



April 16, 2018

**PHILIPPINE STOCK EXCHANGE**

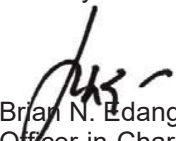
9<sup>th</sup> Floor, Philippine Stock Exchange Tower  
28<sup>th</sup> Street corner 5<sup>th</sup> Avenue, BGC Taguig City  
Attention: Mr. Jose Valeriano B. Zuño III  
OIC – Head, Disclosure Department

Subject: Starmalls, Inc.: **SEC 17A – December 31, 2017**

Gentlemen:

Please see attached SEC 17A Report.

Thank you.

  
Brian N. Edang  
Officer-in-Charge

COVER SHEET

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S.E.C. Registration Number										

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(Company's Full Name)																								

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

Brian N. Edang										571-5948 / 871-4001									
Contact Person										Company Telephone Number									

1	2	3	1	17-A							
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-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2017**
2. SEC Identification Number **39587**
3. BIR Tax Identification No. **000-806-396-000**
4. Exact name of issuer as specified in its charter **STARMALLS, INC.**
5. **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**  
Address of principal office **1750**  
Postal Code
8. **(02) 571-5948 / (02) 871-4001**  
Issuer'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 changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding
<b>Common stock</b>	<b>8,425,981,156 shares</b>
<b>Preferred stock</b>	<b>2,350,000,000 shares</b>
11. Are any or all of these securities listed on a Stock Exchange?

Yes [ ☒ ]                      No [ ☐ ]

Name of Stock Exchange: **Philippine Stock Exchange**  
Class of securities listed: **Common Stocks**
12. Check whether the issuer:
  - (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [ ☒ ]                      No [ ☐ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes ☒ ]

No ☐ ]

13. Aggregate market value of voting stocks held by non-affiliates:

**₪ 7.6 Billion as of December 31, 2017**

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS:**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes ☐ ]

No ☒ ] **NOT APPLICABLE**

**DOCUMENTS INCORPORATED BY REFERENCE**

15. Briefly describe documents incorporated by reference and identify the part of SEC Form 17-A into which the document is incorporated:

Consolidated Financial Statements as of and for the year ended December 31, 2017  
(incorporated as reference for Items 7 and 12 of SEC Form 17-A)

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## PART I – BUSINESS

### Item 1. Business

#### Overview

**Starmalls Inc. (the “Company”)** 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, real estate and leasing 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.

On May 3, 2016, by a majority vote of the BOD and on June 27, 2016, as approved by the Stockholders, the Company shall exist for another period of fifty (50) years from October 25, 2019. On the same dates, the BOD and Stockholders approved that the place where the principal office of the Company is to be established at the Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daang Hari, Almanza II, Las Piñas City. The SEC approved the Company’s application for the following amendments on September 30, 2016.

As of December 31, 2017 and 2016 the Company has equity interests in the following entities:

Subsidiaries / Associate	Percentage of Ownership	
	2017	2016
Subsidiaries:		
Masterpiece Asia Properties, Inc. (MAPI)	100.0%	100.0%
Manuela Corporation (MC)	98.4%	98.4%

The Company and its subsidiaries are hereinafter collectively referred to as the Group. All subsidiaries were incorporated in the Philippines.

#### Recent Developments

On November 10, 2015, Vista Land & Lifescapes, Inc. (VLL) signed an agreement with Fine Properties, Inc. (“Fine Properties”), Althorp Holdings, Inc., Manuela Corporation, Mr. Manuel B. Villar, Jr. and Mr. Manuel Paolo A. Villar (collectively, the “Fine Group”) to acquire approximately 88.25% or 7,436.22 million shares of the Company for a total consideration of ₱33,537.36 million.

In December 2015, VLL acquired 6,692.93 million shares of Starmalls, Inc. from the Fine Group for a total consideration of ₱30,185.11 million (the “First Closing Date”). As at December 31, 2015, VLL completed its acquisition of Starmalls’ shares representing 79.43% or 6.69 billion shares from the Fine Group. Further, VLL has a tender offer to acquire 989.73 million more shares from minority shareholders which started on January 4, 2016 and expired on February 15, 2016. After the tender offer, 6.97 million shares tendered or 0.08% of the total shares of Starmalls, Inc.

The second closing date which is after the tender offer period in February 10, 2016, VLL acquired the remaining 743.29 million shares of Starmalls, Inc. from the Fine Group in the amount of ₱3,352.25 million. As at February 24, 2016, VLL completed its acquisition of the shares of Starmalls, Inc. representing 88.34% or 7.44 billion shares.

Brittany Estates Corporation (BEC). is engaged in developing and selling real estate properties, particularly residential house and lot. In December 2014, in order to focus in the mall and office building development and operations, the Company disposed of its shareholdings in BEC.

### **Description of the Business of the Registrant and its Subsidiaries**

The Company and its subsidiaries are incorporated in the Philippines. MAPI and MC are both in the commercial property development and operations.

### **Products**

MAPI and MC are operator and developer of various mass market retail malls and BPO office commercial centers mostly located in the Mega Manila area. The malls house various retail establishments and the BPO commercial centers caters mostly to the office space needs of the BPO companies.

### **Distribution Methods of Products**

Leasing of commercial and office space is done by the Company's leasing team. The internal team is augmented by major international property companies for the sourcing of prospective tenants for BPO office spaces.

### **Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions and Royalty Agreements Held**

The Company has registered with the Intellectual Property Office ("IPO") the trademarks "starmalls.inc" and "starmall prima". The Company's subsidiary, MC, on the other hand, registered with the IPO the trademark "starmall", which was subsequently assigned to the Company. The Company has applied for the registration of the revised design of "starmall".

<b>Trademark</b>	<b>Registrant</b>	<b>Registration Date</b>	<b>Term</b>	<b>Principal Conditions</b>
starmalls.inc.	Starmalls, Inc.	14 February 2013	Ten (10) Years	(1) Renewable upon payment of the prescribed fee and filing of request;
starmall	Manuela Corporation	16 August 2012	Ten (10) Years	
starmall prima	Starmalls, Inc.	10 September 2015	Ten (10) Years	(2) Registrant must file a declaration of actual use within three (3) years from filing of the Application and pay the required fee;
starmall (revised design)	Starmalls, Inc.	28 May 2015	Ten (10) Years	
				(3) Registrant must again file a declaration of actual use or non-use together with the evidence of use or reasons for non-use within one (1) year from the 5 <sup>th</sup> Anniversary of the date of registration/renewal and pay the required fee.

### **Development of the business of the registrant and its key operating subsidiaries or affiliates**

*Starmalls Inc.* – parent company was incorporated on October 16, 1969 and presently engaged in investment and real estate business.

*Masterpiece Asia Properties Inc.* – incorporated in October 4, 2001 and is wholly owned by STR. The Company's mall developments are Starmall Prima Taguig, Starmall Prima Daang Hari, Starmall Prima Sta. Rosa, Starmall San Jose del Monte, Starmall Talisay, Starmall Imus, and Optimum Bank Building. In 2015, it has on-going construction of Starmall Prima Bataan in Balanga City, Bataan and the expansion of Starmall Prima Taguig, Starmall Prima Daang Hari, Starmall Prima Sta. Rosa and Starmall San Jose del Monte.

*Manuela Corporation* – incorporated in February 22, 1972 and is 98.36% wholly owned by STR. The Company's mall developments are Starmall Las Piñas, Starmall Las Piñas Annex, Starmall EDSA-Shaw and Starmall Alabang. Its corporate building is known as the Worldwide Corporate Center. In 2015, it opened the redeveloped Starmall Las Piñas complex which includes a multi-level parking. In the same year, the construction of a corporate building in Las Piñas City is on-going.

The Company virtually conducts all of its operations through its subsidiaries.

The Company's subsidiaries are involved in the acquisition of undeveloped land, the planning and design of developments, the securing of regulatory approvals for development and sale or lease, the supervision of land development and construction and the marketing and selling/leasing of its products.

#### **Bankruptcy, Receivership or Similar Proceeding**

As of December 31, 2017, there is no bankruptcy, receivership or similar proceedings involving the Group.

#### **Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not ordinary) over the past three years**

As at February 24, 2016, VLL completed its acquisition of the shares of Starmalls, Inc. representing 88.34% or 7.44 billion shares. After the aforementioned transactions, Starmalls, Masterpiece and Manuela became subsidiaries of VLL.

In December 2014, the Company sold 1,009,960 shares of its investment in BEC. This disposal of 100% of the investment in BEC resulted to its cessation as a subsidiary.

In May 2013, the Company sold the remaining 399,397,000 shares of its investment in VLL, hence, it ceased to be an associate as of December 31, 2013.

