111142016001892

SECURITIES AND EXCHANGE COMMISSION

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Company Information

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Company Name	ARTHALAND CORPORATION
Industry Classification	
Company Type	Stock Corporation

Document Information

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SEC Registration Number

A R T H A L A N D   C O R P O R A T I O N

(Company's Full Name)

8 F   P I C A D I L L Y   S T A R   B U I L D I N G
4 T H   A V E N U E   C O R N E R   2 7 T H   S T R E E T
B O N I F A C I O   G L O B A L   C I T Y
T A G U I G   C I T Y

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

FERDINAND A. CONSTANTINO
(Contact Person)

403-6910
(Company Telephone Number)

0 9 | 3 0
Month *Day*
(Fiscal Year)

1 7 - Q
(Form Type)

0 6 | Last Fri
Month *Day*
(Annual Meeting)

N.A.
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

2,014
Total No. of Stockholders

Domestic | Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

ARTHALAND CORPORATION
(Company's Full Name)

8/F Picadilly Star Building, 4th Avenue corner 27th Street
Bonifacio Global City, Taguig City
(Company's Address)

403-6910
(Telephone Number)

2016 - December 31	**Last Friday of June**
(Fiscal year ending) (month & day)	(Annual Meeting)

SEC FORM 17 – Q QUARTERLY REPORT
(Form Type)

Amendment Designation (If applicable)

September 30, 2016
(Period Ended Date)

____
(Secondary License Type & File Number)

	____________________ LCU
____________________ (Cashier)	____________________ DTU
	ASO-94-007160 (SEC Number)
____________________ Central Receiving Unit	____________________ File Number
	____________________ Document I.D.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 11 OF THE REVISED SECURITIES ACT AND RSA RULE 11(a)-1 (b)(2) THEREUNDER

1. For the quarterly period ended <u>*September 30, 2016*</u>

2. Commission Identification No. <u>*ASO-94-007160*</u>

3. BIR TIN <u>*004-450-721-0000*</u>

4. Exact name of registrant as specified in its character

   ARTHALAND CORPORATION

5. Incorporated in Metro Manila, Philippines on <u>*August 10, 1994*</u>.

6. Industry Classification Code ___________________________.

7. Address of registrant's principal office Postal Code

   8/F Picadilly Star Building, 4th Avenue corner 27th Street, Bonifacio Global City, Taguig City ***1634***

8. Registrant's Telephone Number : <u>*403-6910*</u>

9. Former name, former address and former fiscal year, if changed since last report: Not Applicable

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each class	Number of shares of stock outstanding or amount of debt outstanding.
Common Shares	5,318,095,199 common shares
Preferred Shares	12,500,000 preferred shares

11. Are any or all of the securities listed on the Philippine Stock Exchange?

    YES [X] **NO [ ]**

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

<u>Philippine Stock Exchange, Inc.; 5,318,095,199 common shares</u>

12. Indicate by check mark whether the registrant :

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule (a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports).

YES [X] **NO [ ]**

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

YES [X] **NO [ ]**

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

See attached.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

See attached.

PART II - OTHER INFORMATION

There are no other information for the period not previously reported in SEC Form 17-C

SIGNATURES

Pursuant to the requirements of the Revised Securities Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer : **ARTHALAND CORPORATION**

Signature and Title : **ANGELA DE VILLA-LACSON**
President

Signature and Title : **FERDINAND A. CONSTANTINO**
Chief Finance Officer

Date : October 26, 2016

ITEM 1. Financial Statements Required under SRC RULE 68.1

1. Basic and Diluted Earnings per Share (See attached Income Statement).

2. The accompanying consolidated interim financial statements of **Arthaland Corporation (ALCO)** were prepared in accordance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS).

3. Notes to Financial Statements:

   a. The accompanying consolidated financial statements of **ALCO** were prepared in accordance with PFRS. The financial statements have been prepared using the historical cost basis and are presented in Philippine Pesos.

   b. There is no significant seasonality or cycle of interim operations.

   c. There are no material events subsequent to the end of the interim period not previously reported in SEC form 17-C.

   d. There are no changes in the composition of the issuer during the interim period including business combinations, acquisition of subsidiaries and long-term investments, restructurings and discontinuing operations.

   e. There are no material changes in the contingent liabilities or contingent assets since the last annual balance sheet date.

   f. There are no material contingencies and any other events or transactions that are material to an understanding of the current interim period.

   g. Except for the development costs of ARYA Residences, Arthaland Century Pacific Tower, Cebu Exchange, and the newly acquired property in Laguna, there are no material commitments for capital expenditures since the last annual balance sheet date.

   h. There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. There is no foreseen event that will cause a material change in the relationship between costs and revenues.

   i. There are no material off-balance sheet transactions, arrangements, obligations and other relationship of the company with unconsolidated entities or other persons created during the reporting period.

ARTHALAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2016 AND DECEMBER 31, 2015

	Notes		SEPTEMBER 30 2016 (Unaudited)		DECEMBER 31 2015 (Audited)
ASSETS					
Cash and cash equivalents	5	P	456,346,161	P	604,613,082
Financial assets at fair value through profit or loss (FVPL)	6		907,460,796		732,635,225
Trade and other receivables	7		459,221,126		1,831,115,193
Real estate for sale	8		1,804,469,983		1,550,936,177
Investment properties	9		2,902,929,474		1,391,323,861
Property and equipment	10		22,233,499		17,202,058
Net deferred tax assets			12,954,562		12,382,953
Creditable withholding taxes			217,599,795		214,119,974
Other assets	11		142,216,362		189,088,057
		P	6,925,431,758	P	6,543,416,580
LIABILITIES AND EQUITY					
Liabilities					
Loans payable	12	P	3,103,293,361	P	3,091,768,912
Accounts payable and other liabilities	13		1,068,025,083		1,368,361,438
Retirement liability	19		40,801,518		40,801,518
Net deferred tax liabilities			66,702,889		180,664,234
Total Liabilities			4,278,822,851		4,681,596,102
Equity attributable to equity holders of ArthaLand Corporation					
Capital stock - Common	15		957,257,136		957,257,136
Additional paid-in capital			75,000,000		75,000,000
Retained earnings			1,608,405,248		828,572,831
Cumulative measurement gains on retirement liability - net of tax			990,511		990,511
			2,641,652,895		1,861,820,478
Non-controlling interests			4,956,012		-
Total Equity			2,646,608,907		1,861,820,478
		P	6,925,431,758	P	6,543,416,580

See accompanying Notes to Consolidated Financial Statements

ARTHALAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2016 AND 2015

	Notes		SEPTEMBER 30 2016 (Unaudited)		SEPTEMBER 30 2015 (Unaudited)
ASSETS					
Cash and cash equivalents	5	**P**	**456,346,161**	P	540,113,449
Financial assets at fair value through profit or loss (FVPL)	6		**907,460,796**		263,830,033
Trade and other receivables	7		**459,221,126**		2,339,034,490
Real estate for sale	8		**1,804,469,983**		1,612,809,435
Investment properties	9		**2,902,929,474**		1,236,999,822
Property and equipment	10		**22,233,499**		19,011,807
Net deferred tax assets			**12,954,562**		135,804
Creditable withholding taxes			**217,599,795**		219,689,701
Other assets	11		**142,216,362**		157,808,713
		P	**6,925,431,758**	P	6,389,433,254
LIABILITIES AND EQUITY					
Liabilities					
Loans payable	12	**P**	**3,103,293,361**	P	2,899,458,863
Accounts payable and other liabilities	13		**1,068,025,083**		1,466,943,582
Retirement liability	19		**40,801,518**		33,672,130
Net deferred tax liabilities			**66,702,889**		217,660,008
Total Liabilities			**4,278,822,851**		4,617,734,583
Equity attributable to equity holders of ArthaLand Corporation					
Capital stock - Common	15		**957,257,136**		957,257,136
Additional paid-in capital			**75,000,000**		75,000,000
Retained earnings			**1,608,405,248**		739,499,276
Cumulative measurement gains (losses) on retirement liability - net of tax			**990,511**		(57,741)
			2,641,652,895		1,771,698,671
Non-controlling interests			**4,956,012**		-
Total Equity			**2,646,608,907**		1,771,698,671
		P	**6,925,431,758**	P	6,389,433,254

See accompanying Notes to Consolidated Financial Statements

ARTHALAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED SEPTEMBER 30, 2016

