 31, 2017 to ₱ 1,679 million as of March 31, 2018 due to additional temporary differences for the period.

Total stockholder's equity increased by 3% from ₱20,620 million as of December 31, 2017 to ₱21,201 million as of March 31, 2018 due to net income recorded for the period.

**Top Five (5) Key Performance Indicators**

Considered as the top five key performance indicators of the Group as shown below:

| Key Performance Indicators | 03/31/2018 | 12/31/2017 |
|---|---|---|
| Current ratio [a] | 0.84 | 0.87 |
| Debt-to-equity ratio [b] | 0.36 | 0.41 |
| | 03/31/2018 | 03/31/2017 |
| Interest coverage ratio [c] | 9.48 | 6.06 |
| EBITDA margin [d] | 73% | 71% |
| Return on equity [e] | 11.04% | 10.48% |

*Notes:*

(a) *Current Ratio: This ratio is obtained by dividing the Current Assets of the Company by its Current liabilities. This ratio is used as a test of the Company's liquidity.*

(b) *Debt-to-equity ratio: This ratio is obtained by dividing the Company's Total Interest-bearing Debt by its Total Equity. The ratio reveals the proportion of debt and equity a company is using to finance its business. It also measures a company's borrowing capacity.*

(c) *Interest coverage: This ratio is obtained by dividing earnings before interest, taxes depreciation and amortization (EBITDA) by the interest expense. This ratio shows whether a company is earning enough profits before interest to pay its interest cost comfortably.*

(d) *Earnings before interest, income taxes, depreciation and amortization (EBITDA) margin: This ratio is obtained by dividing the Company's Earnings before interest, income taxes, depreciation and amortization by the total revenue. This measures the Company's operating profitability.*

(e) *Return on equity: This ratio is obtained by dividing the Company's net income (net of income from acquisition of subsidiary) by its total equity. This measures the rate of return on the ownership interest of the Company's stockholders.*

*Because there are various calculation methods for the performance indicators above, the Company's presentation of such may not be comparable to similarly titled measures used by other companies.*

Current Ratio as of March 31, 2018 decreased from that of December 31, 2017 due to a higher increase in the current liabilities coming from payables to related parties.

Debt to equity ratio as of March 31, 2018 decreased from that of December 31, 2017 due to settlement of debt for the period.

Interest coverage for the period ended March 31, 2018 increased because of the decrease in interest expense for the 3-months of 2017 and the significant increase in the company's EBITDA.

EBITDA margin for the period ended March 31, 2018 increased because of the increase in revenue due to expansion of the Company's leasable properties.

Return on equity increased as a result of improvement in net income for the period.

**Material Changes to the Company's Statement of Financial Position as of March 31, 2018 compared to December 31, 2017 (increase/decrease of 5% or more)**

Cash decreased by 50% from ₱572 million as of December 31, 2017 to ₱ 288 million as of March 31, 2018 due primarily to construction of investment properties for the period.

Trade and other receivables, including non-current portion increased by 18% from ₱6,825 million as of December 31, 2017 to ₱4,977 million as of March 31, 2018 mainly due to the increase in rental revenue for the period.

Investment properties increased by 5% from ₱25,580 million as of December 31, 2017 to ₱26,817 million as of March 31, 2018 mainly due to the expansion of the Company's leasable properties..

Property and equipment-net, decreased by 8% from ₱52 million as of December 31, 2017 to ₱48 million as of March 31, 2018 mainly due to the depreciation for the period.

Trade and other payables increased by 63% from ₱1,917 million as of December 31, 2017 to ₱ 3,121 million as of March 31, 2018 due to higher trade payables for the period.

Liability for land acquisition including current portion, decreased by 26% from ₱823 million as of December 31, 2017 to ₱611 million as of March 31, 2018 due to settlements for the period.

Income tax payable increased by 100% from ₱38 million as of December 31, 2017 to ₱76 million as of March 31, 2018 due to higher tax for the period.

Interest bearing loans and borrowings including current portion, decreased by 7% from ₱7,530 million as of December 31, 2017 to ₱7,021 million as of March 31, 2018 due to settlements for the period.

Payables to related parties - net, increased by 14% from ₱6,991 million as of December 31, 2017 to ₱7,988 million as of March 31, 2018 due to advances made from related party for the period.

Refundable deposits decreased by 64% from ₱175 million as of December 31, 2017 to ₱164 million as of March 31, 2018 due to application of payments from tenants for the period.

Deferred tax liabilities - net increased by 10% from ₱1,530 million as of December 31, 2017 to ₱ 1,679 million as of March 31, 2018 due to additional temporary differences for the period.

**Material Changes to the Company's Statement of Comprehensive Income for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 (increase/decrease of 5% or more)**

Rental income increased by 13% from ₱ 1,219 million in the three months ended March 31, 2017 to ₱1,376 million in the period ended March 31, 2018. The increase was primarily attributable to the increase in occupancy and rental rates of the existing malls and additional gross floor area of the new commercial assets.

Other operating income decrease by 14% from ₱ 141 million in the three months ended March 31, 2017 to ₱121 million in the period ended March 31, 2018 due to the decrease in other operating income generated from the commercial assets.