#### **Various diversification/ new product lines introduced by the Company during the last three years**

In April 2012, MAPI opened its first mall development in what is known as Starmall San Jose Del Monte in Bulacan. It opened Starmall Prima Taguig and Starmall Talisay in 2014. In 2015, it opened Starmall Prima Daang Hari, Starmall Prima Sta. Rosa, Starmall Imus, and Optimum Bank Building. As of end of 2015, it has on-going construction of Starmall Prima Bataan in Balanga City, Bataan and the expansion of Starmall Prima Taguig, Starmall Prima Daang Hari, Starmall Prima Sta. Rosa and Starmall San Jose del Monte.

After its acquisition of MC in June 2012, the Company increased its mall portfolio to include Starmall Las Piñas, Starmall Las Piñas Annex, Starmall EDSA-Shaw and Starmall Alabang and a corporate building, Worldwide Corporate Center. MC redeveloped Starmall EDSA-Shaw and Starmall Alabang in 2013. In 2015, it opened the redeveloped Starmall Las Piñas complex which includes a multi-level parking. As of end of 2015, construction of a corporate building in Las Piñas City is on-going.

#### **Competition**

Our shopping malls compete with other shopping malls in the geographic areas in which they operate. The other major shopping mall operators in the Mega Manila are Robinsons, SM and Ayala. We believe that we are well-positioned to face increased competition in the shopping mall industry given the competitive advantages we have including, among other things, the location of our existing shopping malls, the land bank of the Company and its affiliates, our balance sheet strength, a successful tenant mix and selection criteria and our strategic partnership with the Villar Family Companies. Our experience and understanding of the retail industry has also been a contributing factor to our competitive advantage in the industry.

WCC competes with other BPO commercial centers and office buildings in the geographic area in which it operates. The major BPO office building commercial center developers in Metro Manila are Ayala



Land, Robinsons Land, Megaworld and Filinvest Land. These developers have undertaken mixed-use residential, office and commercial developments in and around the major CBDs in Metro Manila as well as in key provincial cities. Apart from these real estate companies, there are many other independent developers in Metro Manila who have undertaken construction of new BPO buildings or conversion of existing buildings into BPO facilities in anticipation of a growing demand for BPO office spaces. We believe that we are well-positioned to face increased competition in the BPO commercial development given the competitive advantages we have including, among other things, the strategic location of our existing BPO commercial center, our strong and stable partnership with our existing BPO tenants and our expertise in flexible build-out arrangements to suit the requirements of our BPO tenants. Our experience and understanding of the BPO industry has also been a contributing factor to our competitive advantage in the industry

### **Suppliers**

Site development and construction work is contracted out to various qualified and accredited independent contractors. For larger projects, such as major repair or construction work, contracts are awarded on the basis of competitive bidding. For operational repairs and maintenance projects, we hire contractors without a competitive process based on our previous experience with the contractor. In all cases, our accreditation procedure takes into consideration each contractor's experience, financial capability, resources and track record of adhering to quality, cost and time of completion commitments. We maintain relationships with various accredited independent contractors and deal with each of them on an arm's length basis. We are not and do not expect to be dependent upon one or a limited number of suppliers or contractors.

### **Dependence on a Few Major Customers**

The target customer segment of the commercial leasing business consists of broad C retail consumers. We believe that our shopping malls address the needs and aspirations of our target customers through our wide selection of retail outlets, supermarkets and department stores, together with other attractions, such as food courts, cinemas and other entertainment facilities. We attract local chains and franchises, to satisfy the preferences of our target customers.

The management team also took a proactive approach towards managing the tenant mix at its existing assets to ensure optimal alignment with the needs of its target market, including removing and replacing delinquent tenants with tenants that provide more suitable retail concepts and offerings and reorganizing mall layouts to address customers' needs as well as increasing the efficiency of available leasable area.

The remaining house and lot business is not dependent on repeat business from customers. MC has a marketing agreement with Crown Asia Properties, Inc., a subsidiary of VLL, which has a broad market base including local and foreign buyers.

### **Transactions with related parties**

The Company and its subsidiaries, in their ordinary course of business, engage in significant commercial transactions with certain companies controlled by the Villar Family, including the Villar Family Companies and their respective subsidiaries. We have signed a memorandum of agreement with certain subsidiaries of Vista Land under which we have been granted a right of first refusal and right of first offer in respect of certain commercial properties by such VLL subsidiaries.

The Company's policy with respect to related party transactions is to ensure that these transactions are entered into on terms that are comparable to those available from unrelated third-parties.

### **Government approvals**

The Company secures various government approvals such as license to sell, building and development permits, environmental compliance certificate, business permits, etc. as part of the normal course of its business.

The Company has no principal product that has pending government approval as of December 31, 2017.

### **Effect of Existing or Probable Governmental Regulations**

By the nature of its business, the Company's subsidiaries are subject to governmental regulations on its land development and marketing activities, which includes, among others, zoning and environmental laws, development permit and license to sell regulations. The Company's subsidiaries comply with the said regulations in the regular conduct of its business operations.

As of December 31, 2017, the Company is not aware of any existing or probable governmental regulations that will have an effect on the Company's business operations.

### **Compliance With Environmental Laws**

Prior to any land development activity, the subsidiaries of the Company secure the requisite environmental permits, including environmental compliance certificate and drainage permit for the sewage treatment plants, from the appropriate government agencies.

### **Costs and Effects of Compliance with Environmental Laws**

The subsidiaries of the Company pay such amount as may be imposed by the appropriate government agencies for the procurement of all necessary environmental permits prior to commencement of any development project. The costs are generally minimal and vary from time to time.

Unless pertinent environmental laws are complied with, and requisite permits are secured, the Company's subsidiaries cannot and do not proceed with its projects.

### **Research and Development Costs**

Research and development activities, such as market research, training and contractor's development programs, are treated as normal operating expense. For 2017, the amount that the Company spent for research and development is minimal and does not constitute a significant percentage of the Company's revenues.

### **Employees**

As of December 31, 2017, the Company and its subsidiaries, had a total of 220 employees. This is broken down by function as follows:

Function	Number of employees
Operations	62
Administrative	105
Technical	53
<b>Total</b>	<b>220</b>

The Company has no collective bargaining agreements with its employees and none of the Company's employees belong to a union. In addition to the regular remuneration packages being given by the Company, it also adopts a performance-based incentive scheme to employees holding strategic positions, such as foreign travel grants. The Company has no employee stock option plan.

### **Risks related to the Companies Business**

Each of the businesses of the Company and its Subsidiaries would inevitably involve some risks factors such as:

- Competition;
- Socio-economic conditions of the country;
- Effect of the changes in global economy;
- Foreign exchange devaluation;
- Changes in the country's political and economic situation;
- Inflation of prices affecting the cost and expenses;
- Reforms in the applicable rules and regulations affecting the Philippine Real Estate industry; and
- Changes in Philippine and International interest rates, with respect to the Company's borrowings.

To mitigate the aforementioned risks, the Company shall continue to adopt prudence in financial management and discipline in the area of operational controls, policies and procedures. With respect to competitive pressures among the industry players, the Company shall continue to compete through project concept, quality, affordability, and location of projects.

### **Item 2. Properties**

Details of the Company's properties as of December 31, 2017 are set out in the table below:

#### **LAND**

<b>Location</b>	<b>Owner</b>	<b>Use</b>
Valenzuela City	STR	Land bank
Bacoor, Cavite	MAPI	Land bank/ Mall
San Jose del Monte, Bulacan	MAPI	Mall
Taguig City	MAPI	Mall
Imus, Cavite	MAPI	Mall
Balanga, Bataan	MAPI	Mall
Mandaluyong City	MAPI	Office Building
Naga City	MAPI	Land bank
Dasmariñas, Cavite	MC	Residential
Alabang, Muntinlupa	MC	Mall
EDSA-Shaw	MC	Mall
Las Piñas City	MC	Mall

#### **BUILDING AND IMPROVEMENTS**

<b>Location</b>	<b>Owner</b>	<b>Use</b>
San Jose del Monte, Bulacan	MAPI	Mall
Bacoor, Cavite	MAPI	Mall
Taguig City	MAPI	Mall
Talisay, Cebu	MAPI	Mall
Imus, Cavite	MAPI	Mall
Sta. Rosa, Laguna	MAPI	Mall
Balanga, Bataan	MAPI	Mall
EDSA, Mandaluyong City	MAPI	Office Building
Alabang, Muntinlupa	MC	Mall
EDSA-Shaw	MC	Mall
Las Piñas City	MC	Mall
EDSA-Shaw	MC	Office Building
Las Piñas City	MC	Office Building

As of December 31, 2017, investment properties with fair value of ₱9.7 billion were used to secure the bank loans of MAPI and MC (see Note 13 of the 2017 Audited Financial Statements).

### **Item 3. Legal Proceedings**

The Group is currently involved in litigation over portions of its properties located in Molino, Bacoor, Cavite comprising of an aggregate area of 117,480 square meters (the "Bacoor Property"). The case is an administrative action pending before the Land Management Bureau, the government agency responsible for administering disposable land in the Philippines. The plaintiffs claim to be the heirs of the rightful owner of the Bacoor Property and dispute the authenticity of MAPI's title; however, the plaintiffs do not possess a certificate of title over the property. A civil case based on a similar cause of action has been dismissed by the Regional Trial Court of Bacoor.

