



GLOBAL-ESTATE RESORTS, INC.

MANAGEMENT REPORT

For the
2018 Annual Shareholders' Meeting
Pursuant to SRC Rule 20 (4)

Item 8. Financial and Other Information

Audited Financial Statements

The consolidated financial statements as of 31 December 2017 are attached hereto including the interim financial statements as of March 31, 2018. The Statement of Management Responsibility, Schedules Required under Part IV (c) of Rule 48 are included in the Annual Report (Form 17-A).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.1 Basis of Preparation of Consolidated Financial statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. The Group presents all items of income and expenses in a single consolidated statement of comprehensive income.

The Group presents a third consolidated statement of financial position at the beginning of the preceding period when it applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to third consolidated statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Group's presentation and functional currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using its functional currency which is the currency of the primary economic environment in which the Group operates.

1.2 Adoption of New and Amended PFRS

(a) *Effective in 2017 that are Relevant to the Group*

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income taxes – Recognition of Deferred Tax Assets for Unrealized Losses
Annual Improvements to PFRS (2014 – 2016 Cycle)		
PFRS 12	:	Disclosure of Interest in Other Entities – Scope Clarification Disclosure of Summarized Financial Information for Interest classified as held for sale

Discussed below and in the succeeding pages are the relevant information about these amendment and improvements.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
- changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and,
 - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Management has applied these amendments in the current period and has not disclosed comparative figures as allowed by the transitional provisions.

- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The

application of this amendment has had no impact on the Group's consolidated financial statements.

- (iii) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PFRS 12, *Disclosure of Interest in Other Entities*, is the only one applicable in 2017. The amendment clarifies that the disclosure requirements of PFRS 12 applies to interest in other entities classified as held for sale with practical concession in the presentation of summarized financial information. The amendment states that an entity need not present summarized financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale. The application of this pronouncement did not have an impact on the Group's consolidated financial statements.

(b) *Effective in 2017 that are not Relevant to the Group*

There are new PFRS, interpretations, amendments and annual improvements to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

- (i) PAS 40 (Amendment), *Investment Property – Reclassification to and from investment property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use.
- (ii) PFRS 2 (Amendments), *Share-based Payment* (effective from January 1, 2018). The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
- (iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Classification and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
 - an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
 - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk

management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income (FVTOCI) if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment of the Group's financial assets and liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified the following areas that are expected to be most impacted by the application of PFRS 9 (2014):

- On classification and measurement of the Group's financial assets, management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects all financial assets currently classified as loans and receivables to continue to be classified and accounted for at amortized cost.
- The ECL model will apply to the Group's installment contract receivables arising from real estate sales. For other financial assets presented in Trade and Other Receivables and Advances to Related Parties, the Group will apply a simplified model of recognizing lifetime ECL as these items do not have significant financing component.
- The Group's equity securities, regardless if quoted or not, will be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition.

- (iv) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.
- (v) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Based on an assessment and comprehensive study of the Group's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant source of revenue from contracts with customers covered by PFRS 15 pertains to real estate sales.

Real estate sales include sale of developed land, house and lot, and condominium units on which the Group's performance obligation is to transfer ownership over the developed properties. The Group begins selling real properties prior to the completion of the development. Based on the requirements of PFRS 15, the Group has assessed that its performance obligation on its sale of real properties under development is satisfied over time considering that, under existing laws and regulations, the Group does not have an alternative use on the assets being developed and that it has rights to payment over the development completed to date. When the Group sells developed properties, its performance obligation is satisfied at a point in time; that is when the customer has accepted the property.

The Group has also assessed that a significant financing component is common to its contracts to sell real properties as the timing of collection of promised consideration is not aligned with the timing of the satisfaction of performance obligation. Such timing difference usually extends beyond twelve months.

- (vi) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for

transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

- (vii) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendment), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* (effective from January 1, 2018) is relevant to the Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.
- (viii) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture.
- (ix) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI.
- (x) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right of use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as

PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

- (xi) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.
- (xii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify existing requirements:
 - PAS 12 (Amendments), *Income taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
 - PAS 23 (Amendments), *Borrowing costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
 - PFRS 3 (Amendments), Business Combinations and PFRS 11 (Amendments), Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

1.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Company, and its subsidiaries as enumerated in Note 1, after the elimination of material intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

Financial statements of entities in the Group that are prepared as of a date different from that of the date of these consolidated financial statements were adjusted to recognize the effects of significant transactions or events that occur between that date of their reporting period and the

date of these consolidated financial statements. Adjustments are also made to bring into line any dissimilar accounting policies that may exist.

The Company accounts for its investments in subsidiaries, associates, interests in joint operations and transactions with NCI as follows:

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Company obtains control.

The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any NCI in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any NCI in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference (negative goodwill) is recognized directly as gain in profit or loss.

(b) Investments in Associates

Associates are those entities over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investments in associates are also subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Company's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Company's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Company's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity Share in Net Losses of Associates account in the consolidated statement of comprehensive income.

Impairment loss is provided when there is an objective evidence that the investment in an associate will not be recovered.

Changes resulting from other comprehensive income of the associates or items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale (AFS) financial assets, are recognized in other comprehensive income or equity of the Group, as applicable. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments in behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeded the accumulated share of losses that has previously not been recognized.

Distributions received from the associates, if any, are accounted for as a reduction of the carrying value of the investment.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Associates are those entities over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

(c) Interests in Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint control arises from a contractually agreed sharing of control in an arrangement, which exist only when decisions about the relevant activities require unanimous consent of the parties sharing control. For interests in joint operations, the Group recognized in its consolidated financial statements its assets including its share of any assets held jointly; its liabilities including its share of any liabilities incurred jointly; its revenue from sale of its share of the output arising from the joint operation; its expenses including its share of any expenses incurred jointly; and its share in the income from the sale of goods or services by the joint operation. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group and are measured and recognized in accordance with the relevant financial reporting standards.

No adjustment and consolidation procedures are required for the assets, liabilities, income and expenses of the joint operation that are recognized in the separate financial statements of the joint operators.

(d) Transactions with NCI

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

1.4 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) *Classification and Measurement of Financial Assets*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss. A more detailed description of the relevant financial assets is as follows:

(i) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented in the consolidated statements of financial position as Cash and Cash Equivalents, Trade and Other Receivables (except for Advances to raw landowners and Advances to officers and employees), Advances to Related Parties and Refundable deposits (included as part of Other Non-current Assets). Cash and cash equivalents include

cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(ii) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are classified as non-current assets in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period. The Group's AFS financial assets include proprietary golf club membership shares and are presented as part of Others under the Other Non-current Assets account in the consolidated statement of financial position.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences in monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(b) *Impairment of Financial Assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group recognizes impairment loss based on the category of financial assets as follows:

(i) *Carried at Amortized Cost – Loans and Receivables*

If there is objective evidence that an impairment loss on loans and receivables carried at cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously

recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

(ii) *Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) *Items of Income and Expense Related to Financial Assets*

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance and Other Income or Finance Costs and Other Charges account in the consolidated statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

1.5 Real Estate Transactions

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to the Land for Future Development account. These costs are reclassified to Property Development Costs account when the development of the property starts. Related property development costs are then accumulated in this account. Borrowing costs on certain loans incurred during the development of the real estate properties are also capitalized by the Group as part of Property Development Costs or Real Estate, Golf and Resort Shares for Sale account (see Note 2.21).

