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**CITYLAND DEVELOPMENT CORPORATION**

**RELATED PARTY TRANSACTIONS POLICY**

**(SEPTEMBER 2019)**

| <b>Table of Contents</b>  | <b>Page</b> |
|---|-------------|
| I. Introduction   | 1           |
| II. Policy Statement  | 1           |
| III. Definition of Terms  | 1           |
| IV. Duties & Responsibilities   |             |
| A. Board of Directors   | 3           |
| B. Audit & Risk Committee   | 4           |
| C. Senior Management  | 5           |
| V. Policy on Material Related Party Transactions  |             |
| A. Identification of Related Parties  | 5           |
| B. Scope / Coverage of the Policy   | 5           |
| C. Identification and Prevention / Management of Potential or Actual Conflict of Interest | 6           |
| D. Approval Process   | 6           |
| E. Policy Monitoring  | 7           |
| F. Disclosure Requirements  | 7           |
| G. Remedies for Abusive Material RPTs   | 7           |
| VI. Disclosure and Regulatory Reporting   | 8           |
| VII. Penalties and Sanctions  | 8           |

# RELATED PARTY TRANSACTIONS POLICY

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## I. INTRODUCTION

This Related Party Transactions Policy (the “Policy”) is hereby adopted by Cityland Development Corporation (the “Corporation”) in compliance with the Securities and Exchange Commission (SEC) Memorandum Circular No. 10, Series of 2019 which requires all publicly-listed companies to be guided by the said policy in entering material related party transactions.

## II. POLICY STATEMENT

This Policy aims to ensure that all related party transactions are properly identified and that the Corporation complies with the disclosure requirements set by the SEC and as required by the Philippine Accounting Standards (PAS) 24, *Related Party Disclosures*.

## III. DEFINITION OF TERMS<sup>1</sup>

|   |  |
|---|--|
| Abusive Related Party Transactions (RPTs) | Refer to material RPTs that are not entered at an arm’s length and unduly favor a related party.   |
| Affiliate                                 | <ul style="list-style-type: none"><li>- Refers to an entity linked directly or indirectly to the Corporation through any one or a combination of the following:<ul style="list-style-type: none"><li>• Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) of the outstanding voting stock of the Corporation, or vice-versa;</li><li>• Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;</li><li>• Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Corporation and the entity; or</li><li>• Management contract or any arrangement granting power to the Corporation to direct or cause the direction of management and policies of the entity, or vice-versa.</li></ul></li></ul> |
| Associate                                 | <ul style="list-style-type: none"><li>- An entity over which the Corporation holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the Corporation has significant influence.</li></ul>   |
| Close Family Members                      | <ul style="list-style-type: none"><li>- Family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:<ul style="list-style-type: none"><li>• that person’s children and spouse or domestic partner;</li><li>• children of the person’s spouse or domestic partner; and</li><li>• dependents of that person or that person’s spouse or domestic partner.</li></ul></li></ul>   |
| Control                                   | <ul style="list-style-type: none"><li>- A person or an entity controls the Corporation if and only if the person or entity has all of the following:</li></ul>   |

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<sup>1</sup>Adopted based on the SEC Memorandum Circular No. 10, Series of 2019 and PAS 24, *Related Party Disclosures*.

## RELATED PARTY TRANSACTIONS POLICY

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|                                     |  |
|-------------------------------------|--|
|                                     | <ul style="list-style-type: none"><li>• Power over the Corporation;</li><li>• Exposure, or rights, to variable returns from its involvement with the Corporation; and</li><li>• The ability to use its power over the Corporation to affect the amount of the Corporation's returns.</li></ul>   |
| Material Related Party Transactions | - Any related party transaction/s, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of the Corporation's total consolidated assets based on its latest audited financial statement.  |
| Materiality Threshold               | - Ten percent (10%) of the Corporation's total consolidated assets based on its latest audited financial statement.  |
| Related Parties                     | - Covers the Corporation's directors, officers, substantial stockholders and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the Corporation. It also covers the Corporation's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party. |
| Related Party Registry              | - A record of the organizational and structural composition, including any change thereon, of the Corporation and its related parties.   |
| Related Party Transactions (RPT)    | - A transfer of resources, services or obligations between the Corporation and a related party, regardless of whether the price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated parties, but also outstanding transactions that are entered into with unrelated party that subsequently becomes a related party.   |
| Substantial Shareholder             | - Any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.  |
| Significant Influence               | - The power to participate in the financial and operational policy decisions of the Corporation but has no control or joint control of the policies.   |

# RELATED PARTY TRANSACTIONS POLICY

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## IV. DUTIES AND RESPONSIBILITIES

In accordance with the SEC Memorandum Circular No. 10, Series of 2019, the Corporation hereby incorporates in this Policy the duties and responsibilities of the Board of Directors, Audit & Risk Committee and Senior Management.