There is another case pending before the Regional Trial Court of Bacoor, Cavite filed by MAPI for quieting of title and annulment of titles involving portions of the Bacoor Property. The Judicial Dispute Resolution has been terminated and the case shall now be re-raffled to another court.

The rehabilitation of MC was terminated on January 25, 2012. The final report and accounting has been completed and the rehabilitation proceedings have been terminated on November 29, 2013.

We are subject to various civil lawsuits and legal actions arising in the ordinary course of our business. Typical cases include adverse claims regarding the title to parcels of land. In the Group's opinion, none of the lawsuits or legal actions to which we are currently subject will materially affect the daily operations of our business or have a material adverse effect on our consolidated financial position and results of operations.

### **Item 4. Submission of Matters to a Vote of Security Holders**

Except for matters taken up during the Annual Stockholders Meeting, there was no other matter submitted to a vote of security holders during the period covered by this report.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Issuer’s Common Equity and Related Stockholders Matters

#### Market Information

The Company’s common shares are being traded at 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
1 <sup>st</sup>	25.85	8.10	15.88	7.00	6.79	7.00	8.00	4.08	7.06	7.46	6.81	7.35
2 <sup>nd</sup>				7.44	6.23	7.28	7.14	6.20	7.00	7.70	6.56	6.60
3 <sup>rd</sup>				7.52	6.51	7.52	7.15	6.53	7.14	8.40	6.98	7.84
4 <sup>th</sup>				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 March 31, 2018, STR’s market capitalization stood at ₱133.80 billion based on the ₱15.88 per share closing price.

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

<u>Trading Date</u>	<u>High</u>	<u>Low</u>	<u>Close</u>
13 April 2018	14.14	12.50	12.64

#### Stockholders

There are approximately 440 holders of common equity security of the Company as of December 31, 2017 (based on the number of accounts registered with the Stock Transfer Agent).

The following are the top 20 holders of the common securities of the Company:

	<b>Stockholders Name</b>	<b>No. of Common Shares</b>	<b>Percentage (of Common Shares)<sup>1</sup></b>
1.	Vista Land & Lifescapes, Inc. <sup>2</sup>	7,443,192,641	88.34%
2.	Land & Houses Public Company Limited	808,431,465	9.59%
3.	Fine Properties, Inc. <sup>3</sup>	114,877,955	1.36%
4.	PCD Nominee Corporation (Filipino)	53,429,171	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)	392,304	0.00%

<sup>1</sup> based on the total shares issued of 8,425,981,156

<sup>2</sup> Shares are under PCD Nominee Corporation (Filipino)

<sup>3</sup> Shares are under PCD Nominee Corporation (Filipino)

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.	Filinvest 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%
	<b>Total</b>	<b>8,424,372,779</b>	<b>99.98%</b>
	Others	1,608,377	0.02%
	<b>Total issued and outstanding common shares as of December 31, 2017</b>	<b>8,425,981,156</b>	<b>100.00%</b>

#### **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

#### **Recent Sale of Unregistered Securities**

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

#### **Stock Options**

None

#### **Item 6. Management's Discussion and Analysis or Plan of Operation**

##### **REVIEW OF YEAR END 2017 VS YEAR END 2016**

##### **RESULTS OF OPERATIONS**

##### **Revenues**

##### ***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 the 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.

## **Costs and Expenses**

### ***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 licenses 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, 2017. 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 <sup>(a)</sup>	0.87:1	1.06:1
Liability-to-equity ratio <sup>(b)</sup>	1.20:1	0.98:1
Interest coverage <sup>(c)</sup>	8.91	5.05
Return on assets <sup>(d)</sup>	4.6%	4.3%
Return on equity <sup>(e)</sup>	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 liabilities particularly the payable to parent company classified as current.

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, 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 the 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 licences 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, 2017. 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.

#### **Provision for Income Tax**

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.

#### **Net Income**

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 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 <sup>(a)</sup>	1.06:1	1.43:1
Liability-to-equity ratio <sup>(b)</sup>	0.98:1	0.88:1
Interest coverage <sup>(c)</sup>	5.05	9.04
Return on assets <sup>(d)</sup>	4.3%	2.8%
Return on equity <sup>(e)</sup>	8.6%	5.3%

Notes:

- (f) *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.*
- (g) *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.*
- (h) *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.*
- (i) *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.*
- (j) *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 P161 million as of December 31, 2015 to P653 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 P1,736 million as of December 31, 2015 to P1,864 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 P720 million as of December 31, 2015 to P5,249 million as of December 31, 2016 due to advances made from affiliates in 2016 as borrowings.

Pension liabilities decreased by 33% from P61 million as of December 31, 2015 to P40 million as of December 31, 2016 due to actuarial adjustments.

Deferred tax liabilities posted an increase of 149% from P343 million as of December 31, 2015 to P853 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 P95 million as of December 31, 2015 to P129 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 P582 million as of December 31, 2015 to P615 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 P2,380 million in the year ended December 31, 2015 to P4,078 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 P122 million in the year ended December 31, 2015 to P106 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.

#### **Commitments and Contingencies**

The Group is contingently liable with respect to 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 Philippines continues to experience economic difficulties relating to currency fluctuations, volatile stock markets and slowdown in growth. Management is of the opinion that losses, if any, from these events and conditions will not have material effects on the Group's financial statements.

**Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. The registrant shall indicate balance sheet conditions or an income or cash flow item that it believes may be indicators of its liquidity condition.**

The Group sources its capital requirements through a mix of internally generated cash, bank borrowings and advances from parent company. The Group does not expect any material cash requirements beyond the normal course of the business.

**Any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.**

None, except for those items disclosed in the 2017 Audited Financial Statements.

There are no 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 except those disclosed in the 2017 Audited Financial Statements.

#### **Item 7. Financial Statements**

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

#### **Item 8. Information on Independent Accountant and Other Related Matters**

##### **Independent Public Accountant**

SGV & Co., 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.

## **External Audit Fees and Services**

### **External Audit Fees**

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

	<b>2017</b>	<b>2016</b>
	<i>(In ₱ Millions with VAT)</i>	
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	<b>₱ 3.23</b>	<b>₱ 3.41</b>
All other fees	<b>—</b>	<b>—</b>
<b>Total</b>	<b>₱ 3.23</b>	<b>₱ 3.41</b>

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

### **Tax Fees**

Tax accounting, compliance, advice, planning and other form of tax services are not rendered by the appointed external auditor of the Company, but are secured from other entities.

### **All Other Fees**

The appointed External Auditor of the Company does not render and/or provide product or service to the Company other than those provided under the caption “External Audit Fees”.

### **Audit Committee’s Approval Policies and Procedure for the Services of the External Auditor**

The scope, extent and nature of the services to be referred to, and/or to be rendered by, the appointed External Auditor of the Company has to be 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.

### **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

The Group has adopted some revisions and annual improvements to the PFRS (Philippine Financial Reporting Standards) that are relevant to the Group and effective for the financial statements beginning on or after January 1, 2017 as discussed in Note 3 of the Notes to Consolidated Financial Statements for the years ended December 31, 2017, 2016 and 2015.

As such, the comparative amounts contained in the audited financial statements may differ from those previously presented in the consolidated financial statements for the year ended December 31, 2017, 2016 and 2015.

There are no disagreements with auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their reports on the financial statements of the Company and its subsidiaries.

## PART III – CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Issuer

#### **Board of Directors and Executive Officers**

The table below sets forth the members of the Company's Board and Executive Officers as of December 31, 2017.

<u>NAME</u>	<u>AGE</u>	<u>POSITION</u>	<u>CITIZENSHIP</u>
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 Rosero-Galang	46	Corporate Secretary & Compliance Officer	Filipino

*\* Business Experience of the named directors and officers covers the past 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 Chairman of the Board of the Company since 2012.

**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.

**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 2007.

**CAMILLE 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 Empresa (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 Real Estate 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.

**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 Sobreña 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 Guerson Borie & Bongco Law Offices. Mr. Bodegon has been a Director of the Company since 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 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.

**CYNTHIA J. JAVAREZ**, *Chief Financial Officer and Treasurer*, Ms. Javarez, 53, 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**, *Compliance 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 is currently a director of Masterpiece Asia Properties, Inc. and Manuela Corporation. She is also the Corporate Secretary of the subsidiaries of Vista Land.

#### **Resignation of Directors**

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 for the Board of Directors due to any disagreement with the Corporation relative to the Corporation's policies, practices and operations.

#### **Family relationships**

Manuel B. Villar, Jr., is the father of Manuel Paolo A. Villar and Camille A. Villar. There are no other family relationships among the directors and executive officers.

### **Involvement in Certain Legal Proceedings of Directors and Executive Officers**

None of the Directors and Executive Officers is involved in any material pending legal proceedings in any court or administrative agency of the government.