Once a revenue transaction occurred, on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Real Estate, Golf and Resort Shares for Sale account.

The cost of real estate property sold before completion of the development, if any, is determined based on the actual costs incurred to date plus estimated costs to complete the development of the property. The estimated expenditures for the development of sold real estate property, as determined by the project engineers, are charged to the Cost of Real Estate Sales presented in the consolidated statement of comprehensive income with a corresponding credit to Reserve for Property Development account, a liability account.

Costs of properties and projects classified under Land for Future Development, Property Development Costs and Real Estate, Golf and Resort Shares for Sale are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale.

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known. Any impairment loss from a real estate project is charged to operations during the period in which the loss is determined.

Revenue and cost relative to forfeited or back-out sales are reversed in the current year as they occur.

1.6 Prepayments and Other Current Assets

Prepayments and other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

1.7 Property and Equipment

Property and equipment, except land, are carried at acquisition or construction cost less subsequent depreciation, amortization and impairment losses, if any. As no finite useful life for land can be determined, the related carrying amount are not depreciated. Land is stated at cost less any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expenses as incurred.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Office furniture, fixtures and equipment	3-5 years

Transportation and other equipment	5 years
Building and office improvements	5-10 years

The residual values, estimated useful lives and method of depreciation of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property and equipment, including the related accumulated depreciation, amortization and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

1.8 Investment Property

Investment property consists of parcels of land and buildings held for lease. Buildings are carried at cost less accumulated depreciation and any impairment losses. Land is stated at cost less any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful life of the assets as follows:

Land development and improvements	20 years
Building and improvements	25-50 years

The residual values, estimated useful lives and method of depreciation of investment property are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount (see Note 2.18).

Transfers to, or from, investment property shall be made when and only when there is a change in use or purpose for such property.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

1.9 Development Rights

Development rights are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to

acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful life as the life of this intangible asset is considered finite. In addition, development rights are subject to impairment testing as described in Note 2.18.

Development rights, presented as part of the Other Non-current Assets account, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in profit or loss in the year the item is derecognized.

1.10 Financial Liabilities

Financial liabilities, which include Interest-bearing Loans, Trade and Other Payables (except tax-related liabilities), Advances from Related Parties, Due to Joint Venture Partners, Redeemable Preferred Shares and Other Non-current Liabilities account (except Advance rental), are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges, if any, incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Costs and Other Charges in the consolidated statement of comprehensive income.

Interest-bearing loans are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and Other Payables, Advances from Related Parties, Due to Joint Venture Partners and Other Non-current Liabilities are initially recognized at their fair values and subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments.

Preferred shares, which carry a mandatory coupon or are redeemable on specific date or at the option of the shareholder, are classified as financial liabilities and presented as a separate line item in the consolidated statement of financial position as Redeemable Preferred Shares.

Dividend distributions to shareholders, if any, are recognized as financial liabilities when the dividends are approved by the BOD. The dividends on the redeemable preferred shares are recognized in the consolidated statement of comprehensive income as interest expense on an amortized cost basis using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

1.11 Business Combination

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill, if any, represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill, if any, is measured at cost less any accumulated impairment losses.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Negative goodwill, which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost, is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

1.12 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's BOD - its chief operating decision-maker. The BOD is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses;
- expenses relating to share-based payments;
- research costs relating to new business activities; and,

- revenue, costs and fair value gains from investment property.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

1.13 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

1.14 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

1.15 Revenue and Expense Recognition

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for real properties sold and services rendered, excluding any applicable value-added tax (VAT).

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred

can be measured reliably. In addition, the specific recognition criteria discussed below must also be met before revenue is recognized.

- (a) *Real estate sales* – For financial reporting purposes, revenues from transactions covering sales of real estate are recognized under the percentage-of-completion method. Under this method, realization of gross profit is recognized by reference to the stage of development of the properties, *i.e.*, revenue is recognized in the period in which the work is performed. The unrealized gross profit on a period's sales is presented as Deferred Gross Profit on Real Estate Sales in the consolidated statement of comprehensive income; the cumulative unrealized gross profit as of the end of the year is shown as Deferred Income on Real Estate Sales in the consolidated statement of financial position.

The sale is recognized when a certain percentage of the total contract price has already been collected. If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyer are initially recorded as part of Customers' Deposits account in the consolidated statement of financial position.

Revenues on sales of undeveloped land and golf and resort shares for sale, on the other hand, are recognized using the full accrual method. Under the full accrual method, revenue is recognized when the risks and rewards of ownership in the undeveloped land and golf and resort shares have passed to the buyer and the amount of revenue can be measured reliably.

Revenues and costs relative to forfeited or back out sales are reversed in the current year as they occur.

Any adjustments relative to previous periods' sales are recorded in the current period as they occur.

For tax reporting purposes, a modified basis of computing the taxable income for the period based on collections from sales is used by the Group.

- (b) *Service income* – Revenue is recognized when the performance of mutually agreed tasks has been rendered.
- (c) *Rental income and hotel operations* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. Rental income is recognized on a straight-line basis over the lease term (see Note 2.16). Advance rentals received are recorded as deferred rental income and are taxable on the period received. For tax purposes, rental income is recognized based on the contractual terms of the lease.
- (d) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.
- (e) *Dividends* – Revenue is recorded when the Group's right to receive the payment is established.

Cost of real estate sales before completion of the projects include the acquisition cost of the land, development costs incurred to date, applicable borrowing costs

and estimated costs to complete the project, determined based on estimates made by the project engineers on the stage of completion of the real estate project .

Cost and expenses and other costs (other than costs of real estate sold) are recognized in profit or loss upon utilization of the services or goods or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset.

1.16 Operating Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) Group as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

1.17 Foreign Currency Transactions and Translation

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income as part of income or loss from operations.

1.18 Impairment of Non-financial Assets

The Group's investments in associates, investment property, property and equipment, development rights and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

1.19 Employee Benefits

The Group's employee benefits are recognized and measured as follows:

(a) *Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rate of zero coupon government bonds as published by Philippine Dealing and Exchange Corporation, that is denominated in the currency in which the benefits will be paid and that has terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest), if any, are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs and Other Charges or Finance and Other Income account in the consolidated statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in the Trade and Other Payables account of the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

1.20 Share-based Employee Remuneration

The Company grants share options to key executive officers eligible under a stock option plan. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any. The share-based remuneration is recognized as an expense in profit or loss with a corresponding credit to retained earnings.