AND FOR THE YEAR ENDED DECEMBER 31, 2015

	Notes		SEPTEMBER 30 2016 (Unaudited)		DECEMBER 31 2015 (Audited)
REVENUE FROM REAL ESTATE SALES		**P**	**325,402,973**	P	1,584,016,397
COST OF REAL ESTATE SOLD			**(217,999,646)**		(1,043,700,643)
GROSS INCOME			**107,403,327**		540,315,754
OPERATING EXPENSES	16		**240,755,773**		313,880,772
INCOME (LOSS) FROM OPERATIONS			**(133,352,446)**		226,434,982
FINANCE COSTS	17		**(53,789,798)**		(40,566,579)
OTHER INCOME - net	18		**931,811,827**		125,934,371
INCOME BEFORE INCOME TAX			**744,669,583**		311,802,774
INCOME TAX EXPENSE (BENEFIT)			**(22,724,129)**		87,968,491
NET INCOME			**767,393,712**		223,834,283
COMPREHENSIVE INCOME			**-**		1,048,252
TOTAL COMPREHENSIVE INCOME		**P**	**767,393,712**	P	224,882,535
NET INCOME (LOSS) ATTRIBUTABLE TO:					
Equity holders of ArthaLand Corporation		**P**	**779,832,417**	P	224,882,535
Non-controlling interests			**(12,438,705)**		-
		P	**767,393,712**	P	224,882,535
EARNINGS PER SHARE - Basic and Diluted	22	**P**	**0.144**	P	0.042

See accompanying Notes to Consolidated Financial Statements

ARTHALAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED SEPTEMBER 30, 2016 AND 2015

	Notes		SEPTEMBER 30 2016 (Unaudited)		SEPTEMBER 30 2015 (Unaudited)
REVENUE FROM REAL ESTATE SALES		**P**	**325,402,973**	P	1,407,976,131
COST OF REAL ESTATE SOLD			**(217,999,646)**		(968,848,045)
GROSS INCOME			**107,403,327**		439,128,086
OPERATING EXPENSES	16		**240,755,773**		218,099,656
INCOME (LOSS) FROM OPERATIONS			**(133,352,446)**		221,028,430
FINANCE COSTS	17		**(53,789,798)**		(26,861,786)
OTHER INCOME - net	18		**931,811,827**		29,284,588
INCOME BEFORE INCOME TAX			**744,669,583**		223,451,232
INCOME TAX EXPENSE (BENEFIT)			**(22,724,129)**		88,690,514
NET INCOME			**767,393,712**		134,760,718
COMPREHENSIVE INCOME			**-**		-
TOTAL COMPREHENSIVE INCOME		**P**	**767,393,712**	P	134,760,718
NET INCOME (LOSS) ATTRIBUTABLE TO:					
Equity holders of ArthaLand Corporation		**P**	**779,832,417**	P	134,760,718
Non-controlling interests			**(12,438,705)**		-
		P	**767,393,712**	P	134,760,718
EARNINGS PER SHARE - Basic and Diluted	22	**P**	**0.144**	P	0.025

See accompanying Notes to Consolidated Financial Statements

ARTHALAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

July 1 to September 30, 2016 and July 1 to September 30, 2015

		July 1 to September 30, 2016 (Unaudited)		July 1 to September 30, 2015 (Unaudited)
REVENUE FROM REAL ESTATE SALES	**(P**	**40,111,266)**	P	510,185,633
COST OF REAL ESTATE SOLD		**60,301,300**		(373,212,287)
GROSS INCOME (LOSS)		**20,190,034**		136,973,346
OPERATING EXPENSES		**92,829,983**		67,648,111
INCOME (LOSS) FROM OPERATIONS		**(72,639,949)**		69,325,235
FINANCE COSTS		**(24,393,264)**		(7,911,345)
OTHER INCOME		**816,156,682**		7,491,963
INCOME BEFORE INCOME TAX		**719,123,469**		68,905,853
INCOME TAX EXPENSE (BENEFIT)		**(24,399,966)**		37,561,743
NET INCOME		**743,523,435**		31,344,110
COMPREHENSIVE INCOME		**-**		-
TOTAL COMPREHENSIVE INCOME	**P**	**743,523,435**	P	31,344,110
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Equity holders of ArthaLand Corporation	**P**	**747,722,258**	P	31,344,110
Non-controlling interests		**(4,198,823)**		-
	P	**743,523,435**	P	31,344,110

See accompanying Notes to Consolidated Financial Statements

ARTHALAND CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2016 AND 2015

	Note		SEPTEMBER 30 2016 (Unaudited)		SEPTEMBER 30 2015 (Unaudited)
CAPITAL STOCK - Common					
Issued and outstanding	15	**P**	**957,257,136**	P	957,257,136
ADDITIONAL PAID-IN CAPITAL			**75,000,000**		75,000,000
RETAINED EARNINGS					
Balance at beginning of period			**828,572,831**		668,555,690
Net profit for the period			**779,832,417**		134,760,718
Dividends declared during the period			**-**		(63,817,132)
Balance at end of period			**1,608,405,248**		739,499,276
CUMULATIVE REMEASUREMENT GAINS (LOSSES) ON RETIREMENT LIABILITY					
Balance at beginning and end of period			**990,511**		(57,741)
NON-CONTROLLING INTERESTS					
Balance at beginning of period			**-**		-
Equity in a subsidiary	15		**17,394,717**		-
Share in net loss			**(12,438,705)**		-
Balance at end of period			**4,956,012**		-
		P	**2,646,608,907**	P	1,771,698,671

See accompanying Notes to Consolidated Financial Statements

ARTHALAND CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE PERIOD ENDED SEPTEMBER 30, 2016 AND 2015

		SEPTEMBER 30 2016 (Unaudited)		SEPTEMBER 30 2015 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before tax	P	744,669,583	P	223,451,232
Adjustments for:				
Finance costs		12,372,210		26,861,786
Interest income		(24,015,221)		(10,291,287)
Depreciation and amortization		5,951,127		13,801,936
Unrealized holding gains on financial assets at FVPL		(4,325,571)		(330,034)
Unrealized foreign exchange gain - net		(118,462)		(1,384,663)
Gain on sale of property equipment		(185,888)		(9,722)
Operating income before working capital changes		734,347,778		252,099,248
Decrease (increase) in:				
Trade and other receivables		1,373,295,808		(392,940,049)
Real estate for sale		(253,533,806)		(899,782,897)
Other assets		42,820,265		(3,948,872)
Increase (decrease) in:				
Accounts payable and other liabilities		(300,365,225)		635,239,457
Cash provided by (used in) operations		1,596,564,820		(409,333,112)
Interest paid		(15,990,011)		(25,769,332)
Interest received		22,613,480		10,286,114
Income taxes paid		(87,590,545)		(78,017,618)
Net Cash Generated From (Used in) Operating Activities		1,515,597,744		(502,833,947)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property and equipment		(12,956,409)		(4,812,565)
Decrease in investment property		(1,511,605,613)		130,498,464
Proceeds from disposals of property and equipment		2,159,729		606,151
Net acquisition of financial assets at FVPL		(170,500,000)		8,572,661
Net Cash From (Used in) Investing Activities		(1,692,902,293)		134,864,711
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from borrowings		11,524,449		133,631,701
Payment of dividends		-		(63,817,132)
Net proceeds from collection on subscriptions		17,394,717		2,150,000
Net Cash From Financing Activities		28,919,166		71,964,569
NET EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS		118,462		1,384,663
NET DECREASE IN CASH AND CASH EQUIVALENTS		(148,266,921)		(294,620,004)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		604,613,082		834,733,453
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P	456,346,161	P	540,113,449

See accompanying Notes to Consolidated Financial Statements

ARTHALAND CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE MATTERS

Arthaland Corporation (the Parent Company or ALCO) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on August 10, 1994. ALCO's shares of stocks are listed for trading in the Philippine Stock Exchange (PSE). The Parent Company is primarily engaged in real estate development and leasing.

ALCO’s first major development project is Arya Residences Towers 1 and 2 (Arya Residences) located in Global City, Taguig. The Arya Residences is the first high-rise residential development in the Philippines that is awarded with US Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED) program’s Gold certification. It is also registered under the PHILGBC’s BERDE (Building for Ecologically Responsive Design Excellence) program. In 2014, the Company started the construction of Arthaland Century Pacific Tower (ACPT), a 30-storey office building also in BGC. It is a Philippine Economic Zone Accredited project, USGBC’s LEED Gold pre-certified, and registered under the PhilGBC BERDE certification program.

ALCO is currently developing Cebu Exchange, a 39-storey office building with retail establishments, poised to be one of Cebu’s largest and tallest office developments and will cater to Cebu’s booming office space market. It will be built on an 8,440 sqm property located along Salinas Drive across the Cebu IT Park in Cebu City, and will have a total NSA of almost 90,000 sqm. ALCO expects Cebu Exchange to receive green building certifications from both the LEED (pre-certified) and PhilGBC BERDE programs.

In September 2016, ALCO, through its 100% owned subsidiary, Cazneau, acquired eight hectares of land adjacent to De La Salle Science and Technology Complex. The Biñan Laguna Project is conceptualized to be a masterplanned campus-type residential community that will feature a mix of student and faculty housing, a mix of low rise residential buildings as well as retail and supplemental amenities.