- (a) None of them has been involved in any bankruptcy petition.
- (b) None of them has been convicted by final judgment in a criminal proceeding or being subject to any pending criminal proceeding, both domestic and foreign.
- (c) None of them has been subject to any order, judgment or decree of any court of competent jurisdiction (both domestic and foreign) permanently or temporarily enjoining, barring, suspending or likewise limiting their involvement in any type of business, securities, commodities or banking activities.
- (d) None of them has been found by a domestic or foreign court of competent jurisdiction (in a civil action), by the Commission or comparable body, or by a domestic or foreign exchange or organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation.

### **Item 10. Executive Compensation**

<b>Names</b>	<b>Position</b>	<b>Year</b>	<b>Salary</b>	<b>Bonus</b>
Benjaminarie 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			
<b>Aggregate executive compensation for above named officers</b>		<b>Actual 2016</b>	<b>₱ 8.0 M</b>	<b>₱ 0.6 M</b>
		<b>Projected 2017</b>	<b>₱ 8.4 M</b>	<b>₱ 0.6 M</b>
		<b>Actual 2017</b>	<b>₱ 8.8 M</b>	<b>₱ 0.6 M</b>
		<b>Projected 2018</b>	<b>₱ 9.3 M</b>	<b>₱ 0.6 M</b>
<b>Aggregate executive compensation for all other officers and directors, unnamed</b>		<b>Actual 2016</b>	<b>₱ 4.5 M</b>	<b>₱ 0.4 M</b>
		<b>Projected 2017</b>	<b>₱ 4.8 M</b>	<b>₱ 0.4 M</b>
		<b>Actual 2017</b>	<b>₱ 4.9 M</b>	<b>₱ 0.4 M</b>
		<b>Projected 2018</b>	<b>₱ 5.1 M</b>	<b>₱ 0.4 M</b>

*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<sup>th</sup> month bonus.*

### **Standard arrangements**

Other than payment of reasonable per diem 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 2017 and 2016.

### **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 and 2017 for any service provided as a director.

### **Employment Contracts and Termination of Employment and Change in Control Arrangements**

The Company has not entered into any contract or arrangement for payment of compensation other than what has been included above. Executive officers are considered employees of the Company, but their contracts with the Company are not in writing. The Company has no arrangement for termination of employment.

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

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

### **Significant employee**

The Company has high regard for its human resources. It expects each employee to do his part in achieving the Company's goals and objectives.

### **Item 11. Security Ownership of Certain Beneficial Owners and Management**

#### **Security Ownership of Record and Beneficial Owners**

Security ownership of certain record and beneficial owners of more than 5.0% of the voting securities as of December 31, 2017:

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

<sup>1</sup>Based on the total issued and outstanding shares (common and preferred) of 10,775,981,156 as of December 31, 2017



### **Security Ownership of Management**

Security ownership of certain management as of December 31, 2017:

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Amount &amp; Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>Percent of Class</b>
Common Shares	Manuel B. Villar Jr. C. Masibay Street, BF Resort Village, Las Piñas City	1,000 - Direct	Filipino	0.00001%
Preferred Shares	Manuel B. Villar Jr. C. Masibay Street, BF Resort Village, Las Piñas City	2,350,000,000 - Indirect	Filipino	21.80776%
Common Shares	Manuel Paolo A. Villar C. Masibay Street, BF Resort Village, Las Piñas City	1,000 - Direct	Filipino	0.00001%
Common Shares	Camille A. Villar C. Masibay Street, BF Resort Village, Las Piñas City	100 – Indirect	Filipino	0.000001%
Common Shares	Benjaminie Therese N. Serrano 103 Parklane St. La Marea Subdivision, San Pedro, Laguna	1,000 - Direct	Filipino	0.00001%
Common Shares	Adisorn Thananan-Narapool 1 Q. House, Lumpini 38 <sup>th</sup> Floor, South Saturn Road, Silom, Bangkok, Thailand	1,000 – Indirect	Thai	0.00001%
Common Shares	Joel L. Bodegon 118 Lipa Street, Ayala Alabang Village, Muntinlupa City	1,000 – Direct	Filipino	0.00001%
Common Shares	Raul Juan N. Esteban 223B Alexandra Condo. 29 Meralco Avenue, Ortigas Center, Pasig City	1,000 – Indirect	Filipino	0.00001%
Common Shares	Cynthia J. Javarez B3A/L2 Vetta di Citta Italia Imus, Cavite	1,000 - Direct	Filipino	0.00001%
<b>AGGREGATE SHAREHOLDINGS</b>		<b>2,350,007,100</b>		<b>21.80782%</b>

### **Voting Trust Holders of 5.0% or More**

As of December 31, 2017, there is no party holding any voting trust for 5% or more of total shares outstanding.

### **Changes In Control**

As of December 31, 2017, there was no arrangement which may result in a change in control of the Company.

**Item 12. Certain Relationships and Related Transactions**

The Company is a subsidiary of Vista Land & Lifescapes, Inc. (VLL). It enters into transactions with associates and related parties, in its regular course of business, consisting mainly of advances and reimbursement of expenses and purchase and sell of real estate properties. These transactions to and from related parties are made on arm's length basis and at current market prices at the time of the transactions.

No transaction, without proper disclosure, was undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of its immediate family was involved or had a direct or indirect material interest.

No single Director or Executive Officer, nominee for election as Director, or any member of their immediate family owns or holds more than 10% of the Company's voting shares.

Please refer to Notes on Related Party Transactions of the Notes to Consolidated Financial Statements of the 2017 Audited Financial Statements, which is incorporated herein in the accompanying Index to Exhibits.

## **PART IV – CORPORATE GOVERNANCE**

### **Item 13. Corporate Governance**

*To be disclosed separately.*

## **PART V – EXHIBITS AND SCHEDULES**

### **Item 14. Exhibits and Reports on SEC Form 17 A**

#### **Exhibits**

See accompanying Index to Financial Statements and Supplementary Schedules.

The following exhibit is incorporated by reference in this report:

Consolidated Financial Statements of the Company as of and for the year ended December 31, 2017.

The other exhibits, as indicated in the Index to Financial Statements and Supplementary Schedules are either not applicable to the Company or require no answer.

#### **Reports on SEC Form 17-C**

The following current reports have been reported by Starmalls, Inc. during the year 2017 through official disclosure letters dated:

##### ***January 5, 2017***

Attendance of the Board of Directors for the year 2016

##### ***April 5, 2017***

Press Release 04/05/2017

##### ***May 2, 2017***

BOD Meeting Resolution 05/02/2017

##### ***May 15, 2017***

BOD Meeting Resolution 05/15/2017

##### ***May 17, 2017***

Press Release 05/17/2017

##### ***June 19, 2017***

BOD Meeting Resolution 06/19/2017

##### ***June 20, 2017***

Proof of Publication of the Company's Notice of 2017 Annual Stockholders' Meeting

##### ***July 4, 2017***

Results of ASM / Organizational Meeting of the BOD

##### ***August 11, 2017***

BOD Meeting Resolution 08/11/2017

##### ***August 31, 2017***

BOD Meeting Resolution 08/31/2017

##### ***September 27, 2017***

Cash Dividend Declaration

##### ***November 10, 2017***

BOD Meeting Resolution 11/10/2017

##### ***November 10, 2017***

Press Release 11/10/2017

***November 10, 2017***

Tender Offer and Potential Fixed-Rate Dollar Notes Issuance

***November 21, 2017***

Notice of Notes Redemption of a Subsidiary

***November 22, 2017***

Tender Offer Results

***December 18, 2017***

Announcement of Redemption Price

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in \_\_\_\_\_ on APR 13 2018.

By:

  
**BENJAMARIE THERESE N. SERRANO**  
President

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

  
**MA. NALEN ROSERO**  
Corporate Secretary and Chief Information Officer

  
**ROWENA B. BANDIGAN**  
Chief Accountant

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ at \_\_\_\_\_, affiants exhibiting to me their respective Passports, to wit:

<u>Name</u>	<u>Passport No.</u>	<u>Date &amp; Place of Issue</u>
Benjamarie Therese N. Serrano	EC5357726	16 Sep 2015 / DFA Manila
Cynthia J. Javarez	EC3842813	31 Mar 2015 / DFA Manila
Ma. Nalen Rosero-Galang	EC5435543	22 Sep 2015 / DFA Manila
Rowena B. Bandigan	EC0053121	20 Jan 2014 / DFA Manila

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Page No. 37  
Book No. 44  
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  
Vista Corporate Center, Upper Ground Floor,  
Worldwide Corporate Center, Shaw Blvd., Mandaluyong City

## **STARMALLS, INC.**

### **INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES** **Form 17-A, Item 7**

#### **Consolidated Financial Statements**

Statement of Management's Responsibility for Financial Statements  
Report of Independent Public Accountant  
Consolidated Statement of Financial Position as of December 31, 2017 and 2016  
Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015  
Consolidated Statements of Changes in Equity for the years ended December 31, 2017, 2016 and 2015  
Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015  
Notes to Consolidated Financial Statements

#### **Supplementary Schedules**

Report of Independent Auditors on Supplementary Schedules

##### **I. Supplementary Schedules required by Annex 68-E**

- A. Financial Assets
- B. Accounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than related parties)
- C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
- D. Intangible Assets – Other Assets
- E. Long Term Debt
- F. Indebtedness to Related Parties
- G. Guarantees of Securities of Other Issuer
- H. Capital Stock

##### **II. Schedule of all effective standards and interpretations**

##### **III. Reconciliation of Retained Earnings available for Dividend Declaration**

##### **IV. Map of the relationships of the Companies within the Group**

##### **V. Schedule of Financial Ratios**

**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.

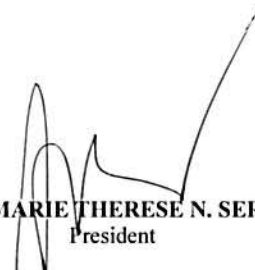
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the 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.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2018.