Finance income decreased by 55% from ₱11 million in the three months ended March 31, 2017 to ₱ 5 million in the period ended March 31, 2018 due to the lower cash balance that yields interests for the period.

Finance costs decreased by 70% from ₱23 million in the period ended March 31, 2017 to ₱ 7 million in the period ended March 31, 2018 decrease due to a lower capitalization for the period as more investment properties have been completed.

Provision for tax increased by 18% from ₱ 212 million in the period ended March 31, 2017 to ₱ 251 million in the period ended March 31, 2018 due to the higher taxable income in the 3-months of 2017.

The Group's net income increased by 19% from ₱489 million in the three months ended March 31, 2017 to ₱582 million in the three months ended March 31, 2018.

There are no other material changes in the Company's financial position (changes of 5% or more) and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would impact or change reported financial information and condition on the Company.

## COMMITMENTS AND CONTINGENCIES

The Parent Company's subsidiaries are contingently liable for guarantees arising in the ordinary course of business, including surety bonds, letters of guarantee for performance and bonds for its entire real estate project.

The Company is contingently liable with respect to certain lawsuits and other claims which are being contested by the subsidiaries and their legal counsels. Management and their legal counsels believe that the final resolution of these claims will not have a material effect on the consolidated financial statements.

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Company's liquidity in any material way. The

Company sourced its capital requirements through a mix of internally generated cash, sale of liquid assets like installment contracts receivables, pre-selling and joint venture undertakings. The Company does not expect any material cash requirements beyond the normal course of the business. The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation except for those items disclosed in the 3-months of 2018 Financial Statements.

There are no material off-balance sheet transactions, arrangements, obligation (including contingent obligations), or other relationships of the Company with unconsolidated entities or other persons created during the reporting period except those disclosed in the 3-months of 2018 Financial Statements.

There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonably expected to have a material impact on the continuing operations of the Company.
There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. There are no explanatory comments on the seasonality of the operations. There are no material events subsequent to the end of the fiscal period that have not been reflected in the financial statements.

There are no material amounts affecting assets, liabilities, equity, net income or cash flows that are unusual in nature; neither are there changes in estimates of amounts reported in a prior period of the current financial year.

## PART II - OTHER INFORMATION

### Item 3. 3-months of 2018 Developments

**A. New Projects or Investments in another line of business or corporation.**

None.

**B. Composition of Board of Directors**

| | |
|---|---|
| Manuel B. Villar Jr. | Chairman of the Board |
| Benjamarie Therese N. Serrano | Director and President |
| Manuel Paolo A. Villar | Director |
| Camille A. Villar | Director |
| Adisorn Thananan-Narapool | Director |
| Joel L. Bodegon | Independent Director |
| Raul Juan N. Esteban | Independent Director |

**C. Performance of the corporation or result/progress of operations.**

Please see unaudited Financial Statements and Management's Discussion and Analysis.

**D. Declaration of Dividends.**

**P0.0368 per share Regular Cash Dividend**
Declaration Date: September 27, 2017
Record date: October 12, 2017
Payment date: October 26, 2017

**P0.0215 per share Regular Cash Dividend**
Declaration Date: September 28, 2016
Record date: October 11, 2016
Payment date: October 26, 2016

**E. Contracts of merger, consolidation or joint venture; contract of management, licensing, marketing, distributorship, technical assistance or similar agreements.**

None.

**F. Offering of rights, granting of Stock Options and corresponding plans therefore.**

None.

**G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate.**

None.

**H. Other information, material events or happenings that may have affected or may affect market price of security.**

None

**I. Transferring of assets, except in normal course of business.**

None.

<u>**Item 4. Other Notes as of the 3-months of 2018 Operations and Financials.**</u>

**J. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.**

None.

**K. Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period.**

There were no changes in estimates of amounts reported in prior interim period or prior financial years that have a material effect in the current interim period.

**L. New financing through loans/ issuances, repurchases and repayments of debt and equity securities.**

See Notes to Financial Statements and Management Discussion and Analysis.

**M. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.**

None.

**N. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations.**

None.

**O. Changes in contingent liabilities or contingent assets since the last annual balance sheet date.**

None.

**P. Existence of material contingencies and other material events or transactions during the interim period.**

None.

**Q. Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.**

None.

**R. Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.**

None.

**S. Material commitments for capital expenditures, general purpose and expected sources of funds.**

The movement of capital expenditures being contracted arose from the regular land development, commercial building construction and requirements which are well within the regular cash flow budget coming from internally generated funds.

**T. Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/income from continuing operations.**

As of March 31, 2018, no known trends, events or uncertainties that are reasonably expected to have impact on sales/revenues/income from continuing operations except for those being disclosed in the first three months of 2017 financial statements.

**U. Significant elements of income or loss that did not arise from continuing operations.**

None.

**V. Causes for any material change/s from period to period in one or more line items of the financial statements**

None.

**W. Seasonal aspects that had material effect on the financial condition or results of operations**

None.

**X. Disclosures not made under SEC Form 17-C.**

None.

**SIGNATURES**

Pursuant to the requirements of Section 17 of the SRC and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized.

**STARMALLS, INC.**
Issuer

By:

**CYNTHIA J. JAVAREZ**
**Chief Financial Officer & Treasurer**

Date: May 15, 2018