The Parent Company is currently 40.3% owned by CPG Holdings, Inc. (CPG), a holding company of leading food manufacturers domiciled in the Philippines and 26.0% owned by AO Capital Holdings 1, Inc. (AOCH1), a company domiciled in the Philippines and was incorporated primarily as a holding company.

The interim consolidated financial statements include the Parent Company and the following subsidiaries (collectively referred herein as “the Group”):

		Percentage of Ownership (%)	
Subsidiary	Country of Incorporation	**September 30, 2016**	December 31, 2015
Cazneau, Inc. (Cazneau)	Philippines	**100%**	100%
Manchesterland Properties, Inc. (MPI)	Philippines	**100%**	100%
Emera Property Management, Inc. (Emera)	Philippines	**100%**	100%
Urban Property Holdings, Inc. (UPHI)	Philippines	**100%**	100%
Zileya Land Development Corporation (ZLDC)	Philippines	**100%**	–
Cebu Lavana Land Corp. (CLLC)	Philippines	**60%**	100%

During the last quarter of 2015, the Parent Company incorporated ZLDC and was registered with SEC on December 28, 2015 and is established to engage primarily in realty development business.

In 2016, the stockholders and the Board of Directors (BOD) approved the subscription of new subscriber for 214,351 common shares and 118,982 preferred shares at ₱100 par value out of the unissued authorized capital stock of CLLC. The additional subscription resulted to the change of ALCO's ownership over CLLC from 100% to 60%.

All of the subsidiaries were established to engage primarily in real estate development, except for Emera, which is a property management company.

The registered office and principal place of business of the Group is located at 8/F Picadilly Star Building, 4th Avenue corner 27th Street, Bonifacio Global City, Taguig City.

The interim consolidated financial statements of the Group as at and for the nine months ended September 30, 2016 were approved and authorized for issue by the Board of Directors (BOD) on October 26, 2016.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and investment properties which are carried at fair value, and are presented in Philippine Peso, the Group's functional currency. All values are stated in absolute amounts, unless otherwise indicated.

Moreover, the interim consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council (FRSC) and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and SEC provisions.

The interim consolidated financial statements have been prepared in accordance with PAS 34, *Interim Financial Reporting.* These do not include all of the information and disclosures required in the December 31, 2016 annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2016.

3. SUMMARY OF CHANGES IN PFRS

<u>Adoption of New and Revised PFRS</u>
The accounting policies adopted are consistent with those of the previous period, except for the adoption of the following new and revised PFRS which the Group adopted effective for annual periods beginning on or after January 1, 2016:

- Amendments to PAS 1, *Presentation of Financial Statements* – The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

- Amendments to PAS 16, *Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation, and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Amortization*

  – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.

- Amendment to PAS 19, *Employee Benefit* – The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* – The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Amendment to PFRS 7, *Financial Instruments: Disclosures* – The amendment adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.

- Amendments to PFRS 10, *Consolidated Financial Statements, and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that the gain or loss from sale or contribution of assets between an investor and its associate or joint venture should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- Amendments to PFRS 10, IFRS 12, *Disclosure of Interests in Other Entities, and PAS 28 - Investment Entities: Applying the Consolidation Exception* – The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

The adoption of the foregoing new and revised PFRS did not have any material effect on the interim consolidated financial statements. Additional disclosures have been included in the notes to interim consolidated financial statements, as applicable.

New and Revised PFRS Not Yet Adopted

Relevant new and revised PFRS which are not yet effective for the year ended December 31, 2016 and have not been applied in preparing the interim consolidated financial statements are summarized below:

Effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39 (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

  PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

  For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will be no longer necessary for objective evidence of impairment before a credit loss is recognized.
For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

Under prevailing circumstances, the adoption of the foregoing new and revised PFRS is not expected to have any material effect on the interim consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting and reporting policies that have been used in the preparation of these interim consolidated financial statements are summarized below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of Consolidation

Subsidiaries. Subsidiaries are entities controlled by the Parent Company. The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. The Parent Company has control when it is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its powers over the investee.

Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Parent Company obtains control, and continue to be consolidated until the date such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Changes in the controlling equity ownership (i.e., acquisition of non-controlling interest or partial disposal of interest over a subsidiary) that do not result in a loss of control are accounted for as equity transactions.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling Interests. Non-controlling interests represent the portion of net results and net assets not held by the Parent Company. They are presented in the consolidated statements of financial position within equity, apart from equity attributable to equity holders of the parent and are separately disclosed in the consolidated statements of comprehensive income. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Business Combination and Goodwill. Business combinations are accounted for using the acquisition method. The acquisition cost is measured as the sum of the considerations transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration payable by the acquirer is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. Otherwise, subsequent changes to the fair value of contingent consideration within the remeasurement period of one (1) year are recognized either in profit or loss or as a change to other comprehensive income.

When the business combination is achieved in stages, any previously held non-controlling interest is remeasured to its fair value at the date of obtaining control, and a gain or loss is recognized in profit or loss.

Goodwill is initially measured at the acquisition date as the sum of the fair value of consideration transferred; the recognized amount of any non-controlling interest in the acquiree; and, if the business combination is achieved in stages, the fair value of existing equity interest in the acquiree less the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the bargain purchase gain is recognized directly in the profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity, are expensed as incurred.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the acquisition in which goodwill arose. The Group assesses the carrying amount of goodwill annually or more frequently if events or changes in circumstances indicate that such carrying amount may not be recoverable.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed and the portion of the cash-generating unit retained.

<u>Financial Assets and Liabilities</u>
Date of Recognition. Financial instruments are recognized in the interim consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

Initial Recognition. Financial assets and financial liabilities are recognized initially at fair value. Directly attributable transaction costs are included in the initial measurement of financial instruments, except for financial instruments classified at FVPL.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there are no observable data on inception, the Group deems the transaction price as

the best estimate of fair value and recognizes "Day 1" difference 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.

Classification of Financial Instruments. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities at amortized cost.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

The Group does not have AFS financial assets, HTM investments and financial liabilities at FVPL.

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading acquired for the purpose of selling in the near term and financial assets designated upon initial recognition as at FVPL. Financial assets at FVPL are carried in the interim consolidated statements of financial position at fair value. Realized and unrealized gains and losses on these assets are recognized under "Other income - Net" account in profit or loss.

The Group classified its investment in money market fund under this category.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Group's cash and cash equivalents, investment in time deposits and trade and other receivables are classified under this category.

Other Financial Liabilities at Amortized Cost. Other financial liabilities at amortized cost pertain to issued financial instruments or their components that are not classified or designated at FVPL and contain obligations to deliver cash or another financial asset to the holder to settle the obligation other than by the exchange of fixed amount of cash or another financial asset for a fixed number of own equity.

The Group's loans payable and accounts payable and other liabilities (excluding statutory liabilities) are classified as other financial liabilities at amortized cost.

Derecognition of Financial Instruments

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

• the right to receive cash flows from the asset has expired;

• 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

• the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset but has 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 pay.

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

Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the interim consolidated statements 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 assets and settle the liabilities simultaneously.

Fair Value Measurement

The Group uses market observable data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and 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

If the inputs used to measure the fair value of an asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Real Estate for Sale

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV).

Cost includes acquisition cost plus any other directly attributable costs of developing the asset to its saleable condition and cost of improving the properties up to the reporting date. Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when incurred.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less estimated costs to complete and the estimated costs to sell. NRV in respect of land under development is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete the construction and less an estimate of the time value of money to the date of completion.

Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business or for administrative purposes.

Initially, investment properties are measured at cost including certain transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. The fair value of investment properties is determined by independent real estate valuation experts based on recent real estate transactions with similar characteristics and location to those of the Group’s investment properties. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise.

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. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the ending of owner-occupation, commencement of an operating lease to another party or ending of the construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to inventories, the change in use is evidenced by commencement of development with a view to sale. When the Group decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. For a transfer from investment property carried at fair value to inventories, the property's deemed cost for subsequent accounting shall be its fair value at the date of change in use.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and impairment losses, if any.

The initial cost of property and equipment consists of the purchase price, including import duties, borrowing costs (during the construction period) and other costs directly attributable to bring the asset to its working condition and location for its intended use. Cost also includes the cost of replacing parts of such property and equipment when the recognition criteria are met and the present value of the estimated cost of dismantling and removing the asset and restoring the site where the asset is located.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally charged to operations in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization is calculated on a straight-line basis over the following estimated useful lives of the property and equipment:

	Number of Years
Office equipment	3-5
Furniture and fixtures	3
Leasehold improvements	3 to 5 or lease term, whichever is shorter
Transportation equipment	5

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

Fully-depreciated assets are retained in the account until they are no longer in use and no further change for depreciation is made in respect to those assets.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period the asset is derecognized.

Impairment of Nonfinancial Assets

The carrying amounts of the Group's nonfinancial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's net recoverable amount is estimated.