The expense is recognized during the vesting period based on the best available estimate of the number of share options expected to vest. The estimate is subsequently revised, if necessary, such that it equals the number that ultimately vests on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as additional paid-in capital (APIC).

1.21 Borrowing Costs

For financial reporting purposes, borrowing costs are recognized as expenses 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 the Property Development Costs or Real Estate, Golf and Resort Shares for Sale account (see Note 2.5). 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 substantially all such activities are complete. For income tax purposes, all interest and

other borrowing costs are treated as deductible expenses in the period in which they are incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets, if any, is deducted from the borrowing costs eligible for capitalization.

1.22 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Group 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 parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group 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.

1.23 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. These are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

1.24 Equity

Capital stock represents the nominal value of shares that have been issued.

APIC represents premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

Revaluation reserves arise from the changes in fair value of the Group's AFS financial assets and remeasurements on retirement benefit obligation, net of applicable taxes.

Retained earnings includes all current and prior period results of operations as reported in the profit or loss section of the consolidated statements of comprehensive income and share-based employee remuneration, reduced by the amounts of dividends declared, if any.

Non-controlling interests represent the portion of the net assets and profit or loss not attributable to the Company's shareholders which are presented separately in the Group's consolidated statement of comprehensive income and within the equity in the Group's consolidated statement of financial position and consolidated statement of changes in equity.

1.25 Basic and Diluted Earnings per Share

Basic earnings per share (EPS) is computed by dividing consolidated net profit by the weighted average number of common shares issued and outstanding during the period, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of common shares outstanding to assume conversion of potentially dilutive shares. Currently, the Group's potentially dilutive shares consist only of share options.

1.26 Events after the End of the Reporting Period

Any post-year-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 consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

External Auditor

The Group has engaged the services of Punongbayan & Araullo during the most recent calendar year. There were no disagreements with Punongbayan & Araullo on any matter of accounting and financial disclosure.

Attendance of Accountants at the Meeting

Representatives of the Corporation's external accountants, Punongbayan & Araullo, for the Calendar Year 2017, are expected to be present at the Annual Stockholders' Meeting scheduled on 28 June 2018. Said accountants will be given the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions on the Corporation's financial statements.

BUSINESS AND GENERAL INFORMATION

Form and Date of Organization

Global-Estate Resorts, Inc. ("GERI" or the "Company") was incorporated on 18 May 1994 as Fil-Estate Land, Inc. to consolidate the real estate interests of the Fil-Estate Group of Companies. The Company went public in November 1995 when its common shares were listed in the Philippine Stock Exchange (PSE).

In 2011, Alliance Global Group, Inc. ("AGI") acquired a majority stake in Fil-Estate Land, Inc. and re-launched the Company as Global-Estate Resorts, Inc. to engage in the development of integrated tourism estates. In 2014, GERI was consolidated under Megaworld Corporation when the latter acquired AGI's stake in the Company.

Description of Business

The Company is engaged in the development of integrated tourism estates and integrated lifestyle communities with residential, office, retail, hotel and/or golf components. Its key developments are Boracay Newcoast in Malay, Aklan, Twin Lakes in Laurel, Batangas, Sta. Barbara Heights in Iloilo, Southwoods City in Laguna and Cavite, and Alabang West in Las Pinas, Metro Manila. The Company undertakes its development business by itself or in joint venture with landowners. Among the Company's subsidiaries are joint venture corporations i) Twin Lakes Corporation, which was incorporated on 02 March 2011 to develop Twin Lakes in Laurel, Batangas; ii) Oceanfront Properties, Inc. ("OPI"), which was incorporated on 12 October 2010 to develop parts of Boracay Newcoast; and iii) Southwoods Mall, Inc., which was incorporated on 18 July 2013 to develop the Southwoods Mall and Office Towers in Southwoods City.

The Company's developments are marketed by Megaworld Global-Estate, Inc., a subsidiary incorporated on 14 March 2011, and the Company's in-house marketing group. Another subsidiary, Fil-Estate Urban Development Corporation ("FEUDC"), which was incorporated on 06 March 2000, is engaged in the operation of hotels in Fairways and Bluewater, a resort complex integrated with Boracay Newcoast.

Prior to 2011, Fil-Estate Land, Inc. subsidiaries Fil-Estate Properties, Inc. ("FEPI") and Fil-Estate Golf and Development, Inc. ("FEGDI"), incorporated on 13 February 1990 and 06 March 1990, respectively, had engaged in the development of residential subdivisions, condominium buildings, commercial lots, and golf clubs.

Management's Discussion and Analysis of Financial Condition and Results of Operations

KEY PERFORMANCE INDICATORS

LIQUIDITY RATIOS

	March 31, 2018	March 31, 2017	December 31, 2017	December 31, 2016
Current Ratio	3.38	3.00	3.75	3.31
Quick Ratio	1.08	0.82	1.29	0.94

Current Ratio (Current Assets/Current Liabilities)

Liquidity ratio measures a company's ability to pay short-term obligations.

Quick Ratio (Cash and cash equivalents + Current Trade receivables/Current Liabilities)

It measures a company's ability to meet its short-term obligations with its most liquid assets.

LEVERAGE OR LONG-RANGE SOLVENCY RATIOS

	March 31, 2018	March 31, 2017	December 31, 2017	December 31, 2016
Debt to Total Assets	38%	38%	39%	38%
Equity to Total Assets	62%	62%	61%	62%
Debt to Equity	61%	62%	63%	61%
Asset to Equity	1.61	1.62	1.63	1.61

Debt to Total Assets

It shows the creditors' contribution to the total resources of the organization.

Equity to Total Assets

It shows the extent of owners' contribution to the total resources of the organization.

Debt to Equity

It relates the exposure of the creditors to that of the owners.

Asset to Equity (Total Assets/Total Owner's Equity)

It measures the company's leverage.

PROFITABILITY RATIOS

	March 31, 2018	March 31, 2017	December 31, 2017	December 31, 2016
Return on Equity	1.66%	1.42%	6.24%	4.27%
Return on Assets	0.85%	0.72%	3.15%	2.18%
Earnings per Share	₱ 0.0370	₱ 0.0297	₱ 0.137	₱ 0.088

Return on Equity (Net Income/Equity Attributable to Parent Company's shareholders)
It tests the productivity of the owners' investments.

Return on Assets (Net Income/Total Assets)
This ratio indicates how profitable a company is relative to its total assets.

Earnings per Share (EPS)
It indicates the earnings for each of the common shares held.