### A. Board of Directors

The Board shall have the overall responsibility in ensuring that transactions with related parties are being handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of the Corporation's shareholders and other stakeholders. The Board of Directors shall carry out the following duties and responsibilities:

1. To institutionalize an overarching policy on the management of material RPTs to ensure effective compliance with existing laws, rules and regulations at all times and that material RPTs are conducted on an arm's length basis, and that no shareholder or stakeholder is unduly disadvantaged.
2. To approve all material RPTs that cross the materiality threshold and write-off of material exposures to related parties, as well as any renewal or material changes in the terms and conditions of material RPTs previously approved in accordance with Section V(D) of this policy.
3. To establish an effective audit, risk and compliance system to:
  - Determine, identify and monitor related parties and material RPTs;
  - Continuously review and evaluate existing relationships between and among businesses and counterparties; and
  - Identify, measure, monitor and control risks arising from material RPTs.

The system shall be able to define the related parties' extent of relationship with the Corporation; assess situations in which a non-related party (which whom the Corporation has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the nature and amount of exposures of the Corporation to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the Internal Audit and the Compliance Officer and shall be updated regularly to their sound implementation. The overarching policy mechanism and the system shall be made available to the SEC and audit functions for review. Any change in the policy and procedure shall be approved by majority of the Board of Directors.

4. To oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The Board shall ensure that senior management addresses legitimate issues on material RPTs that are raised. The Board shall take responsibility for ensuring that stakeholders who raise concerns are protected from detrimental treatment or reprisals.

# RELATED PARTY TRANSACTIONS POLICY

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## B. Audit & Risk Committee

As discussed in the Audit & Risk Committee Charter, the oversight functions of the Audit & Risk Committee shall include the review and approval of the related party transactions. The following shall be the duties and responsibilities of the Audit & Risk Committee:

1. To evaluate an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;
2. To evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Corporation are misappropriated or misapplied, and to determine any potential risk issues that may arise as a result of or in connection with the transactions.

In evaluating the RPTs, the Committee takes into account, among others, the following:

- The related party's relationship to the Corporation and interest in the transaction;
  - The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - The benefits to the Corporation of the proposed RPT;
  - The availability of the sources of comparable products or services; and
  - An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Corporation shall have an effective price discover system in place and exercise due diligence in determining a fair price for RPTs.
3. To ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Corporation's RPT exposures, and policies on conflict of interest or potential conflict of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Corporation's affiliation or transactions with other related parties;
  4. To report to the Board on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;

## **RELATED PARTY TRANSACTIONS POLICY**

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5. To ensure that transactions with related parties, including write-off exposures are subject to a periodic independent review on audit process; and
6. To oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

### **C. Senior Management**

Senior Management shall implement appropriate controls to effectively manage and monitor material RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with this policy and the regulations of SEC.

## **V. POLICY ON MATERIAL RELATED PARTY TRANSACTIONS**

The Corporation hereby adopts a policy on material RPT encompassing all entities within the conglomerate, taking into account its size, structure, risk profile and complexity of operations.

### **A. Identification of Related Parties**

A person or a group of persons considered as related parties are as follows:

- i. Corporation's subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities), that the Corporation exerts direct or indirect control over or exerts direct or indirect control over the Corporation;
- ii. Directors;
- iii. Officers;
- iv. Shareholders and related interests;
- v. The above persons' close family members;
- vi. The corresponding above-stated persons in affiliated companies; and
- vii. Other person or juridical entity whose interest may pose a potential conflict with the interest of the Corporation.

The Corporation has designated individuals under the Senior Management position who shall monitor the RPTs.

### **B. Scope / Coverage of the Policy**

- All related party transactions that may be deemed material are covered by the said Policy.
- All transactions amounting to ten percent (10%) or more of the total consolidated assets that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required herein. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the material RPT to the requirements of this Material RPT Rules. The prospective treatment, should, however, be without prejudice to regulatory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

## **RELATED PARTY TRANSACTIONS POLICY**

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The Corporation may lower the materiality threshold provided by the Securities and Exchange Commission (SEC) upon determination by the Board of Directors of the risk of the RPT to cause damage to the Corporation and its shareholders.

### **C. Identification and Prevention / Management of Potential or Actual Conflict of Interest**

Directors and officers with personal interest in the transaction shall fully and timely disclose any and all material facts, including their respective interests in the material RPT and abstain from the discussion, approval and management of such transaction or matter affecting the Corporation. In case they refuse to abstain, their attendance shall not be counted for purpose of assessing the quorum and their votes shall not be counted for the purpose of determining majority approval.

There is no preferential treatment given to related parties that are not extended to unrelated parties under similar circumstances.