Any impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its net recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets of the Group. Impairment losses are recognized in the profit or loss in the period incurred.

The net recoverable amount of an asset is the greater of its value in use or its fair value less costs to sell. Value in use is the present value of future cash flows expected to be derived from an asset while fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

Creditable Withholding Taxes

Creditable withholding taxes are deducted from income tax payable on the same year the revenue was recognized.

Other Assets

Other assets include investments in time deposits, deposits, amounts held in escrow, prepayments, and input value added tax (VAT).

Prepayments. Prepayments are expenses paid in advance and recorded as assets before these are utilized. Prepayments are apportioned over the period covered by the payment and charged to the profit or loss when incurred.

VAT. Revenues, expenses and assets are recognized net of the amount of VAT except where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority.

The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "Other assets" or "Accounts payable and other liabilities" accounts, respectively, in the interim consolidated statements of financial position.

Deferred Input VAT. In accordance with the Revenue Regulation (RR) No. 16-2005, input VAT on purchases or imports of the Group of capital goods (depreciable assets for income tax purposes) with an aggregate acquisition cost (exclusive of VAT) in each of the calendar month exceeding ₱1.0 million are claimed as credit against output VAT over 60 months or the estimated useful lives of capital goods, whichever is shorter. Deferred input VAT represents the unamortized amount of input VAT on capital goods. Deferred input that are expected to be claimed against output VAT for no more than 12 months after the financial reporting period are classified as other current assets. Otherwise these are classified as other noncurrent assets.

Where the aggregate acquisition cost (exclusive of VAT) of the existing or finished depreciable capital goods purchased or imported during any calendar month does not exceed ₱1.0 million, the total input VAT will be allowable as credit against output VAT in the month of acquisition.

Capital Stock

Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital. Incremental costs incurred directly attributable to the issuance of new shares are recognized as deduction from equity, net of any tax.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, net of any dividend declaration.

Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing the net earnings for the period attributable to equity holders of the Group by the weighted average number of issued and outstanding and subscribed common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effects of any convertible securities.

Revenue and Cost Recognition

Revenue is recognized to the extent that revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

Revenue from 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 contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectability is also assessed by considering factors such as collections, credit standing of the buyer 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 No. 2006-01, the percentage-of-completion 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, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.

Pending recognition of sale, cash received from buyers and any excess of collections over the recognized receivables are included in the "Payable to buyers" account under "Accounts payable and other liabilities" in the interim consolidated statements of financial position. If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of 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.

For income tax purposes, full recognition is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

Rental Income. Revenue is recognized on a straight-line basis over the lease term.

Interest Income. Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

<u>Operating Expense Recognition</u>
Operating expenses constitute cost of administering the business and cost of selling and marketing condominium units for sale and properties for lease. It includes commissions, marketing and selling expenses and other operating expenses, among others. Operating expenses are recognized as incurred.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or 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;
b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfilment is dependent on a specified asset; or
d. there is a substantial change to the asset.

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

Group as Lessee. Leases where all the risks and rewards and benefits of ownership of the assets are not substantially transferred to the Group are classified as operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight-line basis over the lease term.

Group as Lessor. Leases where the Group retains 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 income in the period they are earned.

<u>Employee Benefits</u>
Short-term Benefits. The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the

amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. The Group has an unfunded, non-contributory defined benefit plan covering all qualified employees. The retirement benefits cost is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Group recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and nonroutine settlements, and net interest expense or income in the profit or loss. Net interest is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in the profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognizes restructuring-related costs.

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

The retirement liability is the aggregate of the present value of the retirement liability on which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the interim consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

<u>Borrowing Costs</u>
Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when all such activities are substantially complete.

<u>Foreign Currency - Denominated Transactions</u>
Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at reporting date. Resulting exchange differences arising on the settlement of or on translating such monetary assets and liabilities are recognized in profit or loss.

Income Taxes

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

Deferred Tax. Deferred tax is provided 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, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused 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.

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

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

Related Party Transactions

Related party transactions are transfer of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Provisions and Contingencies

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Events After the Reporting Period
Any post-period-end event that provides additional information about the Group's financial position at the end of the reporting period (adjusting event) is reflected in the interim consolidated financial statements. Post-period-end events that are not adjusting events are disclosed in the notes to interim consolidated financial statements when material.

5. CASH AND CASH EQUIVALENTS

This account consists of:

	September 2016	December 2015	September 2015
Cash on hand	**45,000**	45,000	45,000
Cash in bank	**36,967,081**	231,862,594	71,142,008
Short-term placements	**419,334,080**	372,705,488	468,926,441
	456,346,161	604,613,082	540,113,449

Cash in banks earn interest at the prevailing bank deposit rates and are immediately available for use in the current operations. Short-term placements are made for varying periods up to three (3) months or less and earn interest at the prevailing short-term deposit rates.

6. FINANCIAL ASSETS AT FVPL

Financial assets at FVPL amounting to ₱907.5 million and ₱732.6 million as at September 30, 2016 and December 31, 2015, respectively, represent units of participation in a money market fund held by the Group for short-term use and working capital purposes.

Financial assets at FVPL include unrealized gains amounting to ₱4.3 million and ₱0.3 million for the nine months ended September 30, 2016 and 2015, respectively, and included as part of "Other income" account in the interim consolidated statements of comprehensive income (see Note 18). Realized gain on sale of financial assets at FVPL amounted to ₱11.6 million and ₱5.3 million for the nine months ended September 30, 2016 and 2015, respectively (see Note 18).

The fair value of financial assets at FVPL is measured using Level 1 of the fair value hierarchy with significant directly observable inputs.

7. TRADE AND OTHER RECEIVABLES

This account consists of:

	September 2016	December 2015	September 2015
Advances for project development	**295,318,044**	376,152,395	193,635,403
Sale of real estate	**111,602,376**	1,395,706,885	2,100,086,119

Advances to employees	**6,143,391**	7,117,211	4,712,337
Other receivables	**46,525,607**	52,506,994	40,968,923
	459,589,418	1,831,483,485	2,339,402,782
Allowance for impairment losses	**(368,292)**	(368,292)	(368,292)
	459,221,126	1,831,115,193	2,339,034,490

	September 2016	December 2015	September 2015
Current	**458,852,834**	1,843,089,985	2,477,466,836
Past due			
Within 6 months	**-**	-	-
7 months to 1 year	**-**	-	-
More than 1 year	**368,292**	368,292	368,292
Percentage of completion adjustment		(12,343,084)	(138,800,638)
	459,221,126	1,831,115,193	2,339,034,490

Advances for project development pertain to downpayments made to contractors for the construction of Arya Residences and ACPT. These advances are noninterest-bearing and are being recouped against contractors' progress billings.

Receivables from sale of real estate pertain to receivables from sale of condominium units. These receivables are noninterest-bearing and generally collectible in monthly installments over a maximum period of three (3) years. Titles to the units sold under this arrangement are transferred to the buyers only upon full payment of the contract price.

Advances to officers and employees represent salary and other loans granted to Parent Company's employees which are noninterest-bearing in nature and collectible through salary deductions. These also include various cash advances used for certain operating expenses not covered by disbursement of petty cash fund and are subject to liquidation.

Other receivables include receivable from CPG amounting to ₱36.1 million arising from the share purchase agreement between the Company, CPG and AOCH1. The share purchase agreement provides that the Company warrants the final resolution acceptable to CPG and its counsel with respect to the pending complaint involving the property owned by Urban Property Holdings, Inc. (UPHI), a subsidiary, which includes, among others, removing all doubt on the ownership of UPHI over the property. In the event the satisfactory evidence is submitted by the Company to CPG, the latter shall pay to the Company the entire amount or a portion thereof plus interest.

The carrying amount of the receivables is considered a reasonable approximation of fair value. All of the Group's receivables have been reviewed for indicators of impairment. As of September 30, 2016 and December 31, 2015, no receivables were found to be impaired. Thus, management believes that the entire carrying amount of the receivable portfolio is fully recoverable.

8. REAL ESTATE FOR SALE

This account consists of:

	September 2016	December 2015	September 2015
Raw land inventory	**1,315,498,126**	929,765,723	867,162,149
Condominium units held for sale	**488,971,857**	40,057,175	44,654,222
Assets under construction	**-**	581,113,279	700,993,064
	1,804,469,983	**1,550,936,177**	**1,612,809,435**

Raw land inventory pertains to parcels of land for future development. In 2015, CLLC acquired raw lands amounting to ₽878.5 million located at Cebu City with a total area of 8,440 square meters. As at September 30, 2016, initial planning costs were already incurred in relation to CLLC's project development. In September 2016, Cazneau acquired raw lands in Laguna amounting to ₽306.8 million with a total area of 81,821 square meters.

Condominium units held for sale pertain to the construction and development costs of unsold saleable condominium units and parking slots after development stage.