ACTIVITY RATIO

	March 31, 2018	March 31, 2017	December 31, 2017	December 31, 2016
Asset Turnover	2.42%	2.53%	9.49%	9.85%

Asset Turnover (Sales/Total Assets)
It measures the level of capital investment relative to sales volume.

INTEREST COVERAGE RATIO

	March 31, 2018	March 31, 2017	December 31, 2017	December 31, 2016
Interest Coverage	11.08	13.69	23.65	18.88

Interest Coverage Ratio (Earnings before Interest and Income Tax/Interest Expense)
It measures how easily a company can pay interest on an outstanding debt.

Management Discussion and Analysis

Review of Interim period March 31, 2018

Results of Operations

Consolidated revenues for the three-month period ended March 31, 2018 amounted to Php1.66 billion. The Company's real estate sale of Php1.16 billion came mainly from sale of lots in Newcoast Shophouse District, Newcoast Village in Malay, Aklan, Sta. Barbara Heights in Iloilo City, Twin Lakes Domaine Le Jardin, Lucerne at Domaine Le Jardin in Laurel, Batangas, Pahara at Manila Southwoods, Alabang West in Daang Hari, Las Piñas and sale of condominium units in Oceanway Residences One, Savoy Hotel, Belmont Hotel and Chancellor Hotel in Boracay, Holland Park in Manila Southwoods and Vineyard Residences in Twin Lakes, Tagaytay. Income from rentals increased by 221% from Php27 million as of March 31, 2017 to Php86.6 million as of March 31, 2018 due to increase in occupancy of leasable area and opening of Southwoods Mall at Southwoods City in Laguna. Realized gross profit on prior years' real estate sales amounted to Php218.1 million as of March 31, 2018 with a decrease of 10.03% compared to Php242.4 million as of March 31, 2017. Hotel revenues as of March 31, 2018 amounted to Php96.6 million, a decrease of 14.17% from Php112.6 million as of March 31, 2017 due to decrease in occupancy rate caused by the plan of government to close Boracay during this period. Balance of revenues was contributed by finance and other income of Php74.6 million and Php27.0 million service income, decrease in cost of sales and decrease in deferred gross profit on real estate sales.

Cost and expenses posted a decrease of Php77.2 million or 5.7% from Php1.34 billion in March 31, 2017 to Php1.26 billion as of March 31, 2018 mainly due to decrease in cost of real estate sales, deferred gross profit on real estate sales and cost of hotel operations.

The company posted a Php398.8 million Net Income or 26.8% increase for the three-month period ended March 31, 2018, as compared to a Php314.6 million net income realized as of March 31, 2017, mainly due to increase in rental income, decrease in cost of real estate sales and decrease in deferred gross profit on real estate sales.

Major Movements of Income Statement Accounts are as follows:

- 221% Increase in Rental income - mainly due to increase in occupancy of leasable area and opening of Southwoods Mall at Southwoods City in Laguna.
- 14% Decrease in Hotel revenues - due to decrease in hotel occupancy rate caused by the plan of government to close Boracay during this period.
- 10% Decrease in Realized gross profit on prior years' real estate sales – due to several projects are 100% completed as of December 2017.
- 14% Decrease in Service income - due to decrease in income from golf course maintenance.
- 26% Decrease in Finance and other income - due to decrease in other income.
- 9% Decrease in Cost of real estate sales - due to sales recognized for the period have lower cost of sales rate compared to 1Q2017 sales.
- 27% Increase in Cost of rentals and services – mainly due to increase in depreciation of investment property and cost of services.
- 28% Decrease in Cost of hotel operations – due to decrease in hotel revenue.
- 29% Decrease in Deferred gross profit on real estate sales – due to majority of recognized sales for the period are from completed projects.

- 7% Increase in Operating expenses – mainly due to increase in taxes and licenses and other administrative expenses.
- 14% Increase in Finance cost and other charges – mainly due to additional loan obtained last quarter of 2017.
- 6% Increase in Income tax expense – due to increase in taxable income.

Financial condition

The Group's financial position remained stable. Total assets as of March 31, 2018, Php47.89 billion compared to Php47.83 billion as of December 31, 2017, posted an increase of Php0.61 billion.

Cash and cash equivalents decreased by 14% mainly due to payments to contractors and suppliers and partial payment of Interest bearing loans and borrowings, from Php3.2 billion as of December 2017 to Php2.7 billion as of March 2018.

Interest bearing loans and borrowings decreased from Php5.1 billion as of December 2017 to Php4.8 billion as of March 2018 due to partial payment of interest bearing loan. Trade and other payables decreased by 9%, from Php3.1 billion in December 2017 to Php2.8 billion as of March 2018, mainly due to payments to contractors and suppliers. Customer's deposit increased from Php1.5 billion in December 2017 to Php1.6 billion in March 2018 or 8% increase due to collection from existing buyers and new reservation sales for the period. Advances from related parties increased by 15% from Php939.6 million as of December 2017 to Php1.08 billion as of March 2018 due to additional advances from parent company. Deferred income on real estate sales decreased by 5% due to increase in percentage of completion of ongoing projects. Deferred tax liability also increased from Php783.3 million in December 2017 to Php879.8 million in March 2018. The 12% increase is due to increase in taxable temporary difference. Other non-current liabilities increased from Php1.17 billion in December 2017 to Php1.24 billion in March 2018 due to retention payable and security deposits.

Shareholders' Equity increased by Php0.4 billion from Php29.3 billion in December 2017 to Php29.7 billion in March 2018 mainly due to the income generated for the period. Advances from related parties increased by 15% from Php939.6 million in December 2017 to Php1.08 billion in March 2018 due to additional advances from parent company.

Major movements of Balance Sheet Accounts are as follows:

- 14% Decrease in Cash and cash equivalent – mainly due to payments to contractors and suppliers and partial payment of principal on Interest bearing loans and borrowings.
- 5% Decrease in Interest bearing loans and borrowings – due to partial payment of principal of interest bearing loan
- 9% Decrease in Trade payables – mainly due to payments to contractors and suppliers.
- 8% Increase in Customer's deposit – due to collection from existing buyers and new reservation sales for the period.
- 15% Increase in Advances from related parties – due to additional advances from parent company.
- 5% Decrease in Deferred income – due to increase in percentage of completion of ongoing projects.
- 12% Increase in Deferred tax liability – due to increase in taxable temporary difference.
- 6% Increase in Other non-current liability – due to increase in retention payable and security deposits.

- 15% Increase from advances to related parties – due to additional advances from parent company.

Others

As of the quarter ended March 31, 2018, there are no material events and uncertainties known to management that would have an impact on the future operations such as:

- Known trends, demands, commitments, events or uncertainties that would have a material impact on liquidity of the Company;
- Material commitments for capital expenditures, the general purpose of such commitment and the expected sources of funds for such expenditures;
- Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the net sales/revenues/income from continuing operations;
- Significant elements of income or loss that did not arise from the Company's continuing operations;
- Causes for any material changes from period to period in one or more line item of the Company's financial operations;
- Seasonal aspects that had a material effect on the financial condition or results of the operations;
- Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;
- All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities of other persons created during the reporting period.