  
**BENJAMARIE THERESE N. SERRANO**  
 President

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

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

SUBSCRIBED AND SWORN, to before me this \_\_\_\_\_ at \_\_\_\_\_, affiants exhibiting to me their respective Passports, to wit:

<u>Name</u>	<u>Passport No.</u>	<u>Date and Place of Issue</u>
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. 454  
 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

**Starmalls, Inc.**

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



# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	0	0	0	0	3	9	5	8	7
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COMPANY NAME

S	T	A	R	M	A	L	L	S	,		I	N	C	.		A	N	D		S	U	B	S	I	D	I	A	R	I
E	S																												

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

L	o	w	e	r		G	r	o	u	n	d		F	l	o	o	r	,		B	u	i	l	d	i	n	g		B
,		E	V	I	A		L	i	f	e	s	t	y	l	e		C	e	n	t	e	r	,		V	i	s	t	a
		C	i	t	y	,		D	a	a	n	g	h	a	r	i	,		A	l	m	a	n	z	a		I	I	,
L	a	s		P	i	ñ	a	s		C	i	t	y																

Form Type

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

Department requiring the report

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

Secondary License Type, If Applicable

N	/	A	
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## COMPANY INFORMATION

Company's Email Address

**www.starmallsinc.com.ph**

Company's Telephone Number

**571 5948**

Mobile Number

**N/A**

No. of Stockholders

**440**

Annual Meeting (Month / Day)

**06/25**

Fiscal Year (Month / Day)

**12/31**

## CONTACT PERSON INFORMATION

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

Name of Contact Person

**Brian N. Edang**

Email Address

**brian\_edang@  
vistaland.com.ph**

Telephone Number/s

**02-226-3552  
loc. 0088**

Mobile Number

**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.



- 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

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
<b>ASSETS</b>		
<b>Current Assets</b>		
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
<b>Noncurrent Assets</b>		
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
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
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
<b>Noncurrent Liabilities</b>		
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
<b>Equity (Note 18)</b>		
Equity attributable to equity holders of the Parent Company:		
Capital stock	<b>₱8,449,481,156</b>	₱8,449,481,156
Additional paid-in capital	<b>6,389,314,354</b>	6,389,314,354
Retained earnings	<b>6,433,402,872</b>	4,703,708,769
Other comprehensive income	<b>(763,856,172)</b>	(1,535,612,600)
	<b>20,508,342,210</b>	18,006,891,679
Non-controlling interest	<b>112,070,205</b>	77,937,584
Total Equity	<b>20,620,412,415</b>	18,084,829,263
	<b>₱45,330,400,903</b>	₱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
<b>REVENUE</b>			
Rental income (Note 13)	<b>₱4,798,595,982</b>	₱4,077,936,489	₱2,380,179,636
Parking fees	<b>117,104,544</b>	105,615,365	121,746,680
Other operating income (Note 20)	<b>381,491,995</b>	295,659,510	273,668,177
	<b>5,297,192,521</b>	4,479,211,364	2,775,594,493
<b>COSTS AND EXPENSES</b>			
Depreciation (Notes 12 and 13)	<b>950,118,521</b>	717,910,218	479,507,582
Light and power	<b>386,901,518</b>	340,473,841	219,495,777
Outside services	<b>279,000,699</b>	251,018,048	202,937,734
Salaries and employee benefits (Note 19)	<b>186,123,331</b>	169,157,974	130,668,569
Rentals	<b>134,036,615</b>	112,428,601	107,286,569
Taxes and licenses	<b>130,868,076</b>	144,198,111	69,515,732
Repairs and maintenance	<b>96,241,381</b>	85,352,599	58,033,061
Advertising and promotions	<b>48,833,765</b>	49,083,978	30,071,874
Insurance	<b>28,089,429</b>	20,503,912	15,077,636
Professional fees	<b>21,593,055</b>	11,506,392	27,254,964
Other operating expenses (Note 20)	<b>70,578,985</b>	46,116,693	99,212,961
	<b>2,332,385,375</b>	1,947,750,367	1,439,062,459
<b>OTHER INCOME (EXPENSE)</b>			
Interest income (Notes 7, 8, 11 and 21)	<b>24,792,430</b>	11,616,221	23,917,351
Interest expense (Notes 14, 16 and 21)	<b>(44,644,940)</b>	(300,917,401)	(50,529,983)
Loss on disposal of investments in shares of stock	<b>—</b>	—	(222,772)
	<b>(19,852,510)</b>	(289,301,180)	(26,835,404)
<b>INCOME BEFORE INCOME TAX</b>	<b>2,944,954,636</b>	2,242,159,817	1,309,696,630
<b>PROVISION FOR INCOME TAX (Note 22)</b>	<b>883,919,646</b>	690,669,472	405,247,851
<b>NET INCOME</b>	<b>₱2,061,034,990</b>	₱1,551,490,345	₱904,448,779
<b>NET INCOME ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company	<b>₱2,039,770,209</b>	₱1,537,164,566	₱830,509,357
Non-controlling interest	<b>21,264,781</b>	14,325,779	73,939,422
<b>NET INCOME</b>	<b>₱2,061,034,990</b>	₱1,551,490,345	₱904,448,779
<b>BASIC/DILUTED EARNINGS PER SHARE</b> (Note 24)	<b>₱0.242</b>	₱0.182	₱0.117

(Forward)





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

See accompanying Notes to Consolidated Financial Statements.



# STARMALLS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital stock (Note 18)			Treasury Stock	Other Comprehensive Income (Note 18 and 19)	Retained Earnings (Note 18)	Non-controlling Interest	Total
	Common Stock	Preferred Stock	Additional Paid-in Capital (Note 18)					
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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
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
<b>NET INCREASE (DECREASE) IN CASH</b>	144,125,920	(579,817,474)	(952,223,359)
<b>CASH AT BEGINNING OF YEAR</b>	428,235,799	1,008,053,273	1,960,276,632
<b>CASH AT END OF YEAR (Note 7)</b>	₱572,361,719	₱428,235,799	₱1,008,053,273

See accompanying Notes to Consolidated Financial Statements.



# STARMALLS, INC. AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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.

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### 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.

#### Statement of Compliance

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.

	<b>Percentage of Ownership</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
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.

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### **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.



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#### 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.

#### 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.



### 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.

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### **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)	<b>₱5,164,462,414</b>	₱3,706,902,845
Receivables from related parties (Note 23)	<b>4,922,649,163</b>	3,112,669,077
	<b>₱10,087,111,577</b>	₱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	<b>₱345,500</b>	₱349,500
Cash in banks	<b>572,016,219</b>	427,886,299
	<b>₱572,361,719</b>	<b>₱428,235,799</b>

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	<b>₱34,551,067</b>	₱31,588,143
Noncurrent		
Quoted equity securities	<b>4,506,032,203</b>	3,723,430,664
Unquoted equity securities	<b>3,204,170</b>	3,204,170
	<b>4,509,236,373</b>	3,726,634,834
	<b>₱4,543,787,440</b>	<b>₱3,758,222,977</b>

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

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

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	<b>(₱1,682,661,829)</b>	(₱1,474,888,258)	₱14,443,483
Unrealized fair value gains (losses) on investment in mutual funds	<b>2,962,924</b>	(5,373,842)	9,254,010
Unrealized fair value gains (losses) on quoted equity securities	<b>782,601,539</b>	(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	<b>(₱897,097,366)</b>	(₱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	<b>₱4,150,155,998</b>	₱2,744,625,517
Third party	<b>978,176,607</b>	951,006,150
Advances to contractors and suppliers	<b>1,660,239,524</b>	357,772,814
Installment contracts receivable	<b>58,788,066</b>	57,009,370
Others	<b>32,608,464</b>	5,845,185
	<b>6,879,968,659</b>	4,116,259,036
Less allowance for impairment losses	<b>(55,266,721)</b>	(51,583,377)
	<b>6,824,701,938</b>	4,064,675,659
Less noncurrent portion	<b>(11,730,831)</b>	(10,428,875)
	<b>₱6,812,971,107</b>	₱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	<b>₱51,583,377</b>	₱50,000,667
Provisions (Note 20)	<b>3,683,344</b>	1,582,710
Balance at end of year	<b>₱55,266,721</b>	₱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).