Assets under construction consisted of project development costs incurred by the Parent Company for the construction of Arya Residences. The POC rate as at September 30, 2016 is 100% for both Arya Residences Towers.

9. INVESTMENT PROPERTIES

This account consists of:

	September 2016	December 2015	September 2015
Unsubdivided land	**1,356,095,000**	621,913,060	621,913,060
Assets under construction	**1,004,734,474**	589,532,879	475,059,544
Properties for lease	**542,100,000**	179,877,922	140,027,218
	2,902,929,474	1,391,323,861	1,236,999,822

Investment properties are stated at fair value, which has been determined based on valuations performed by Asian Appraisal Company, Inc., an accredited independent appraiser, as of September 30, 2016. Asian Appraisal Company, Inc. is an industry specialist in valuing these types of investment properties. The value of the investment properties under Properties for lease was estimated by using the Market Data Approach, the value of the property was based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was done by establishing the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity of the subject property and was premised on the factors of unit area/size, unit location, unit improvements, building location, building features/amenities, and bargaining allowance for condominium units while factors of location, size and shape of the lot, time element, bargaining and others in the case of a parcel of land.

Starting 2016, the Group measured its unsubdivided land and properties for lease at fair value. These investment properties are revalued periodically at fair values as determined by an independent firm of appraisers. The latest appraisal report was prepared in September 2016. The Group recognized fair value gain of ₽795.5 million in 2016, presented as "Gain on fair value changes of investment properties" in the consolidated statements of comprehensive income. The fair value measurement for investment properties has been categorized as level 3 (significant unobservable inputs).

The composition of investment properties as at September 30, 2016 is as follows:

	September 2016
Cost	2,107,453,534
Cumulative gain on fair value changes (Note 18)	795,475,940
	2,902,929,474

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

	Valuation Technique	Significant unobservable Inputs	Range (weighted average)
Land	Market Approach for Land	Selling price per square meter	₱1,200 – ₱1,600/ sq. m.
Building	Market Approach	Asking price per square meter	₱191K – ₱563K/ sq. m.

Unsubdivided land

The Group's investment properties include UPHI's residential land with a carrying value of ₱384.7 million and with an area of 33 hectares located at Barangay Gonzalo-Bontog, Calamba City and Barangay Calabuso, Tagaytay City.

Portion of the UPHI's residential land is currently under expropriation proceedings filed by the National Power Corporation (NAPOCOR) with the Regional Trial Court of Calamba City, Laguna. NAPOCOR built a tower on the residential land owned by UPHI covering an area of one (1) hectare, the tower forms part of the Tayabas - Dasmarinas Line Project. The covered area is about 3% of the total land area owned by UPHI. As at September 30, 2016 and December 31, 2015, management believes that the effect of the expropriation on the Group's consolidated financial statements is not significant.

A complaint for quieting of title was filed by UPHI on October 18, 2010 because of the erroneous issuance of tax declarations by the City of Tagaytay covering UPHI's property located in Calamba City, Laguna. As at September 30, 2016 and December 31, 2015, management believes that the potential effect of the case on the Group's consolidated financial statements is not significant.

Unsubdivided land, located in Taguig City pertains to the site of Arthaland Century Pacific Tower with carrying value of ₱971.4 million was mortgaged in favor of certain creditor banks as collateral for the Company's loans.

Asset under construction

Asset under construction pertains to costs incurred for Arthaland Century Pacific Tower which is still under construction. The construction of said tower commenced in July 2014 and is expected to be completed in 2017.

AUC amounting to ₱589.5 million as at December 31, 2015 includes also the construction cost of commercial units and parking slots of Arya Residences Tower 2. Upon completion in 2016, this amount was transferred to Properties for lease.

Properties for lease

Properties for lease pertain to the construction and development costs of unsold leasable retail units and parking slots after development stage.

For the nine month period ended September 30, 2016, the Group however did not recognize leasing revenue from the use of the properties for lease nor incurred direct cost of leasing in relation to these investment properties, except for real property taxes. There are no particular amounts recognized in the profit or loss which can be specifically identified for contractual obligations or contracts relating to investment properties.

10. PROPERTY AND EQUIPMENT

The balances and movements of this account as of September 30, 2016, December 31, 2015 and September 30, 2015 consist of:

	Cost	Accumulated Depreciation	Net Carrying Amount
September 30, 2016			
Office equipment	**38,525,977**	**(36,535,837)**	**1,990,140**
Furniture and fixture	**7,557,425**	**(7,525,184)**	**32,241**
Leasehold improvements	**48,363,335**	**(48,169,394)**	**193,941**
Transportation equipment	**40,558,056**	**(20,540,879)**	**20,017,177**
	135,004,793	**(112,771,294)**	**22,233,499**
December 31, 2015			
Office equipment	37,467,642	(35,803,169)	1,664,473
Furniture and fixture	7,534,354	(7,391,289)	143,065
Leasehold improvements	48,363,334	(47,948,094)	415,240
Transportation equipment	33,992,553	(19,013,273)	14,979,280
	127,357,883	(110,155,825)	17,202,058
September 30, 2015			
Office equipment	36,789,510	(32,981,314)	3,808,196
Furniture and fixture	7,483,640	(7,244,783)	238,857
Leasehold improvements	69,866,483	(69,077,456)	789,027
Transportation equipment	31,779,161	(17,603,434)	14,175,727
	145,918,794	(126,906,987)	19,011,807

Depreciation and amortization on property and equipment were included as part of “Operating expenses” account in the interim consolidated statements of comprehensive income.

11. OTHER ASSETS

This account consists of:

	September 2016	December 2015	September 2015
Prepayments	**45,175,864**	19,232,703	22,920,838
Deposits	**35,883,561**	36,954,924	36,804,923

Input VAT	**36,952,491**	408,468	-
Investment in time deposits	**16,975,000**	98,858,090	63,130,872
Amounts held in escrow	**2,939,935**	31,679,600	31,190,160
Deferred input VAT	**2,748,490**	1,954,272	2,220,898
Others	**1,541,021**	-	1,541,022
	142,216,362	189,088,057	157,808,713

Prepayments consist of prepaid rent, taxes, insurance and others expenses which are amortized over a year.

Deposits pertain to rental deposits, deposits for professional services, and guarantee deposits for the construction of Arya Residences and ACPT. Deposits are refundable to the Group upon completion of the agreement.

Input VAT represents VAT paid to supplier that can be claimed as credit against the company's future VAT liabilities.

Investment in time deposits pertains to US Dollar-denominated time deposits with a term of two (2) years and a fixed interest rate of 1.75% per annum. These time deposits are subject to holding period of six (6) months from the date of issuance. In cases of pre-termination, the investment will earn interest based on regular deposit rates.

Amounts held in escrow represents the debt service account required under an existing loan with a certain bank the amount of which is equivalent to a quarter principal and interest amortization.

Deferred input VAT pertains to unamortized input VAT on property and equipment acquired whose amount exceeds ₱1.0 million, excluding VAT.

12. LOANS PAYABLE

This account consists of:

	September 2016	December 2015	September 2015
Local creditor banks	**1,563,435,269**	2,301,222,170	2,849,734,893
Private funders	**1,539,858,092**	790,546,742	49,723,970
	3,103,293,361	3,091,768,912	2,899,458,863

<u>Local creditor banks</u>
Loans from local banks consist of interest-bearing secured loans and CTS financing obtained to finance project development and carries interest rates ranging from 2.75% to 6.50% to 5.51% to 6.50% in 2016 and 2015, respectively.

<u>Private funders</u>
Loans from private funders represent unsecured borrowings with maturities of 180 days to 3 years from the financial position date. Loans obtained from an entity under common ownership amounting to ₽1,650.6 million and ₽825.3 million as at September 30, 2016 and December 31, 2015, respectively, are noninterest-bearing and will mature in 2018. "Day 1" gain amounting to ₽80.9 million and nil for the nine months ended September 30, 2016 and 2015, respectively, and is presented under "Other Income" account in the interim consolidated statements of comprehensive income (Note 18). Other loans have interest rate at 3.50% to 3.80% and ranging from 3.00% to 4.00% in 2016 and 2015, respectively.

13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account consists of:

	September 2016	December 2015	September 2015
Retention payable	**310,677,733**	344,413,225	332,867,319
Accounts payable	**292,737,634**	124,281,117	85,807,754
Payable to land owner	**267,168,000**	485,760,000	485,760,000
Accrued expenses	**121,405,606**	158,809,448	179,108,287
Payable to buyers	**49,430,789**	80,250,117	170,895,090
Deferred output VAT	**5,390,980**	131,062,891	188,025,249
Withholding taxes payable	**4,616,723**	7,039,350	4,634,350
Output VAT	**-**	20,419,309	3,250,238
Others	**16,597,618**	16,325,981	16,595,295
	1,068,025,083	1,368,361,438	1,466,943,582

Retention payable pertains to amount retained by the Company from contractors' progress billings for Arya Residences and ACPT which will be released after the completion and satisfaction of the terms and conditions of the construction contract.