Review for the year ended December 31, 2017

Results of Operations

For the year ended December 31, 2017 the Group's consolidated net income amounted to Php 1.57 billion (inclusive of Php113 million non-recurring gain), a 45% increase from December 31, 2016 net income of Php 1.08 billion (inclusive of Php82.5 million non-recurring gain). Without the non-recurring gain, its net income rose to Php1.46 billion, a 45.63% increase year-on-year.

Consolidated total revenues amounted to Php6.4 billion. The bulk of revenues came from real estate sales, hotel operations, realized gross profit on prior year sale, rental income and finance and other income. The Group's registered sales came from sale of lots in Newcoast Shophouse District, Newcoast Village in Malay, Aklan, Sta. Barbara Heights in Iloilo City, Twin Lakes Domaine Le Jardin, Lucerne at Domaine Le Jardin in Laurel, Batangas, Pahara at Manila Southwoods, Alabang West in Daang Hari, Las Piñas and sale of condominium units in Oceanway Residences One, Savoy Hotel, Belmont Hotel and Chancellor Hotel in Boracay, Holland Park in Manila Southwoods and Vineyard Residences in Twin Lakes, Tagaytay.

Total cost and expenses amounted to Php4.9 billion, mainly from cost of real estate sales, cost of hotel operations, deferred gross profit on real estate sales and operating expenses resulting from aggressive marketing activities as well as other administrative and corporate overhead.

Financial Condition

The Group's financial position remained stable and with adequate capacity to support its growth. Total Assets of Php47.8 billion as of December 31, 2017 compared to Php44.4 billion as of December 31, 2016 posted an increase of Php3.4 billion or 8%.

Trade and other receivables increased by 18% mainly due to increase in installment real estate sales for the period. Property development costs increased by 11%, from Php2 billion as of December 31, 2016 to Php2.3 billion as of December 31, 2017, due to reclassification of cost of land of projects being developed. Advances to real estate property owners increased by 13% due to advances made to real property owners in relation to a joint venture agreement. Investment in associates decreased by 18% due to sale of partial ownership interest in BNHGI. Investment property increased by 51% due to on-going construction of building intended for lease and reclassification from Property, plant and equipment of office building for lease. Property, plant and equipment decreased by 6% due to the reclassification.

Interest bearing loans and borrowings increased by 29% or Php1.1 billion as of December 2017 as compared to December 2016 due to additional interest bearing loan. Trade and other payables increased by 27% mainly due to increase in payables to contractors and suppliers. Customer's Deposits decreased from Php1.7 billion as of December 31, 2016 to Php1.5 billion as of December 31, 2017 or 15% decrease due to recognized installment sales for the period. Advances from related parties increase by 79% due to additional advances from parent company. Reserve for property development decreased by 9% and Deferred income on real estate sales decreased by 13% due to increase in percentage of completion of on-going projects. Due to joint venture partners decreased by 16% due to payment to joint venture partners. Deferred Tax Liability also increased from Php543.3 million in December 2016 to Php783.3 million in December 2017. The 44% increase is due to increase in taxable temporary difference. Retirement benefit obligation increased by 5% from Php61 million in December 2016 to Php64 million in December 2017 due to accrual of additional retirement benefit. Other non-current liabilities increased from Php1.06 billion to Php1.17 billion mainly due to increase in retention payable.

Shareholders' Equity increased from Php27.5 billion to Php29.3 billion due to net income for the year.

Material Changes in the year ended December 31, 2017 Financial Statements (Increase/decrease of 5% or more versus December 31, 2016)

Financial Position

- 18% increase in Trade and other receivable – mainly due to increase in installment sales booked during the year.
- 11% increase in Property development cost – due to reclassification cost of land of projects being developed.
- 13% increase in Advances to real estate property owners – due to increase in advances made to real property owners in relation to a joint venture agreement.
- 18% decrease in Investment in associates – due to sale of partial ownership interest in BNHGI
- 51% increase in Investment property – due to on-going construction of building intended for lease and reclassification of office building for lease.
- 6% decrease in Property, plant and equipment – due to reclassification made to Investment property.

- 29% increase in Interest-bearing loans and borrowings – due to additional interest bearing loan.
- 27% increase in Trade and other payables – mainly due to increase in payables to contractors and suppliers.
- 15% decrease in Customer's deposit – due to installment sales recognized for the period.
- 79% increase in Advances from related parties – due to additional advances from parent company.
- 9% decrease in Reserve for property development – due to increase in percentage of completion of on-going projects.
- 13% decrease in Deferred income on real estate sales – due to increase in percentage of completion of on-going projects.
- 16% decrease in Due to joint venture partners – due to payment to joint venture partners.
- 44% increase in Deferred tax liabilities – due to increase in taxable temporary difference
- 5% increase in Retirement benefit obligation – due to accrual of additional retirement benefit
- 11% increase in Other non-current liability – mainly due to increase in retention payable.

Results of Operations

- 54% increase in Rental income – mainly due to increase in occupancy of leasable area and opening of Southwoods Mall at Southwoods City in Laguna.
- 112% increase in Realized gross profit on prior years' real estate sales – due to increase in percentage of completion of on-going projects.
- 23% increase in Service income – due to increase in income from golf course maintenance
- 37% increase in Gain on sale of investment in associate – due to a higher income realized from sale of ownership interest in one associate
- 5% increase in Cost of real estate sales – due to increase in real estate sales recognized for the year.
- 44% increase in Cost of rental and services – mainly due to increase in depreciation of investment property and cost of services.
- 42% decrease in Deferred gross Profit on real estate sales – mainly due to real estate sales recognized for the period from projects with higher percentage of completion
- 24% increase in Operating expenses – mainly due to increase in commission expenses and other administrative expenses.
- 94% decrease in Equity share in net losses of associates – due to decrease in net loss of associates recognized for the year.
- 19% increase in Finance cost and other charges – due to interest expense from additional interest bearing loan.
- 42% increase in Income tax expense due to increase in taxable income

Review for the year ended December 31, 2016

Results of Operations

For the year ended December 31, 2016 the Group's consolidated net income amounted to Php 1.08billion (inclusive of Php82.5 million non-recurring gain), a 27.51% increase from December 31, 2015 net income of Php 848.8million (inclusive of Php181.3 million non-recurring gain). Without the non-recurring gain, its net income rose to Php1.0 billion, a 49.8% increase year-on-year.