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## 10. Real Estate Properties for Sale

This account consists of:

	2017	2016
Lot inventory	<b>₱167,062,069</b>	₱166,586,560
Residential units for sale	<b>155,028,364</b>	156,526,016
	<b>₱322,090,433</b>	₱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	<b>₱1,252,230,701</b>	₱1,316,575,547
Prepayments	<b>119,501,486</b>	57,580,403
Refundable deposits	<b>82,811,563</b>	—
Creditable withholding taxes	<b>4,996,213</b>	14,979,029
Others	<b>13,246,445</b>	13,789,228
	<b>1,472,786,408</b>	1,402,924,207
Noncurrent		
Cash restricted for use (Note 16)	<b>934,178,185</b>	500,630,394
Refundable deposits	<b>105,262,359</b>	151,876,915
	<b>1,039,440,544</b>	652,507,309
	<b>₱2,512,226,952</b>	₱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
<b>Cost</b>				
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
<b>Accumulated Depreciation</b>				
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
<b>Net Book Value</b>	<b>₱36,391,602</b>	<b>₱13,553,723</b>	<b>₱1,897,346</b>	<b>₱51,842,671</b>

	December 31, 2016			
	Office and Other Equipment	Transportation Equipment	Construction Equipment	Total
<b>Cost</b>				
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
<b>Accumulated Depreciation</b>				
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
<b>Net Book Value</b>	<b>₱41,624,121</b>	<b>₱8,525,021</b>	<b>₱1,642,154</b>	<b>₱51,791,296</b>

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
<b>Cost</b>				
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
<b>Accumulated Depreciation</b>				
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
<b>Net Book Value</b>	<b>₱9,211,126,038</b>	<b>₱14,235,289,971</b>	<b>₱2,134,324,578</b>	<b>25,580,740,587</b>

December 31, 2016				
	Land	Building and Building Improvements	Construction in Progress	Total
<b>Cost</b>				
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
<b>Accumulated Depreciation</b>				
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
<b>Net Book Value</b>	<b>₱7,982,838,511</b>	<b>₱13,027,816,528</b>	<b>₱1,017,814,439</b>	<b>₱22,028,469,478</b>

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	<b>₱302,286,240</b>	₱552,155,604
Additions	<b>1,228,314,517</b>	542,239,110
Payments	<b>(708,161,444)</b>	(506,911,764)
Cancellation (Note 13)	—	(285,196,710)
Balance at end of year	<b>822,439,313</b>	₱302,286,240
Less noncurrent portion	<b>(244,741,560)</b>	(222,641,520)
	<b>₱577,697,753</b>	₱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	<b>₱1,037,803,325</b>	₱544,201,883
Contractors	<b>120,810,190</b>	45,059,734
Government	<b>13,401,511</b>	2,212,585
Current portion of:		
Security deposit	<b>177,639,096</b>	—
Retention payable	<b>34,244,700</b>	509,497,273
Construction payable	<b>15,750,596</b>	—
Accrued expenses	<b>346,446,662</b>	383,113,669
Deferred output VAT	<b>101,428,017</b>	316,466,794
Other payables	<b>69,344,525</b>	63,880,681
	<b>₱1,916,868,622</b>	₱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	<b>₱247,118,202</b>	₱239,101,859
Interest	<b>58,858,749</b>	71,072,439
Agency services	<b>9,766,778</b>	10,779,599
Security	<b>9,518,242</b>	19,563,564
Others	<b>21,184,691</b>	42,596,208
	<b>₱346,446,662</b>	₱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
<b>MAPI</b>							
Bank loan	May 2012	P=	P52,500,000	May 2017	5.70%	Interest and principal payable monthly	With collateral
Bank loan	Availed in various dates in 2013 and 2014	<b>1,321,884,709</b>	1,801,153,679	August 2020	5.70% to 6.12%	Interest and principal payable quarterly	With collateral
Bank loan	December 2014	<b>182,342,446</b>	273,105,263	December 2019	6.25%	Interest and principal payable monthly	With collateral
Bank loan	Availed in various dates in 2015	<b>1,932,578,183</b>	2,273,621,392	March 2022	5.46% to 6.25%	Interest and principal payable monthly	With collateral
Bank loan	July 2017	<b>500,000,000</b>	—	June 2027	6.23%	Interest and principal payable monthly	Unsecured
		<b>3,936,805,338</b>	<b>4,400,380,334</b>				
<b>MC</b>							
Bank loan	Availed in various dates in 2012 and 2013	<b>122,126,194</b>	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	<b>151,764,706</b>	231,764,706	Various maturities in 2019	5.75%	Interest and principal payable quarterly	Unsecured
Bank loan	July 2015	<b>3,318,971,628</b>	3,756,118,463	July 2022	5.75%	Interest and principal payable quarterly	With collateral
		<b>3,592,862,528</b>	<b>4,245,442,307</b>				
		<b>7,529,667,866</b>	<b>8,645,822,641</b>				
Less current portion		<b>1,601,982,977</b>	<b>1,596,831,058</b>				
		<b>P5,927,684,889</b>	<b>P7,048,991,583</b>				



## 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).

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## 17. Other Noncurrent Liabilities

This account consists of:

	2017	2016
Security deposits - net of current portion (Note 15)	<b>₱471,484,056</b>	₱572,642,162
Retention payable - net of current portion (Note 15)	<b>222,611,371</b>	—
Construction bond - net of current portion (Note 15)	<b>33,086,934</b>	35,406,727
Others	<b>5,188,421</b>	6,960,784
Total	<b>₱732,370,782</b>	₱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	—	—
<b>December 31, 2017</b>	<b>8,425,981,156</b>	<b>440</b>

### 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	<b>0.87</b>	1.06	2.20
Debt-to-equity ratio	<b>0.41</b>	0.49	0.67
Net debt-to-equity ratio	<b>0.38</b>	0.47	0.61
Asset-to-equity ratio	<b>2.20</b>	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	<b>₱14,838,795,510</b>	₱14,838,795,510	₱14,838,795,510
Retained earnings	<b>6,433,402,872</b>	4,703,708,769	3,347,702,798
Other comprehensive income	<b>(763,856,172)</b>	(1,535,612,600)	(1,343,564,493)
	<b>₱20,508,342,210</b>	₱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	<b>₱2,931,969</b>	₱7,799,006	₱9,348,615
Interest cost	<b>6,072,670</b>	2,899,717	1,868,123
Total pension expense	<b>₱9,004,639</b>	₱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	<b>₱40,418,438</b>	₱60,696,193	₱50,819,318
Current service cost	<b>2,931,969</b>	7,799,006	9,348,615
Interest cost	<b>6,072,670</b>	2,899,717	1,868,123
Actuarial losses (gains)	<b>1,343,136</b>	(17,761,119)	(1,339,863)
Transfer out	—	(13,215,359)	—
Balance at end of year	<b>₱50,766,213</b>	₱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	<b>₱3,423,708</b>	(₱955,758)	(₱2,101)
Changes in financial assumptions	<b>(1,995,619)</b>	(16,668,929)	(1,337,762)
Changes in demographic assumptions	<b>(84,953)</b>	(136,432)	—
	<b>₱1,343,136</b>	(₱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	<b>4.88% to 5.80%</b>	4.88% to 5.60%	4.58% to 5.00%
Salary increase rate	<b>7.00% to 11.00%</b>	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	<b>₱1,862,409</b>	₱1,629,608
More than 1 year to 5 years	<b>5,334,761</b>	—
More than 5 years to 10 years	<b>25,109,187</b>	14,855,411
More than 10 years to 15 years	<b>47,343,023</b>	69,935,630
More than 15 years to 20 years	<b>678,465,952</b>	514,890,979
	<b>₱758,115,332</b>	₱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	<b>₱219,015,573</b>	₱184,346,671	₱159,339,357
Mall maintenance and security fees	<b>96,319,023</b>	60,732,762	63,658,174
Advertising fees	<b>33,112,574</b>	22,940,522	18,953,077
Realized gross profit on real estate sales	<b>10,904,393</b>	2,611,244	—
Penalties and surcharges	<b>5,567,250</b>	3,430,654	2,397,018
Forfeited deposits and advances	<b>2,577,099</b>	14,474,972	8,693,583
Gain on derecognition of liabilities	—	1,451,058	17,750,625
Miscellaneous	<b>13,996,083</b>	5,671,627	2,876,343
	<b>₱381,491,995</b>	₱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	<b>₱29,667,709</b>	₱20,259,140	₱19,068,837
Transportation and travel	<b>9,442,576</b>	4,509,850	8,378,303
Registration fees	<b>5,309,702</b>	3,227,327	2,774,953
Supplies	<b>4,782,498</b>	4,644,017	6,816,852
Commission	<b>4,017,509</b>	2,995,020	757,507
Training	<b>3,821,342</b>	3,686,851	3,894,973
Impairment loss on accounts receivables (Note 9)	<b>3,683,344</b>	1,582,710	50,544,672
Documentation fee	<b>262,440</b>	92,832	-
Dues and subscriptions	<b>15,120</b>	144,785	717,188
Penalties and surcharges	-	3,782,858	-
Miscellaneous	<b>9,576,745</b>	1,191,303	6,259,676
	<b>₱70,578,985</b>	₱46,116,693	₱99,212,961