Accounts payable consist mainly of liabilities to contractors and suppliers, which are noninterest-bearing and are normally settled within 30 days to one year.
Payable to land owner pertains to the unpaid balance on the land acquired in Cebu.

Accrued expenses are accruals for interests, utilities, salaries and wages and other employee benefits which are expected to be settled within the next 12 months.

Payable to buyers include reservation fees and collections received from prospective buyers which are to be applied against the receivable upon execution of sales documents and recognition of revenue. This account also includes excess collections from buyers over the related revenue recognized based on the percentage of completion method.

Deferred output VAT pertains to VAT from sales of property on the installment plan. If the payments in the year of sale do not exceed twenty-five percent (25%) of the gross selling price, the transaction will be considered as a sale under installment, in which case VAT will be paid based on collection.

14. RELATED PARTY TRANSACTIONS

The company engages, in the normal course of business, in various transactions with its related parties which include entities under common control, key management and others.

Advance to and from Subsidiaries
The Company grants advances to its subsidiaries for working capital requirements and capital expenditures.

Advances to Officers and Employees
The Company grants advances to its officers and employees. These are funds given to officers and employees to carry out their functions in the Company subject to liquidation.

Key Management Personnel

	September 2016 (Nine Months)	December 2015 (Twelve Months)
Salaries and other employee benefits	38,764,939.50	50,606,184.00
Retirement benefits expense	-	3,134,101.00
	38,764,939.50	53,740,285.00

15. CAPITAL STOCK

The account consists of:

	Shares		
	September 2016	December 2015	September 2015
Common shares - P0.18 par value			
Authorized - 16,368,095,199			
Issued:			
Balance at the beginning of period	**5,318,095,199**	5,280,595,199	5,280,595,199
Issued during the period	-	37,500,000	37,500,000.00
Balance at end of period	**5,318,095,199**	5,318,095,199	5,318,095,199
Subscribed:			
Balance at the beginning of period	-	37,500,000	37,500,000
Issued during the period	-	(37,500,000)	(37,500,000)
Balance at end of period	-	-	-
	5,318,095,199	5,318,095,199	5,318,095,199

	Amount		
	September 2016	December 2015	September 2015
Issued:			
Balance at the beginning of period	**957,257,136**	950,507,136	950,507,136
Issued during the period	-	6,750,000	6,750,000
Balance at end of period	**957,257,136**	957,257,136	957,257,136
Subscribed:			
Balance at the beginning of period	-	6,750,000	6,750,000
Issued during the period	-	(6,750,000)	(6,750,000)
Balance at end of period	-	-	-
Subscription receivable:			
Balance at the beginning of period	-	(2,150,000)	(2,150,000)
Collected during the period	-	2,150,000	2,150,000
Balance at end of period	-	-	-
Subscribed - net	-	-	-
	957,257,136	957,257,136	957,257,136

16. OPERATING EXPENSES

Details of operating expenses by nature are as follows:

	September 2016 (Nine Months)	December 2015 (Twelve Months)	September 2015 (Nine Months)
Personnel costs	**84,505,293**	132,319,593	95,612,214
Taxes and licenses	**48,211,995**	34,119,989	14,598,540
Advertising	**21,600,379**	18,027,303	11,688,998
Brokers' commissions	**17,239,906**	51,296,490	41,335,585
Communications	**15,758,627**	3,217,936	2,271,670
Rental	**7,386,548**	10,478,643	7,976,410
Insurance	**6,830,586**	9,971,139	7,276,021
Management and professional fees	**6,681,930**	13,400,124	5,338,147
Depreciation and amortization	**5,841,304**	19,282,497	13,801,936
Power, light and water	**5,143,425**	1,465,325	1,201,896
Annual dues and fees	**4,907,473**	6,625,944	5,203,873
Transportation and travel	**3,645,003**	4,886,530	3,843,715
Security services	**3,628,454**	2,097,231	1,541,321
Janitorial and clerical services	**498,024**	660,097	427,798
Supplies	**449,326**	309,254	337,239
Miscellaneous	**8,427,500**	5,722,677	5,644,293
	240,755,773	313,880,772	218,099,656

17. FINANCE COSTS

Finance costs relate to the following:

	September 2016 (Nine Months)	December 2015 (Twelve Months)	September 2015 (Nine Months)
Interest-bearing loans	**53,257,896**	39,713,231	26,171,895
Others	**531,902**	853,348	689,891
	53,789,798	40,566,579	26,861,786

18. OTHER INCOME - NET

This account consists of:

	September 2016 (Nine Months)	December 2015 (Twelve Months)	September 2015 (Nine Months)
Unrealized gain in fair value of investment property (Note 9)	**795,475,940**	-	-
"Day 1" difference on loan discounting	**80,883,656**	89,952,419	-
Realized gain on sales of financial assets at FVPL	**11,625,528**	5,807,623	5,278,768
Interest income	**7,945,660**	11,159,810	10,291,286
Unrealized gain on changes in fair value of financial assets at FVPL	**4,325,571**	635,227	330,034

Unrealized foreign exchange gain - net	**118,462**	2,407,067	1,384,663
Others	**31,437,010**	15,972,225	11,999,837
	931,811,827	125,934,371	29,284,588

Others include gain on sale of property and equipment and forfeited collections from buyers.

19. RETIREMENT LIABILITY

The Parent Company has an unfunded and non-contributory defined benefit retirement plan covering substantially all of its regular employees.

There are no unusual or significant risks to which the retirement liability exposes the Parent Company. However, in the event a benefit claim arises under the retirement liability, the benefit shall immediately be due and payable from the Parent Company.

The following tables summarize the components of retirement benefit costs recognized in the interim consolidated statements of comprehensive income (based on the report of an independent actuary dated February 29, 2016):

	September 2016 (Nine Months)	December 2015 (Twelve Months)	September 2015 (Nine Months)
Balance at beginning of year	**40,801,518**	33,672,130	33,672,130
Current service cost	**-**	7,061,137	-
Interest cost	**-**	1,565,754	-
Remeasurement loss (gain) on:			
Changes in financial assumptions	**-**	(1,500,812)	-
Experience adjustments	**-**	3,309	-
Balance at end of year	**40,801,518**	40,801,518	33,672,130

Movements in the present value of retirement liability are as follows:

	September 2016 (Nine Months)	December 2015 (Twelve Months)	September 2015 (Nine Months)
Balance at beginning of year	**40,801,518**	33,672,130	33,672,130
Retirement expense	**-**	8,626,891	-
Remeasurement gain	-	(1,497,503)	-
Balance at end of year	**40,801,518**	40,801,518	33,672,130

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s financial instruments comprise cash and cash equivalents, trade and other receivables, deposits, accounts and other liabilities (except statutory liabilities) and loans payable. The main purpose of these financial instruments is to finance the Group’s operations.

It is the Group’s policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group’s financial instruments are credit risk, liquidity risk and interest risk. The BOD reviews and approves policies for managing these risks as summarized below.

The Group's exposure to foreign currency risk is minimal, as it does not enter into transactions in currencies other than its functional currency.

Credit Risk

Credit risk is the risk that the Group will incur a loss because its counterparties fail to discharge their contractual obligations. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. As customary in the real estate business, title to the property is transferred only upon full payment of the purchase price. There are also provisions in the sales contract which allow forfeiture of installments or deposits made by the customer in favor of the Group. Also, customers are required to deposit postdated checks to the Group covering all installment payments. These measures minimize the credit risk exposure or any margin loss from possible default in the payment of installments. As of September 30, 2015 and December 31, 2015, there were no significant credit concentrations.

With respect to credit risk arising from the other financial assets of the Group, which are composed of cash, receivables and deposits, the Group's exposure to credit risk arises from default of the counterparty, with maximum exposure equal to the carrying amounts of the instruments.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position. Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount. The Group's exposure to credit risk is limited to the carrying amount of financial assets recognized as of September 30, 2016, December 31, 2015 and September 30, 2015.

None of Group's financial assets are secured by collateral or other credit enhancements.

a. Cash in Bank

The credit risk for cash in bank is considered negligible, since the counterparties are reputable universal banks with high quality external credit ratings. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million per depositor per banking institution.

b. Receivables

In respect of receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Receivables consist of a large number of customers. Based on historical information about customer default rates, management considers the credit quality of receivables that are not past due or impaired to be good.

The Group has no past due or impaired accounts as of September 30, 2016, December 31, 2015 and September 30, 2015.

Liquidity Risk

Liquidity risk is the risk that the Group may not be able to settle its obligations as they fall due.

The Group monitors its risk to a shortage of funds through analyzing the maturity of its financial investments and financial assets and cash flows from operations. The Group monitors its cash position by a system of cash forecasting. All expected collections, check disbursements and other payments are determined on a daily basis to arrive at the projected cash position to cover its obligations.