Consolidated total revenues amounted to Php5.7 billion. The bulk of revenues came from real estate sales, hotel operations, realized gross profit on prior year sale, rental income and finance and other income. The Group's registered sales came from sale of lots in Newcoast Shophouse District, Newcoast Boutique Hotel in Malay, Aklan, Sta. Barbara Heights in Iloilo City, Twin Lakes Domaine Le Jardin in Laurel, Batangas, Pahara at Manila Southwoods, Alabang West in Daang Hari, Las Piñas and sale of condominium units in Newcoast Oceanway Residences, Savoy Hotel and Belmont Hotel in Boracay, Holland Park in Manila Southwoods and Vineyard Residences in Twin Lakes, Tagaytay.

Total cost and expenses amounted to Php4.7 billion, mainly from cost of real estate sales, cost of hotel operations, deferred gross profit on real estate sales and operating expenses resulting from aggressive marketing activities as well as other administrative and corporate overhead.

Financial Condition

The Group's financial position remained stable and with adequate capacity to support its growth. Total Assets of Php44 billion as of December 31, 2016 compared to Php40 billion as of December 31, 2015 posted an increase of Php4.7 billion or 12%.

Cash and cash equivalents increased by 7% from Php2.9 billion as of December 2015 to Php3.1 billion as of December 2016. Trade and other receivables increased by 26% mainly due to increase in installment real estate sales for the period. Advances to related parties decreased by 6% due to collection of Advances to related parties. Real estate and resorts shares for sale increased by 10%, from Php12 billion as of December 31, 2015 to Php13.2 billion as of December 31, 2016, mainly due to completion of on-going developments and new project launched for the year. Investment in associates decreased by 19% due to sale of partial ownership interest in BNHGI. Investment property increased by 107% due to on-going construction of building intended for lease. Prepayments and other assets increased by 12% from Php3.4 billion in December 2015 to Php3.8 billion in December 2016 mainly due to increase in advances to contractors and suppliers as down payment for services to be rendered and goods to be delivered in relation to various construction of real estate projects.

Interest bearing loans and borrowings increased by 96% or Php1.9 billion as of December 2016 as compared to December 2015 due to additional interest bearing loan. Trade and other payables decreased by 12% mainly due to payments made to contractors and suppliers. Reserve for property development increased by 24% due to increase in accrual of development cost for the year. Deferred income on real estate sales increased by 21% due to deferred gross profit from sales recognized for the year. Deferred Tax Liability also increased from Php465.6 million in December 2015 to Php543.3 million in December 2016. The 17% increase is due to increase in taxable temporary difference. Retirement benefit obligation increased by 32% from Php46 million in December 2015 to Php61 million in December 2016 due to accrual of additional retirement benefit. Other non-current liabilities increased from Php0.69 billion to Php1.06 billion mainly due to additional accrual of interest on redeemable preferred shares and increase in retention payable.

Shareholders' Equity increased from Php25.8 billion to Php27.5 billion due to net income for the year.

Material Changes in the year ended December 31, 2016 Financial Statements (Increase/decrease of 5% or more versus December 31, 2015)

Financial Position

- 7% increase in Cash and cash equivalents – mainly due to proceeds of additional interest bearing loan to finance various project development of the Group.

- 26% increase in Trade and other receivable – mainly due to increase in installment sales booked during the year.
- 6% decrease in Advances to related parties – due to collection of Advances to related parties
- 10% increase in Real estate and resort shares for sale – due to increase in completion of on-going developments and new project launched for the year.
- 19% decrease in Investment in associates – due to sale of partial ownership interest in BNHGI
- 107% increase in Investment Property – due to on-going construction of building intended for lease.
- 12% increase Prepayments and other assets – mainly due to increase in advances to contractors and suppliers as down payment for services to be rendered and goods to be delivered in relation to various constructions of real estate projects.
- 96% increase in Interest-bearing loans and borrowings – due to additional interest bearing loan of parent company.
- 12% decrease in Trade and other payables – mainly due to payments made to contractors and suppliers
- 24% increase in Reserve for property development – due to additional accrual of development cost
- 21% increase in Deferred income on real estate sales – due to deferred gross profit from real estate sales recognized for the year
- 17% increase in Deferred tax liabilities – due to increase in taxable temporary difference
- 32% increase in Retirement benefit obligation – due to accrual of additional retirement benefit
- 52% increase in Other non-current liability – mainly due to additional accrual of interest on redeemable preferred shares and increase in retention payable.

Results of Operations

- 6% increase in Real estate sales – due to aggressive marketing.
- 75% increase in Rental income – mainly due to increase in occupancy of leasable area.
- 13% increase in Hotel operations – mainly due to increase in hotel occupancy
- 25% increase in Realized gross profit on prior years' real estate sales – due to increase in percentage of completion of on-going projects.
- 10% decrease in Service income – due to decrease in income from golf course maintenance
- 55% decrease in Gain on sale of investment in associate – due to lower income realized from sale of ownership interest in one associate
- 30% increase in Finance and other income – due to increase in realized interest income from amortization of Installment contract receivables
- 14% increase in Cost of real estate sales – due to increase in real estate sales recognized for the year.
- 21% increase in Cost of hotel operations – mainly due to increase in hotel revenue.
- 16% decrease in Cost of Services – mainly due to decrease in service income.
- 22% decrease in Deferred gross Profit on real estate sales – mainly due to real estate sales recognized for the period from projects with higher percentage of completion
- 58% decrease in Equity share in net losses of associates – due to decrease in net loss of associates recognized for the year.
- 6% increase in Finance cost and other charges – due to interest expense from additional interest bearing loan.
- 31% increase in Income tax expense due to increase in taxable income

Review for the year ended December 31, 2015

Results of Operations

For the year ended December 31, 2015 the Group's consolidated net income amounted to Php 848.8million (inclusive of Php181.3 million non-recurring gain), a 0.9% decrease from December 31, 2014 net income of Php856.5 million (inclusive of Php377 million non-recurring gain). Without the non-recurring gain, its net income rose to Php667.5 million, a 39% increase year-on-year.

Consolidated total revenues amounted to Php5.4 billion. The bulk of revenues came from real estate sales, hotel operations, realized gross profit on prior year sale, gain on sale of investment in associate and finance and other income .The Group's registered sales came from sale of lots in Newcoast Shophouse District, Newcoast Boutique Hotel in Malay, Aklan, Sta. Barbara Heights in Iloilo City, Twin Lakes Domaine Le Jardin in Laurel, Batangas, Pahara at Manila Southwoods, Alabang West in Daang Hari, Las Piñas and sale of condominium units in Newcoast Oceanway Residences, Savoy Hotel and Belmont Hotel in Boracay and Holland Park in Manila Southwoods. Rental income increased mainly due to opening of Shopping Village in Tagatay.

Total cost and expenses amounted to Php4.5 billion, mainly from cost of real estate sales, cost of services, deferred gross profit on real estate sales and operating expenses resulting from aggressive marketing activities as well as other administrative and corporate overhead.