## 21. Interest Income and Expense

Interest income consist of:

	2017	2016	2015
Interest income from tenants	<b>₱11,076,380</b>	₱2,875,108	₱5,268,323
Interest income from cash restricted for use (Note 11)	<b>6,185,652</b>	4,729,068	1,454,201
Interest income from installment contracts receivables and accretion of discount (Note 9)	<b>3,913,948</b>	1,786,162	2,703,972
Interest income from cash and cash equivalents (Note 7)	<b>3,616,450</b>	2,225,883	10,720,005
Interest income from AFS financial assets	-	-	3,770,850
	<b>₱24,792,430</b>	₱11,616,221	₱23,917,351

Interest expense consist of:

	2017	2016	2015
Interest on loans and borrowings (Note 16)	<b>₱450,712,527</b>	₱966,615,695	₱518,965,857
Bank charges	<b>209,418</b>	180,136	190,877
	<b>450,921,945</b>	966,795,831	519,156,734
Amounts capitalized (Note 13)	<b>406,277,005</b>	665,878,430	468,626,751
	<b>₱44,644,940</b>	₱300,917,401	₱50,529,983



## 22. Income Tax

Provision for income tax consists of:

	2017	2016	2015
Current:			
RCIT	<b>₱205,201,944</b>	₱185,058,569	₱135,343,514
Final	<b>1,983,130</b>	490,405	1,079,166
Deferred	<b>676,734,572</b>	505,120,498	268,825,171
	<b>₱883,919,646</b>	₱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	<b>₱90,975,027</b>	₱80,691,004
Allowance for impairment	<b>16,580,017</b>	15,475,014
Accrual of retirement costs	<b>14,752,430</b>	10,443,698
MCIT	—	26,835,665
NOLCO	—	23,689,729
Deferred gross profit	—	559,450
	<b>122,307,474</b>	157,694,560
Deferred tax liabilities on:		
Straight lining of rent income	<b>(1,148,711,064)</b>	(615,532,454)
Capitalized interest and other expenses	<b>(503,951,115)</b>	(395,379,298)
	<b>(1,652,662,179)</b>	(1,010,911,752)
	<b>(₱1,530,354,705)</b>	(₱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	<b>₱82,157,735</b>	₱80,665,746
Accrual of retirement cost	<b>19,605,535</b>	18,821,470
MCIT	<b>322,344</b>	298,132
	<b>₱102,085,614</b>	₱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
	<b>₱187,673,950</b>	<b>₱105,516,215</b>	<b>₱82,157,735</b>	

#### 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
	<b>₱27,086,220</b>	<b>₱26,763,876</b>	<b>₱322,344</b>	

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	<b>30.00%</b>	30.00%	30.00%
Tax effects of:			
Nondeductible interest and other expenses	<b>0.10%</b>	0.07%	0.10%
Income already subjected to final tax	<b>(0.10%)</b>	(0.01%)	(0.12%)
Expiration of NOLCO and MCIT	<b>0.07%</b>	0.15%	0.36%
Unrecognized DTA on temporary differences during the year	<b>(0.06%)</b>	0.59%	0.60%
Provision for income tax	<b>30.01%</b>	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**

<b>Nature</b>	<b>Volume</b>	<b>Amount</b>	<b>Terms</b>	<b>Conditions</b>
<b>Trade receivables (Note 9)</b>				
<i>Ultimate Parent Company</i>				
(a) Rental of office spaces	<b>₱1,353,387</b>	<b>₱405,861</b>	Due and demandable; noninterest-bearing	Unsecured; no impairment
<i>Parent Company</i>				
(a) Rental of office spaces	<b>1,005,932</b>	<b>662,226</b>	Due and demandable; noninterest-bearing	Unsecured; no impairment
<i>Other related parties</i>				
(a) Rental of mall and office spaces	<b>2,454,286,691</b>	<b>4,149,087,911</b>	Due and demandable; noninterest-bearing	Unsecured; no impairment
		<b>4,150,155,998</b>		
<b>Receivables from related parties</b>				
<i>Ultimate Parent Company</i>				
(b) Advances	<b>194,474,977</b>	<b>194,474,976</b>	Due and demandable; noninterest-bearing	Unsecured; no impairment
(c) Sale of VLLI shares	<b>—</b>	<b>1,960,071,562</b>	Due and demandable; noninterest-bearing	Unsecured; no impairment
<i>Other related parties</i>				
(b) Advances		<b>2,600,010,624</b>	Due and demandable; noninterest-bearing	Unsecured; no impairment
	<b>1,615,505,110</b>	<b>168,092,001</b>	Noninterest-bearing	Unsecured; no impairment
		<b>4,922,649,163</b>		
<b>Payables to related parties</b>				
<i>Ultimate Parent Company</i>				
(d) Dividends	<b>4,227,509</b>	<b>—</b>	Due and demandable; noninterest-bearing	Unsecured
<i>Parent Company</i>				
(b) Advances	<b>(7,031,839,944)</b>	<b>(11,699,707,437)</b>	Due and demandable; noninterest-bearing	Unsecured
(d) Dividends	<b>273,909,489</b>	<b>—</b>	Due and demandable; noninterest-bearing	Unsecured
<i>Other related parties</i>				
(b) Advances	<b>176,930,156</b>	<b>(214,663,688)</b>	Due and demandable; noninterest-bearing	Unsecured
		<b>(11,914,371,125)</b>		
<b>Dividends payable (Note 18)</b>				
<i>Other stockholders</i>				
(d) Dividends	<b>31,939,108</b>	<b>(275,118)</b>	Due and demandable; noninterest-bearing	Unsecured
		<b>(₱2,841,841,082)</b>		



December 31, 2016

<b>Nature</b>	<b>Volume</b>	<b>Amount</b>	<b>Terms</b>	<b>Conditions</b>
<b>Trade receivables (Note 9)</b>				
<i>Ultimate Parent Company</i>				
(a) Rental of office spaces	₱1,689,232	₱30,312	Due and demandable; noninterest-bearing	Unsecured; no impairment
<i>Parent Company</i>				
(a) Rental of office spaces	914,484	430,017	Due and demandable; noninterest-bearing	Unsecured; no impairment
<i>Other related parties</i>				
(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		
<b>Receivables from related parties</b>				
<i>Ultimate Parent Company</i>				
(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
<i>Other related parties</i>				
(b) Advances	(702,070,557)	1,152,597,515	Due and demandable; noninterest-bearing	Unsecured; no impairment
		3,112,669,077		
<b>Payables to related parties</b>				
<i>Ultimate Parent Company</i>				
(d) Dividends	2,469,876	—	Due and demandable; noninterest-bearing	Unsecured
<i>Parent Company</i>				
(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
<i>Other related parties</i>				
(b) Advances	415,695,521	(391,593,844)	Due and demandable; noninterest-bearing	Unsecured
		(5,248,926,769)		
<b>Dividends payable (Note 18)</b>				
<i>Other stockholders</i>				
(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	<b>₱36,916,411</b>	₱28,220,113	₱26,224,428
Post-employment benefits	<b>10,780,407</b>	9,895,231	9,348,615
	<b>₱47,696,818</b>	₱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	<b>₱2,039,770,209</b>	₱1,537,164,566	₱830,509,357
Weighted average common shares	<b>8,425,981,156</b>	8,425,981,156	7,092,378,517
Basic/Diluted EPS	<b>₱0.242</b>	₱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.

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## 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.