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group addresses liquidity concerns primarily through cash flow from operations. All financial liabilities of the Group, which consist of payable to clearing house, brokers and customers and accounts payable and other liabilities (excluding taxes payable to government agencies), are payable on demand.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates.

The Group's loans payable to local banks subject to floating interest rates are exposed to cash flow interest rate risk. The re-pricing of these instruments is done on intervals of three months. On the other hand, the Group's other loans payable to local banks and financing institutions subject to fixed interest rate are exposed to fair value interest rate risk.

The Group regularly monitors interest rate movements and on the basis of current and projected economic and monetary data, decides on the best alternative to take. No sensitivity analysis is needed as future interest rate changes are not expected to significantly affect the Group's net income.

21. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods under review is summarized as follows:

	September 2016	December 2015	September 2015
Total liabilities	**4,278,822,851**	4,681,596,102	4,617,734,583
Total equity*	**2,646,608,907**	1,861,820,478	1,771,698,670
	1.62:1	2.51:1	2.61:1

**based on consolidated equity*

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

22. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	September 2016	December 2015	September 2015
Net income attributable to equity holders of Arthaland Corporation	**779,832,417**	224,882,535	134,760,718
Divided by number of outstanding common shares	**5,318,095,199**	5,318,095,199	5,318,095,199
	0.147	0.042	0.025

Diluted earnings per share equals the basic earnings per share as the Parent Company does not have any dilutive potential common shares at the end of each of the three years presented.

23. FINANCIAL RATIOS

	September 2016	December 2015	September 2015
Current/Liquidity Ratio (Current Assets over Current Liabilities)	1.99:1	3.24:1	2.23:1
Solvency Ratio (Net income before depreciation over total liabilities)	0.18:1	0.05:1	0.03:1
Debt-to-equity Ratio (Total liability over total equity*)	1.62:1	2.51:1	2.61:1
Debt-to-equity (interest-bearing) Ratio (Interest-bearing liabilities over total equity*)	0.61:1	1.27:1	1.64:1
Asset-to-equity Ratio (Total assets over total equity*)	2.62:1	3.51:1	3.61:1
Interest Rate Coverage Ratio (Pretax income before Interest over interest expense)	14.84:1	8.69:1	9.32:1
Profitability Ratio (Net income attributable to equity holders of Arthaland Corporation over total equity)	0.29:1	0.12:1	0.08:1

**based on consolidated equity*

*** December 2015 ratio is based on full year income while September 2016 and September 2015 ratios are based on nine-month income.*

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL POSITION
September 2016 vs September 2015

	SEPTEMBER 30 2016	SEPTEMBER 30 2015	% Change
Cash and cash equivalents	**P456,346,161**	P540,113,449	-16%
Financial assets at fair value through profit or loss (FVPL)	**907,460,796**	263,830,033	244%
Trade and other receivables	**459,221,126**	2,339,034,490	-80%
Real estate for sale	**1,804,469,983**	1,612,809,435	12%
Investment properties	**2,902,929,474**	1,236,999,822	135%
Property and equipment	**22,233,499**	19,011,807	17%
Net deferred tax assets	**12,954,562**	135,804	9439%
Creditable withholding tax	**217,599,795**	219,689,701	-1%
Other assets	**142,216,362**	157,808,713	-10%
Total Assets	**6,925,431,758**	6,389,433,254	8%
Loans payable	**3,103,293,361**	2,899,458,863	7%
Accounts payable and other liabilities	**1,068,025,083**	1,466,943,582	-27%
Retirement liability	**40,801,518**	33,672,130	21%
Net deferred tax liabilities	**66,702,889**	217,660,008	-69%
Total Liabilities	**4,278,822,851**	4,617,734,583	-7%
Capital stock	**957,257,136**	957,257,136	0%
Additional paid-in capital	**75,000,000**	75,000,000	0%
Retained earnings	**1,608,405,248**	739,499,276	117%
Cumulative remeasurement gains (losses) on retirement liability - net of tax	**990,511**	(57,741)	1815%
Non-controlling interests	**4,956,012**	-	100%
Total Equity	**2,646,608,907**	1,771,698,671	49%
Total Liabilities and Equity	**P6,925,431,758**	P6,389,433,254	8%

The Company's total resources as of September 30, 2016 increased by 8% to ₱6.93 billion from September 30, 2015 level of ₱6.39 billion, due to the following:

16% Decrease in Cash and Cash Equivalents
The decrease was attributable to normal disbursements of the business and additional payments to land owners in Cebu and Laguna, where the Company recently acquired a parcel of land.

244% Increase in Financial Assets at Fair Value through Profit or Loss (FVPL)
The increase was primarily due to acquired non-interest bearing loans from a private funder to finance the construction of Arthaland Century Pacific Tower (ACPT) that was placed in a money market fund.

80% Decrease in Trade and Other Receivables

The decrease was mainly due to collection of maturing accounts and lower inventory of units sold this year since Tower 1 is fully sold while Tower 2 is almost substantially sold.

12% Increase in Real Estate for Sale
The increase was largely due to acquisition costs of parcels of land in Cebu City and Laguna.

135% Increase in Investment Properties
The increase was largely due to the change in valuation from cost to fair value method of investment properties and accumulation of cost of ACPT as the construction progresses.

17% Increase in Property and Equipment
The increase was mainly due to the acquisition of new cars for newly hired officers for the year.

9439% Increase in Net Deferred Tax Assets
The increase was primarily due to additional creditable withholding taxes arising from real estate sales.

10% Decrease in Other Assets
The decline was mainly due to maturities of some investments in dollar denominated time deposit and decreased amount held in escrow due to repayment of principal loans during the period.

7% Increase in Loans payable
The increase was mainly due to slightly higher loans acquired as compared to principal repayments of matured bank loans.

27% Decrease in Accounts Payable and Other Liabilities
The decrease largely was due to payment to landowner for the acquired property in Cebu and also decrease in deferred output vat.

21% Increase in Retirement Liability
The increase refers to additional provisions for retirement obligation for the year to comply with the requirements of PAS 19 and latest actuarial valuation report for the company.

69% Decrease in Net Deferred Tax Liabilities
The decrease was primarily due to recognition of deferred tax liabilities for the uncollected receivables from Arya sales.

117% Increase in Retained Earnings
The increase was largely due to Other Income for the period.

1815% Increase in Cumulative measurement gains (losses) on retirement liability - net of tax
This is a result of year-end adjustment to comply with the requirements of PAS 19 and re-measurement based on latest actuarial valuation report for the company.

100% Increase in Non-controlling Interests
This represents 40% of equity share of an investor in CLLC.

FINANCIAL RATIO
September 2016 vs September 2015

	September 2016	September 2015	% Change
Current/Liquidity Ratio (Current Assets over Current Liabilities)	**1.99:1**	2.23:1	-11%
Solvency Ratio (Net income before depreciation over total liabilities)	**0.18:1**	0.03:1	500%
Debt-to-equity Ratio (Total liability over total equity*)	**1.62:1**	2.61:1	-38%
Debt-to-equity (interest-bearing) Ratio (Interest-bearing liabilities over total equity*)	**0.61:1**	1.64:1	-63%
Asset-to-equity Ratio (Total assets over total equity*)	**2.62:1**	3.61:1	-27%
Interest Rate Coverage Ratio (Pretax income before Interest over interest expense)	**14.84:1**	9.32:1	59%
Profitability Ratio (Net income attributable to equity holders of Arthaland Corporation over total equity)	**0.29:1**	0.08:1	263%

**based on consolidated equity*

FINANCIAL POSITION
September 2016 vs December 2015

	SEPTEMBER 30 2016	DECEMBER 31, 2015	% Change
Cash and cash equivalents	**P456,346,161**	P604,613,082	-25%
Financial assets at fair value through profit or loss (FVPL)	**907,460,796**	732,635,225	24%
Trade and other receivables	**459,221,126**	1,831,115,193	-75%
Real estate for sale	**1,804,469,983**	1,550,936,177	16%
Investment properties	**2,902,929,474**	1,391,323,861	109%
Property and equipment	**22,233,499**	17,202,058	29%
Net deferred tax assets	**12,954,562**	12,382,953	5%
Creditable withholding tax	**217,599,795**	214,119,974	2%
Other Assets	**142,216,362**	189,088,057	-25%
Total Assets	**6,925,431,758**	6,543,416,580	6%
Liabilities			
Loans payable	**3,103,293,361**	3,091,768,912	0%
Accounts payable and other liabilities	**1,068,025,083**	1,368,361,438	-22%
Retirement liability	**40,801,518**	40,801,518	0%
Net deferred tax liabilities	**66,702,889**	180,664,234	-63%

Total Liabilities	**4,278,822,851**	4,681,596,102	-9%
Equity			
Capital stock	**957,257,136**	957,257,136	0%
Additional paid-in capital	**75,000,000**	75,000,000	0%
Retained earnings	**1,608,405,248**	828,572,831	94%
Cumulative remeasurement gains (losses) on retirement liability - net of tax	**990,511**	990,511	0%
Non-controlling interests	**4,956,012**	-	100%
Total Equity	**2,646,608,907**	1,861,820,478	42%
Total Liabilities and Equity	**P6,925,431,758**	P6,543,416,580	6%

The Company's total resources as of September 30, 2016 increased by 6% to ₱6.93 billion from December 31, 2015 level of ₱6.54 billion, due to the following:

25% decrease in Cash and Cash Equivalents
The decrease was attributable to normal disbursements of the business and additional payments to land owners in Cebu and Laguna, where the Company recently acquired a parcel of land.