Financial Condition

The Group's financial position remained stable and with adequate capacity to support its growth. Total Assets of Php40 billion as of December 31, 2015 compared to Php34 billion as of December 31, 2014 posted an increase of Php6 billion or 18%.

Trade and other receivables increased by 83% mainly due to increase in installment real estate sales for the period and advances to contractors for the down payment on various construction contracts for the development of real estate projects . Real estate and resorts shares for sale increased by 11%, from Php10.9 billion as of December 31, 2014 to Php12 billion as of December 31, 2015, mainly due to completion of on-going developments and new project launched for the year. Property development cost decreased by 11% mainly due to reclassification to Investment property and Real estate and resorts shares for sale. Investment in associates decreased by 16% due to partial sale of ownership interest in BNHGI. Investment property increased by 416% due to construction of building for lease and reclassification of land development that are intended for lease. Prepayments and other assets increased by 61%from Php1.1 billion in December 2014 to Php1.7 billion in December 2015 mainly due to acquisition of development rights over a land owned by government entity.

Interest bearing loans and borrowings increased by 900% or Php1.8 billion as of December 2015 as compared to December 2014 due to additional interest bearing loans. Trade and other payables increased by 16% mainly due to increase in payables to contractors and suppliers. Customer's deposit increased from Php1.28 billion in December 2014 to Php1.67 billion as of December 2015, due to collection from existing buyers and new reservation sales for the year. Advances from related parties increased by 10% mainly due to additional advances obtained from parent company. Reserve for property development increased by 40% due to increase in accrual of development cost for the year. Deferred Income on real estate sales increased by 58% due to deferred gross profit from sales recognized for the year. Due to joint venture partners increased by 81% due to the share of JV partners from proceeds of sales. Deferred Tax Liability also increased from Php239.5 million in December 2014 to Php465.6 million in December 2015. The 94% increase is due to increase in

taxable temporary difference. Retirement benefit obligation decreased by 21% from Php58 million in December 2014 to Php46 million in December 2015 due to payment of retirement benefit. Other non-current liabilities increased from Php143.3 million to Php447.6 million mainly due to advance rental from the lease of land related to the acquired development rights.

Shareholders' Equity increased from Php24.5 billion to Php25.8 billion due to net income for the year.

Material Changes in the year ended December 31, 2015 Financial Statements (Increase/decrease of 5% or more versus December 31, 2014)

Financial Position

- 83% increase in Trade and other receivable mainly due to increase in real estate sale
- 11% increase in Real estate and resort shares for sale due to increase in completion of on-going developments and new project launched for the year.
- 11% decrease in Property development cost due to reclassification to other accounts
- 16% decrease in Investment in Associates due to additional sale of ownership interest in BNHGI
- 416% increase in Investment Property due to construction of building and reclassification of land development that are intended for lease.
- 61% increase Prepayments and other assets mainly due to acquisition of development rights
- 900% increase in Interest-bearing loans and borrowings due to additional interest bearing loan of parent company and one subsidiary
- 16% increase in Trade and other payables mainly due to increase in payables to contractors and suppliers
- 30% increase in Customers' deposits due to collection from existing buyers and new reservation sales
- 10% increase in Advances from Related Party due to additional advances obtained from parent company
- 40% increase in Reserve for property development due to additional accrual of development cost
- 58% increase in Deferred income on real estate sales due to deferred gross profit from real estate sales recognized for the year
- 81% increase in Due to joint venture due to collection of share of Joint venture partners from proceeds of sales
- 94% increase in Deferred tax liabilities due to increase in taxable temporary difference
- 21% decrease in Retirement benefit obligation due to payment of retirement benefit
- 148% increase in Other non-current liability mainly due to advance rental from the lease of land related to the acquired development rights.

Results of Operations

- 103% increase in Real Estate Sales due to aggressive marketing.
- 32% increase in Rental Income mainly due to opening of Twin Lakes Shopping Village in Laurel, Batangas.
- 46% increase in Realized gross profit on prior years' real estate sales due to increase in percentage of completion of on-going projects.
- 19% decrease in Service income due to decrease in income from golf course maintenance

- 100% decrease in Gain on deconsolidation of a subsidiary due to one-time transaction in 2014
- 100% increase in Gain on sale of investment in associate due to partial sale of ownership interest in one associate
- 12% increase in finance and other income due to increase in realized interest income from amortization of Installment contract receivables
- 114% increase in Cost of Real Estate Sales due to increase in real estate sales recognized for the period.
- 73% increase in Deferred Gross Profit on Real Estate Sales mainly due to increase in real estate sales from projects that are still being developed
- 43% increase in Cost of Hotel Operations mainly due to increase in costs directly related to hotel operations.
- 16% decrease in Cost of Services mainly due to decrease in service income.
- 68% increase in Operating expenses mainly due to increase in commission expense, marketing and other administrative expenses.
- 6% increase in Equity share in net losses of associates due to increase in net loss of associates recognized for the year.
- 12% increase in Finance cost and other charges due to interest expense on Interest bearing loans.
- 123% increase in Income Tax expense due to increase in taxable income

Others

As of the year ended December 31, 2017, there are no material events and uncertainties known to management that would have an impact on the future operations such as:

- a. Known trends, demands, commitments, events or uncertainties that would have an impact on the Company;
- b. Material commitments for capital expenditures, the general purpose of such commitment and the expected sources of funds for such expenditures;
- c. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the net sales/revenues/income from continuing operations;
- d. Significant elements of income or loss that did not arise from the Company's continuing operations;
- e. Causes for any material changes from period to period in one or more line item of the Company's financial operations;
- f. Seasonal aspects that had a material effect on the financial condition or results of the operations;

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

In compliance with SEC Memorandum Circular No. 8, Series of 2003, and the Company's Manual of Corporate Governance, which require that the Company's external auditor be rotated or the handling partner changed every five (5) years or earlier, the Company's Board of Directors approved, on June 29, 2017, the designation of Punongbayan and Araullo as the external auditor for the audit of the financial statements of the Company for the year ending 31 December 2017.

For the years 2012 to 2015, the partner designated is Mr. Nelson Dinio while for the year 2016 to 2017, the partner designated is Mr. Renan Piamonte, both of whom are Audit and Assurance partners of Punongbayan and Araullo.

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

AUDIT AND AUDIT- RELATED FEES

For the audit of the registrant's financial statements and services that are normally provided by the external auditors in connection with statutory and regulatory filings for the calendar year report of 2017, 2016 and 2015, fee was approximately Php1.294 million, Php1.232 million, and Php1.10 million, respectively.

No other assurance and related services have been rendered by the external auditors to the registrant other than the items discussed above.

Item 9. Market for Registrant's Common Equity and Related Stockholder Matters

(1) Stock Prices

The common shares of the Company are listed in the Philippine Stock Exchange under the symbol of GERI.