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## 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
<b>Assets</b>					
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
<b>Liabilities</b>					
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
<b>Assets</b>					
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
<b>Liabilities</b>					
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				
<i>Fixed rate</i>				
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
		<b>₱630,804,285</b>		<b>₱484,895,669</b>
Financial liabilities				
<i>Fixed rate</i>				
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%	<b>₱45,092,334</b>	₱37,266,348
-1.00%	<b>(45,092,334)</b>	(30,088,329)
Change in NAV		
+1.00%	<b>₱345,511</b>	₱315,881
-1.00%	<b>(345,511)</b>	(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
<b>Loans and Receivables</b>				
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	—
	<b>10,659,127,796</b>	<b>101,276,796</b>	<b>10,600,339,730</b>	<b>—</b>
<b>AFS Financial Assets (Note 8)</b>				
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	—
	<b>4,543,787,440</b>	<b>—</b>	<b>4,543,787,440</b>	<b>—</b>
	<b>₱15,202,915,236</b>	<b>₱101,276,796</b>	<b>₱15,144,127,170</b>	<b>₱—</b>

\* 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
<b>Loans and Receivables</b>				
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	—
<b>AFS Financial Assets</b> (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







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 not impaired	Total
	High grade	Medium grade	Low grade		
<b>Loans and Receivables</b>					
Cash* (Note 7)	₱572,016,219	₱-	₱572,016,219	₱-	₱572,016,219
Receivables** (Note 9)	-	1,974,966,597	-	3,130,707,751	5,160,941,069
Installment contract receivables (Note 9)	-	58,788,066	-	-	58,788,066
Receivable from related parties (Note 23)	-	4,922,649,163	-	-	4,922,649,163
	572,016,219	6,956,403,826	-	3,130,707,751	10,714,394,517
<b>AFS Financial Assets (Note 8)</b>					
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
	₱5,115,803,659	₱6,956,403,826	₱-	₱3,130,707,751	₱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 not impaired	Total
	High grade	Medium grade	Low grade		
<b>Loans and Receivables</b>					
Cash* (Note 7)	₱427,886,299	₱-	₱427,886,299	₱-	₱427,886,299
Receivables** (Note 9)	-	1,353,112,917	-	2,348,363,935	3,753,060,229
Installment contract receivables (Note 9)	-	57,009,370	-	-	57,009,370
Receivable from related parties (Note 23)	-	3,112,669,077	-	-	3,112,669,077
	427,886,299	4,522,791,364	-	2,348,363,935	7,350,624,975
<b>AFS Financial Assets (Note 8)</b>					
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
	₱4,186,109,276	₱4,522,791,364	₱-	₱2,348,363,935	₱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
<b>Financial Assets</b>					
<i>Loans and receivables</i>					
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
<i>AFS Financial Assets</i>					
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
<b>Financial Liabilities</b>					
<i>Other financial liabilities</i>					
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
<b>Financial Assets</b>					
<i>Loans and receivables</i>					
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
<i>AFS Financial Assets</i>					
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
<b>Financial Liabilities</b>					
<i>Other financial liabilities</i>					
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	<b>₱2,642,854,364</b>	₱2,142,993,018
Between one and five years	<b>9,909,201,900</b>	8,561,900,197
More than five years	<b>5,199,202,017</b>	7,002,260,095
	<b>₱17,751,258,281</b>	₱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	<b>₱134,184,111</b>	₱119,351,440
Between one and five years	<b>659,452,299</b>	620,183,884
More than five years	<b>1,679,928,540</b>	1,853,381,067
	<b>₱2,473,564,950</b>	₱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			December 31, 2017
			Amortization of Debt Issue Cost	Foreign exchange movement	Fair value changes	
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:

- As at December 31, 2017, unpaid investment properties amounted to ₱469.92 million.
- As at December 31, 2017, unpaid property and equipment amounted to ₱4.07 million.
- In 2016, the Group cancelled a 2014 land acquisition amounting ₱285.20 million.
- In 2016, pension liability amounting to ₱13.22 million was transferred to a related party.
- 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.



## **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.**

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**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	—
<b>TOTAL RETAINED EARNINGS, END</b>	
<b>AVAILABLE FOR DIVIDEND DECLARATION</b>	<b>₱1,914,458,059</b>

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## 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 Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	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			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5, Changes in Methods of Disposal			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 7</b>	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	✓		
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments*		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		✓	
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception	✓		
<b>PFRS 11</b>	Joint Arrangements	✓		
	Amendments to PFRS 11, Accounting for Acquisitions of Interests in Joint Operations	✓		
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception	✓		
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	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	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
<b>PAS 16</b>	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	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19</b>	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Amendments to PAS 19: Discount Rate: Regional Market Issue	✓		
<b>PAS 19 (Amended)</b>	Employee Benefits	✓		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27</b>	Consolidated and Separate Financial Statements	✓		
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
	Amendments to PAS 27, Equity Method in Separate Financial Statements	✓		
<b>PAS 28</b>	Investments in Associates	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception	✓		
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures*	✓		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures			✓
<b>PAS 32</b>	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*		✓	
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
	Amendment to PAS 34, Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets			✓
	Amendments to PAS 16 and PAS 38, Clarification of Acceptable Methods of Depreciation and Amortization	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 39</b>	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			✓
<b>PAS 40</b>	Investment Property			✓
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
<b>IFRIC 7</b>	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
<b>IFRIC 8</b>	<i>Scope of PFRS 2</i>			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	<i>Interim Financial Reporting and Impairment</i>			✓
<b>IFRIC 11</b>	PFRS 2 - Group and Treasury Share Transactions			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 14</b>	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			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine*			✓
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	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**

- I. Supplementary schedules required by Annex 68-E
  - A. Financial Assets (Current Marketable Equity and Debt Securities and Other Short-Term Cash Investments)
  - B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
  - C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
  - D. Intangible Assets
  - E. Long-term Debt
  - F. Indebtedness to Related Parties
  - G. Guarantees of Securities of Other Issuers
  - H. Capital Stock
- II. Schedule of all of the effective standards and interpretations (Part 1, 4J)
- III. Reconciliation of Retained Earnings Available for Dividend Declaration (Part 1, 4C; Annex 68-C)
- IV. Map of the relationships of the companies within the group (Part 1, 4H)
- V. Schedule of Financial Ratios

**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	—
<b>Total Financial Assets</b>		<b>₱10,302,924,330</b>	<b>₱10,302,924,330</b>	<b>₱18,606,778</b>



**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
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**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**

<b>Name of related party</b>	<b>Balance at beginning of period</b>	<b>Balance at end of period</b>
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

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**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
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**NOT APPLICABLE**

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**STARMALLS, INC. AND SUBSIDIARIES**

**SCHEDULE H: CAPITAL STOCK**

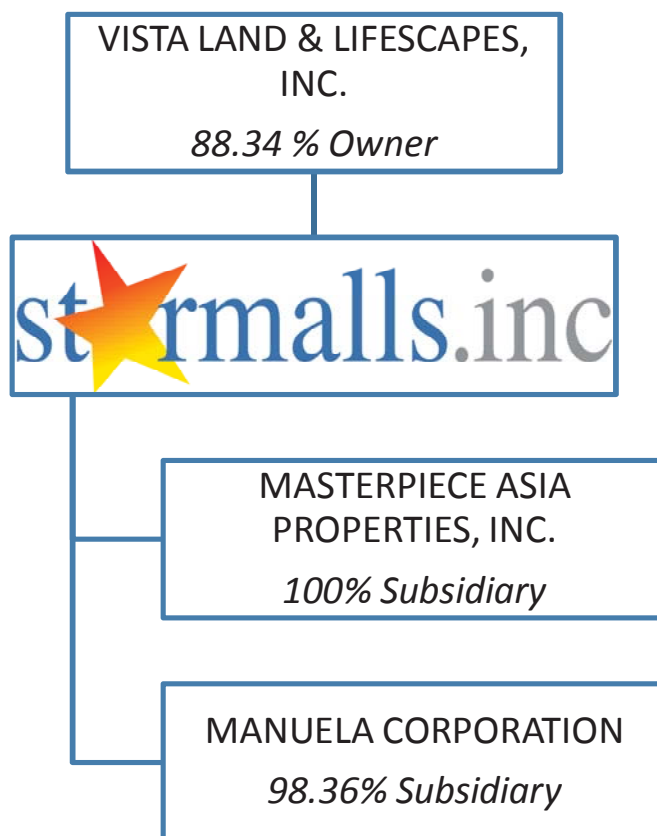
**DECEMBER 31, 2017**

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.

		<b>2017</b>	<b>2016</b>	2015
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	<b>0.87</b>	<b>1.06</b>	2.20
Long-term debt-to-equity ratio	$\frac{\text{Long-term debt}^1}{\text{Equity}}$	<b>0.30</b>	<b>0.40</b>	0.59
Debt ratio	$\frac{\text{Interest bearing debt}^2}{\text{Total assets}}$	<b>0.18</b>	<b>0.25</b>	0.36
Debt to equity ratio	$\frac{\text{Interest bearing debt}^2}{\text{Total equity}}$	<b>0.41</b>	<b>0.49</b>	0.67
Net debt to equity ratio	$\frac{\text{Net debt}^3}{\text{Total equity}}$	<b>0.38</b>	<b>0.47</b>	0.61
Asset to equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	<b>2.20</b>	<b>1.98</b>	1.88
Interest service coverage ratio	$\frac{\text{EBITDA}}{\text{Total interest paid}}$	<b>8.91</b>	<b>5.05</b>	9.04
Asset to liability ratio	$\frac{\text{Total Assets}}{\text{Total Liabilities}}$	<b>1.83</b>	<b>2.02</b>	2.14

<sup>1</sup> Pertains to long term portion of the Liability for Land Acquisition and Interest-bearing Loans and Borrowings

<sup>2</sup> Includes Liability for Land Acquisition and Interest-bearing Loans and Borrowings

<sup>3</sup> Interest bearing debt less Cash and cash equivalents, Short-term and Long-Term cash investments