24% increase in Financial Assets at Fair Value through Profit or Loss (FVPL)
The increase was primarily due to additional non-interest bearing loans from a private funder to finance the construction of ACPT that was placed in a money market fund.

75% Decrease in Trade and Other Receivables
The decrease was mainly due to collection of maturing accounts.

16% Increase in Real Estate for Sale
The increase was primarily due to said acquisition of parcels of land in Laguna.

109% Increase in Investment Properties
The increase was largely due to the change from cost to fair value method of investment properties and accumulation of cost of ACPT as the construction progresses.

29% Increase in Property and Equipment
The increase was mainly due to the acquisition of new cars for newly hired officers for the year.

5% Increase in Net Deferred Tax Assets
The slight increase was primarily due to additional creditable withholding taxes arising from real estate sales.

25% Decrease in Other Assets
The decline was mainly due to maturities of some investments in dollar denominated time deposit and decreased amount held in escrow due to repayment of principal loans during the period.

22% Decrease in Accounts Payable and Other Liabilities
The decrease largely was due to payment to landowner for the acquired property in Cebu and also decrease in deferred output vat.

63% Decrease in Net Deferred Tax Liabilities
The decrease was primarily due to recognition of deferred tax liabilities for the uncollected receivables from Arya sales.

94% Increase in Retained Earnings
The increase was largely due to Other Income for the period.

100% Increase in Non-controlling Interests
This represents 40% of equity share of an investor in CLLC.

FINANCIAL RATIO
September 2016 vs December 2015

	September 2016	December 2015	% Change
Current/Liquidity Ratio (Current Assets over Current Liabilities)	**1.99:1**	3.24:1	-39%
Solvency Ratio (Net income before depreciation over total liabilities)	**0.18:1**	0.052:1	260%
Debt-to-equity Ratio (Total liability over total equity*)	**1.62:1**	2.51:1	-35%
Debt-to-equity (interest-bearing) Ratio (Interest-bearing liabilities over total equity*)	**0.61:1**	1.27:1	-52%
Asset-to-equity Ratio (Total assets over total equity*)	**2.62:1**	3.51:1	-25%
Interest Rate Coverage Ratio (Pretax income before Interest over interest expense)	**14.84:1**	8.69:1	71%
Profitability Ratio (Net income attributable to equity holders of Arthaland Corporation over total equity)	**0.29:1**	0.12:1	142%

**based on consolidated equity*

RESULTS OF OPERATIONS
September 2016 vs September 2015

	SEPTEMBER 30 2016	SEPTEMBER 30 2015	% Change
Realized revenues from real estate sales	**P325,402,973**	P1,407,976,131	-77%
Cost of real estate sold	**(217,999,646)**	(968,848,045)	-77%
Gross Profit	**107,403,327**	439,128,086	-76%
OPERATING EXPENSES			
Administrative expenses	**201,915,488**	165,075,073	22%
Selling and marketing expenses	**38,840,285**	53,024,583	-27%
	240,755,773	218,099,656	10%

OPERATING PROFIT (LOSS)	**(133,352,446)**	221,028,430	-160%
OTHER OPERATING EXPENSES (INCOME)			
Finance costs	**53,789,798**	26,861,786	100%
Other income - net	**(931,811,827)**	(29,284,588)	3082%
	(878,022,029)	(2,422,802)	36140%
PROFIT BEFORE TAX	**744,669,583**	223,451,232	233%
TAX EXPENSE (BENEFIT)	**(22,724,129)**	88,690,514	-126%
NET PROFIT	**P767,393,712**	P134,760,718	469%

The Company's net income in the first three quarters was at ₽767.4 million or 469% higher for the year-on year.

77% Decrease in Realized Revenues from Real Estate Sales
The decrease was attributable to lower number of units sold in the 1ST three quarters of the year as compared to same period of last year, and the decreasing inventory of Arya Residences units since Tower 1 is fully sold while Tower 2 is almost substantially sold.

77% Decrease in Cost of Sales
The decrease in cost of sales is directly related to the decrease in revenues mentioned in the foregoing.

22% Increase in Administrative Expenses
The increase was largely due to higher taxes and licenses, utilities, and manpower expenses related to turnover of Arya Tower 2 in the 2nd quarter of 2016.

27% Decrease in Selling and Marketing Expenses
The decrease was due to lower sales commissions during the current year as compared to prior year.

100% Increase in Finance costs
The increase was due to amortization of "Day 1" gain on loan discounting.

3082% Increase in Other Income - net
The significant increase was largely due to unrealized gain recognized in the P&L due to change of valuation from cost to fair value of investment properties.

126% Decrease in Tax Expense
The decrease was due to lower taxable income for the period.

RESULTS OF OPERATIONS
September 2016 vs December 2015

	SEPTEMBER 30 2016	DECEMBER 31 2015	% Change
Realized revenues from real estate sales	**P325,402,973**	P1,584,016,397	-79%
Cost of real estate sold	**(217,999,646)**	(1,043,700,643)	-79%
Gross Profit	**107,403,327**	540,315,754	-80%

OPERATING EXPENSES			
Administrative expenses	**201,915,488**	244,556,979	-17%
Selling and marketing expenses	**38,840,285**	69,323,793	-44%
	240,755,773	313,880,772	-23%
OPERATING PROFIT (LOSS)	**(133,352,446)**	226,434,982	-159%
OTHER OPERATING EXPENSES (INCOME)			
Finance costs	**53,789,798**	40,566,579	33%
Other income - net	**(931,811,827)**	(125,934,371)	640%
	(878,022,029)	(85,367,792)	929%
PROFIT BEFORE TAX	**744,669,583**	311,802,774	139%
TAX EXPENSE (BENEFIT)	**(22,724,129)**	87,968,491	-126%
NET PROFIT	**P767,393,712**	P223,834,283	243%

The Company posted a net income of ₱767.4 million in the 1st three quarters of 2016 as compared with the 2015 full year net income of ₱223.8 million.

RESULTS OF OPERATIONS
July - September 2016 vs July - September 2015

	Jul 1 - Sep 30, 2016	Jul 1 - Sep 30, 2015	% Change
Realized revenues from real estate sales	**(P40,111,266)**	P510,185,633	-108%
Cost of sales	**60,301,300**	(373,212,287)	-116%
Gross Profit	**20,190,034**	136,973,346	-85%
OPERATING EXPENSES			
Administrative expenses	**79,733,010**	52,383,712	52%
Selling and marketing expenses	**13,096,973**	15,264,399	-14%
	92,829,983	67,648,111	37%
OPERATING PROFIT (LOSS)	**(72,639,949)**	69,325,235	-205%
OTHER OPERATING EXPENSES (INCOME)			
Finance costs	**24,393,264**	7,911,345	208%
Other income - net	**(816,156,682)**	(7,491,963)	10794%
	(791,763,418)	419,382	-188893%
PROFIT BEFORE TAX	**719,123,469**	68,905,853	944%
TAX EXPENSE (BENEFIT)	**(24,399,966)**	37,561,743	-165%
NET PROFIT	**P743,523,435**	P31,344,110	2272%

The Company's net income was 2272% lower for the quarter on quarter.

108% Decrease in Realized Revenues from Real Estate Sales
The negative balance of revenues was mainly due higher cancellation of previously sold units as against the number of units sold in the current quarter as compared to previous quarter, where higher volume of units were sold relative to existing high inventory of units at that time.

116% Decrease in Cost of Sales
The positive balance of cost of sales for the quarter is directly related to cancellation of booked units as mentioned in the foregoing.

52% increase in Administrative Expenses
The increase was largely due to higher taxes which includes business taxes, DST on loans, and related real property taxes on Arya T2, turned over in the recent two quarters.

14% Decrease in Selling and Marketing Expenses
The decrease was due to lower sales commissions during the current period as compared to same period of prior year.

208% Increase in Finance Costs
The increase was due to amortization of "Day 1" gain on loan discounting.

10794% Increase in Other Income - net
The significant increase was largely due to unrealized gain recently recognized in the P&L due to change of valuation from cost to fair value of investment properties.

165% Decrease in Tax Expense (Benefit)
The decrease was due to lower taxable income during the 1st three quarters of 2016 compared with the same period last year.