Philippine Stock Exchange Average Closing Price per Share (P)		
	1.58	
	High	Low
2018		
<u>First Quarter</u>	1.61	1.56
2017		
<u>First Quarter</u>	0.98	0.97
<u>Second Quarter</u>	1.31	1.23
<u>Third Quarter</u>	1.53	1.51
<u>Fourth Quarter</u>	1.44	1.42
2016		
First Quarter	1.06	1.04
Second Quarter	0.99	0.97
Third Quarter	1.02	1.00
Fourth Quarter	1.00	0.99

The market capitalization of GERI as of 30 April 2018 based on the closing price at P1.27 per share of GERI's shares at that date, was approximately P13.952 billion.

(2) Holders

GERI has a total of about 4,246 common shareholders as of April 30, 2018.

TOP 20 STOCKHOLDERS AS OF APRIL 30, 2018

No.	STOCKHOLDER	NO. OF SHARES	% OF OWNERSHIP
1	Megaworld Corporation	9,042,732,139 ¹	82.311
2	PCD Nominee Corporation (Filipino)	1,701,092,923	15.484
3	Fil-Estate Management Inc.	111,753,059	1.017
4	PCD Nominee Corporation (Foreign)	31,714,095	0.289
5	Greenfield Development Corporation	8,640,000	0.079
6	John T. Lao	8,000,100	0.073
7	The Andresons Group Inc.	8,000,000	0.073
8	Lucio W. Yan	5,755,000	0.052
9	Romeo G. Roxas	3,716,000	0.034
10	Avesco Marketing	3,512,106	0.032
11	Wilbur Chan	2,611,825	0.024
12	Gilmore Property Marketing Associates, Inc.	1,983,000	0.018
13	Federal Homes, Inc.	1,939,860	0.018
14	Fritz L. Dy	1,813,500	0.017
15	Dynaland Properties & Developers, Inc.	1,700,001	0.015
16	Robert John L. Sobrepena	1,617,485	0.015
17	Maximino S. Uy &/Or Lim Hue Hua	1,478,400	0.013
18	EQL Properties, Inc.	1,317,420	0.012
19	Bingson U. Tecson	1,239,000	0.011
20	Emily Benedicto	1,141,000	0.010
	Total	10,941,756,913	99.597%

Dividends

Payment of dividends, either in the form of cash or stock, will depend upon the Company's earnings, cash flow and financial condition, among other factors. The Company may declare dividends only out of its unrestricted retained earnings. These represent the net accumulated earnings of the Company with its capital unimpaired, which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Dividends paid in cash are subject to the approval by the Board of Directors. Dividends paid in the form of additional shares are subject to approval by both the Board of Directors and at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose.

¹ Data refers to direct and indirect shares. Direct shares consist of 8,859,398,139 while indirect shares consist of 183,334,000

The Corporation Code prohibits stock corporations from retaining surplus profits in excess of 100% of their paid-in capital stock, except when justified by definite corporate expansion projects or programs approved by the Board of Directors, or when the corporation is prohibited under any loan agreement with any financial institution or creditor from declaring dividends without its consent, and such consent has not yet been secured, or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation.

The retained earnings account as of December 31, 2017 amounting to Php8.4 billion, and Php6.90 billion in December 31, 2016 is restricted from being declared as dividends to the extent of the undistributed net earnings of subsidiaries and associates. No declaration of cash dividends was made in the last three (3) years.

(4) Recent Sale of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

- On 23 September 2011, the Board of Directors of the Company approved an Executive Stock Option Plan which was ratified on 8 November 2011 by stockholders representing at least 2/3 of the outstanding capital stock of the Company.

Pursuant to the ESOP, on February 16, 2012, the Company granted the option to its key company directors and executives to subscribe to 100 million shares of the Company, at an exercise price of Php1.93 (1st Tranche). On the basis of the sale to less than twenty persons, A Notice of Exempt Transaction (SEC Form 10.1) was filed with the SEC on March 21, 2012.

On 18 February 2013, the Company granted another option to key company executives to subscribe to an additional 100 million common shares of the Company at an exercise price of Php1.69 (2nd tranche). On the basis of the sale to less than twenty persons, A Notice of Exempt Transaction (SEC Form 10.1) was filed with the SEC on 21 March 2013.

On 7 March 2014, the Company granted another option to key company executives to subscribe to an additional 100 million common shares of the Company at an exercise price of Php1.50 (3rd tranche). On the basis of the sale to less than twenty persons, A Notice of Exempt Transaction (SEC Form 10.1) was filed with the SEC on March 18, 2014.

On 9 March 2015, the Company granted another option to key company executives to subscribe to an additional 50 million common shares of the Company at an exercise price of Php1.65 (4th tranche). On the basis of the sale to less than twenty persons, a Notice of Exempt Transaction (SEC Form 10.1) was filed with the SEC on April 7, 2015.

On 17 June 2016, the Company granted another option to key company executives to subscribe to an additional 50 million common shares of the Company at an exercise price of Php1.00 (5th tranche). On the basis of the sale to less than twenty persons, a Notice of Exempt Transaction (SEC Form 10.1) was filed with the SEC on July 15, 2016.

No underwriters were involved in the sales of the above unregistered or exempt securities.

Discussion on Compliance with Leading Practice on Corporate Governance

The Corporation had adopted the Self-Rating System on Corporate Governance being implemented by the Securities and Exchange Commission through SEC Memorandum Circular No. 5, Series of 2003 to assess compliance with leading practices on corporate governance. The Compliance Officer meets with the directors and top-level management from time to time to evaluate compliance with the Corporation's Manual on Corporate Governance.

In order to comply fully with the adopted leading practice on good corporate governance, the Compliance Officer is present at all meetings of the Board of Directors and closely coordinates with the Chairman and the President to ensure full compliance with the adopted leading practices on good corporate governance. The Compliance Officer furnishes the Board of Directors and top-level management with copies of new rules, regulations, circulars and orders of the Securities and Exchange Commission and the Philippine Stock Exchange to continuously update its Directors and top-level management with new requirements for compliance with leading practices on corporate governance. In addition, the Compliance Officer requires and encourages its Directors and top-level management to attend seminars on good corporate governance.

There are no material deviations to date from the Corporation's Manual of Corporate Governance. The Board has no immediate plans to adopt new policies for corporate governance.

Undertaking to Provide Annual Report

The Corporation undertakes to provide each stockholder without charge a copy of its Annual Report on SEC Form 17-A upon written request addressed to either of:

Atty. Dominic Isberto
Corporate Secretary
6th Floor Renaissance Tower
Meralco Ave., Pasig City

Banco de Oro Unibank, Inc.
Stock Transfer Department
Makati Ave. Cor. H.V. dela Costa St.
Makati City