Before the execution of the material RPT, the Board of Directors may appoint an external independent party to evaluate the fairness of the terms of the material RPTs. An external independent party may include, but is not limited to, auditing/accounting firms and third party consultants and appraisers. The independent evaluation of the fairness of the transparent price ensures the protection of the rights of shareholders and other stakeholders.

### **D. Approval Process**

#### **1. Pre-approved Related Party Transactions**

The Corporation shall identify the pre-approved related party transactions which shall no longer need the approval of the Board of Directors.

The following are considered as pre-approved related party transactions:

- a) Sharing of expenses by the companies within the Cityland Group;
- b) Transactions within the normal course of business wherein the terms are similar and available to all third parties (e.g. purchase of condominium units, issuance of commercial papers, etc.);
- c) Any transaction with a related party that involves the rendering of services at rates or charges fixed at arm's length basis and in conformity with law or government authority; and
- d) Share transactions such as dividends, repurchase, right offerings, available to all shareholders on a pro-rata ownership basis.

#### **2. Individual Material Related Party Transactions**

Approval of an individual material RPT may be achieved through the following:

## **RELATED PARTY TRANSACTIONS POLICY**

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- a) All individual material RPTs shall be approved by at least two-thirds (2/3) vote of the Board of Directors, with at least a majority of the independent directors voting to approve the material RPT.
- b) If the above procedure is not achieved, the individual material RPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

### **3. Aggregate Related Party Transactions**

Aggregate RPTs which are within a twelve (12)-month period that breaches the materiality threshold of ten percent (10%) of the Corporation's total consolidated assets will be approved through the procedures applied for individual material related party transactions. This is also a requirement to the transaction/s that meet/s and exceed/s the materiality threshold covering the same related party.

Directors with personal interest in the transaction should abstain from participating in discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

### **E. Policy Monitoring**

The Internal Audit Department shall conduct a periodic review of the effectiveness of the Corporation's system and internal controls governing material RPTs to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit & Risk Committee.

The Corporation's Compliance Officer shall ensure that the Corporation complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. He/she shall aid in the review of the Corporation's transactions and identify any potential material RPT that would require review by the Board. He/she shall ensure that the Corporation's material RPT policy is kept updated and is properly implemented throughout the Corporation.

### **F. Disclosure Requirements**

The Board members, substantial shareholders, and officers shall fully disclose to the Board of Directors all material facts related to material RPTs as well as their direct and indirect financial interest in any transaction or matter that may affect or is affecting the Company. Such disclosure shall be made at the board meeting where the material RPT will be presented for approval and before the completion or execution of the material RPT.

### **G. Remedies for Abusive Material RPTs**

The Corporation shall establish a whistle blowing mechanism consistent with the corporate values and Code of Business Conduct and Ethics wherein all of the stakeholders are encouraged to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable material RPTs. The whistleblower may communicate any questionable transaction to the Compliance Officer, the Head of Internal Audit, Head of Personnel Department or any individual allowed by the Corporation to handle such issues.

# RELATED PARTY TRANSACTIONS POLICY

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## VI. DISCLOSURE AND REGULATORY REPORTING

In connection with disclosure and reportorial requirements of the SEC, the following are the rules on reporting material RPTs:

1. The Advisement Report on Material RPTs (*Annex A*) shall be filed within three (3) calendar days after the execution date of the transaction. The Advisement Report shall be signed by the Corporate Secretary or authorized representative of the Corporation.
2. A summary of material related party transactions entered into during the reporting year shall be disclosed in the Corporation's Integrated Annual Corporate Governance Report (I-ACGR) submitted annually every May 30.

The Corporation shall also ensure that it complies with the disclosure requirements set by the Philippine Accounting Standards (PAS) 24 on Related Party Disclosures. The annual financial statements of the Corporation shall contain the disclosures as required by PAS 24.

## VII. PENALTIES AND SANCTIONS

The Corporation shall ensure that it strictly complies to the said policy in order to protect the interests of the shareholders. Hence, any transactions made without compliance on this policy shall be void and both parties are penalized in accordance with the related laws.

Pursuant to Sections 26 and 27 of the Revised Corporation Code, an interested director or officer of a corporation shall be disqualified from being a director or officer of any other corporation on the basis of a final judgment rendered by a court of competent jurisdiction against the interested director or officer for abusive material RPTs. The disqualification shall be for a period of at least one (1) year or more as may be determined by the SEC.

The Compliance Officer shall be responsible in determining the violation/s through notice and hearing and shall recommend to the Chairman of the Board the corresponding imposable penalty for such violation, subject to further review and approval of the Board of Directors.

Approved by:

(Originally signed)  
**DR. ANDREW I. LIUSON**  
Chairman of the Board

(Originally signed)  
**MR. RUDY GO**  
Compliance Officer